Barick Chung

Employment:
2014-present Senior Lecturer, Department of Economics, CUSZ – Shenzhen.
2012-2014 Lecturer, School of Economics and Finance, University of Hong Kong.
2006-2012 Instructor, Department of Economics, CUHK – Hong Kong.

Education:
2003-2007 Ph.D. (Business) Indiana University – Bloomington.
1987-1991 BS.Sc. (Economics) Chinese University of Hong Kong – Hong Kong.

Research paper:
Chung, Barick, "Two Level Price Discrimination and Vertical Relationship" (March 05, 2012). Available at SSRN: http://ssrn.com/abstract=1997070.

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ECO 2011 (Sections L07-10)
Basic Microeconomics

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Mankiw, Gregory, 2012, *Essentials of Economics*, p. 136:

Welfare economics is the study of how the allocation of resources affects economic well-being.

Pindyck and Rubinfeld, p. 321:

Economic efficiency: Maximization of aggregate consumer and producer surplus.

Pindyck and Rubinfeld, p. 321:

Deadweight loss (DWL): Net loss of total (consumer plus producer) surplus (TS).

DWL

Mankiw, Gregory, 2012, *Essentials of Economics*, p.137:

Consumer surplus is the amount a buyer is willing to pay for a good minus the amount the buyer actually pays for it.

Pindyck and Rubinfeld, p.132:

Consumer surplus:

Difference between what a consumer is willing to pay for a good and the amount actually paid.

Example #1:

The price of an apple is $5, and John's willingness to pay for the apple is $10. If John buys the apple, how much is his consumer surplus?

$P = \$5$

$WTP = \$10$

$$CS_{John} = WTP - P = \$10 - \$5 = \$5$$

Pindyck and Rubinfeld, p.132:

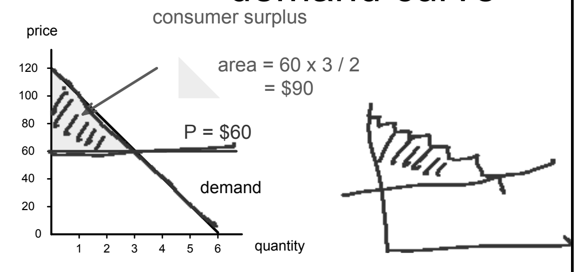
When we add the consumer surpluses of all consumers who buy a good, we obtain the **aggregate** consumer surplus.

$CS_1 = \$10$

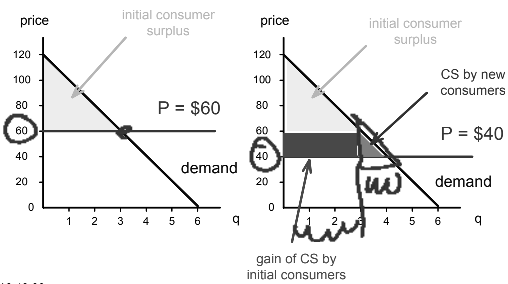
$CS_2 = \$5$

aggregate $CS = \$10 + \$5 = \$15$

Continuous demand curve



2) The lower the price, the larger is the consumer surplus.



Summary:

1) Consumer surplus (CS) is the area below the demand curve and above the price.

2) The lower the price, the larger the CS, because:

2a) Initial buyers enjoy larger CS because the price is lower.

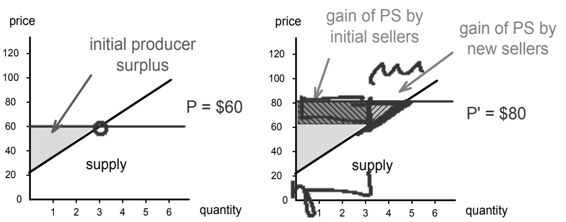
2b) More people enter the market because the price is lower, and these new buyers gain CS from the trade.

Mankiw, Gregory, 2012, *Essentials of Economics*, p. 141:

Producer surplus is the amount a seller is paid for a good minus the seller's cost of producing it.

$$PS = P - WTS$$
$$= P - c$$

The higher the price, the larger is the producer surplus.



Summary:

1) Producer surplus (PS) is the area above the supply curve and below the price.

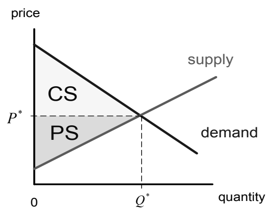
2) The higher the price, the larger is the PS, because:

2a) Initial sellers enjoy larger PS because the price is higher.

2b) More sellers enter the market because the price is higher, and these sellers gain PS from the trade.

Definition:

Total surplus is the sum of consumer and producer surplus.



CS = V − P

1) Consumer surplus (CS) = value to buyers (/or willingness to pay) − actual amount paid by buyers = v − p

2) Producer surplus (PS) = amount received by sellers − cost to sellers = p − c

PS = P − WTP

3) Total surplus = CS + PS = (v − p) + (p − c) = v − c =P − C

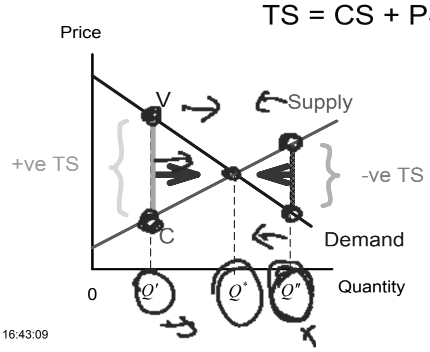
TS = CS+PS

$= V - \cancel{p} + \cancel{p} - c = V\ C$

TS = V-C

To increase TS (total total surplus):

TS = CS + PS = v - c



Mankiw, Gregory, *Essentials of Economics*, 2012, p. 147:

1) Free markets allocate the supply of goods to the buyers who value them most highly, as measured by their willingness to pay

2) Free markets allocate the demand for goods to the sellers who can produce them at least cost

3) Free markets produce the quantity of goods that maximizes the sum of consumer and producer surplus