Chapter 7

Consumer, Producer, and The Efficiency of The Market

Introduction

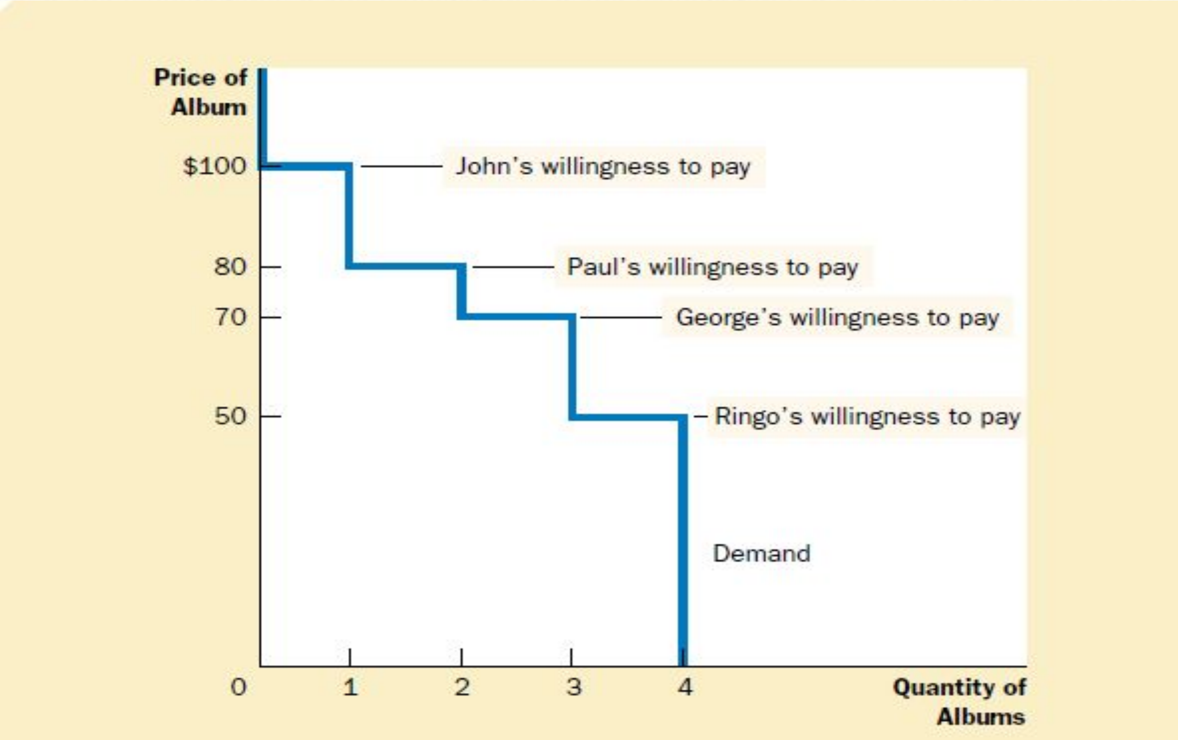
- Increase in price of petrol has increased the transportation cost
- Buyers want to pay less and sellers want to charge more (e.g. auto, bus, OLA, UBER)
- What is the right price?

Consumer Surplus

- The difference between the consumer's willingness to pay and the amount that the consumer ends up paying

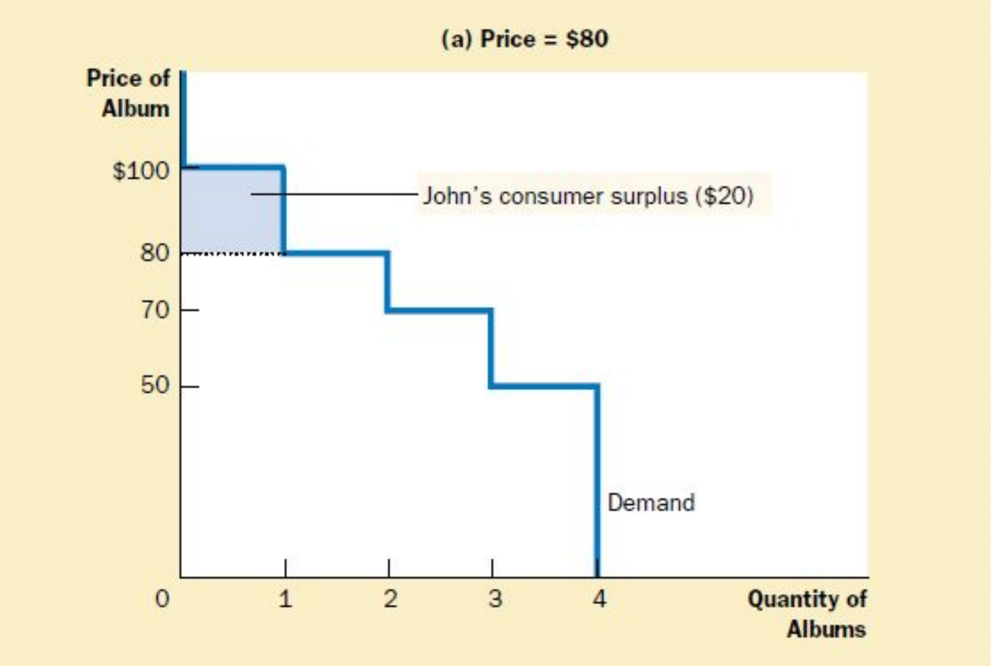
Buyer	Willingness to Pay
John	$100
Paul	80
George	70
Ringo	50

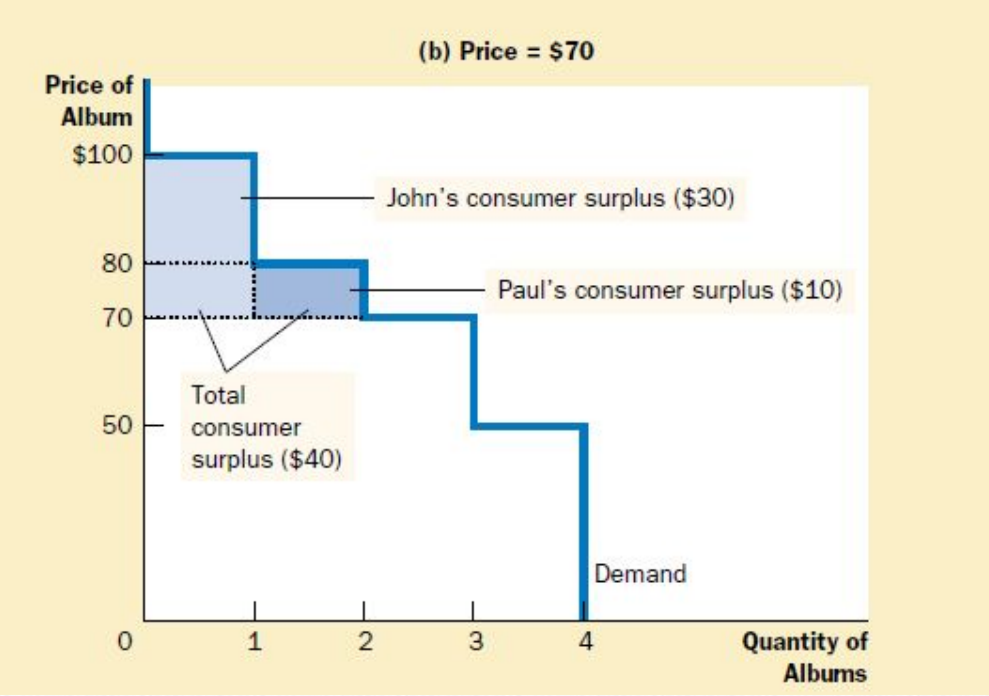
Cont…



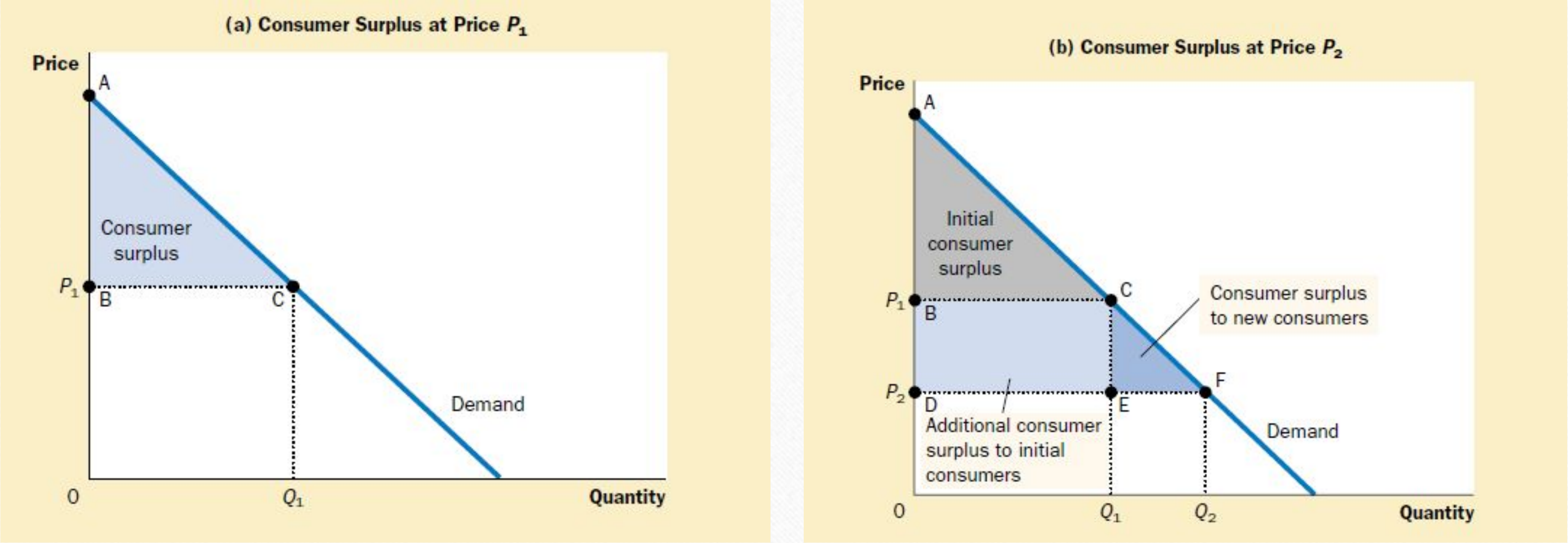
Price of Album
$100
80
70
50
John's willingness to pay
Paul's willingness to pay
George's willingness to pay
Ringo's willingness to pay
Demand
0
1
2
3
4
Quantity of Albums

Estimating consumer surplus





Diagrammatic approach

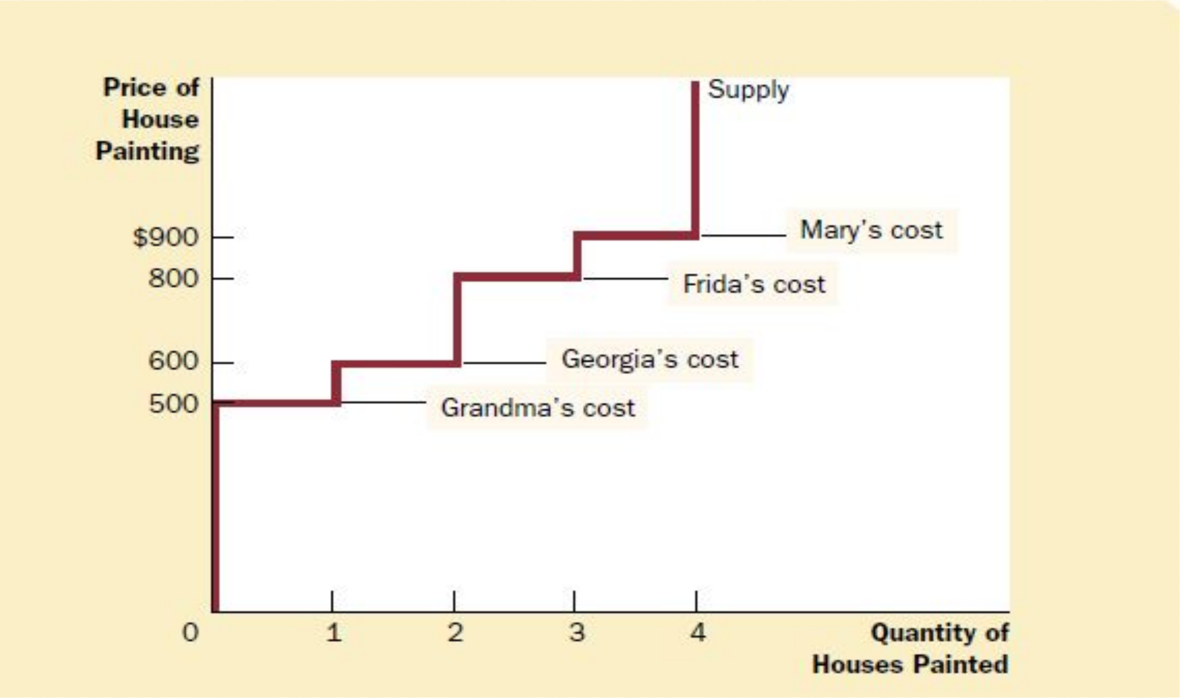


Producer Surplus

- Difference between the amount that a producer receives and the amount at which they were willing to sell it

Price	Sellers	Quantity Supplied
$900 or more	Mary, Frida, Georgia, Grandma	4
$800 to $900	Frida, Georgia, Grandma	3
$600 to $800	Georgia, Grandma	2
$500 to $600	Grandma	1
Less than $500	None	0

Estimating Producer's Surplus



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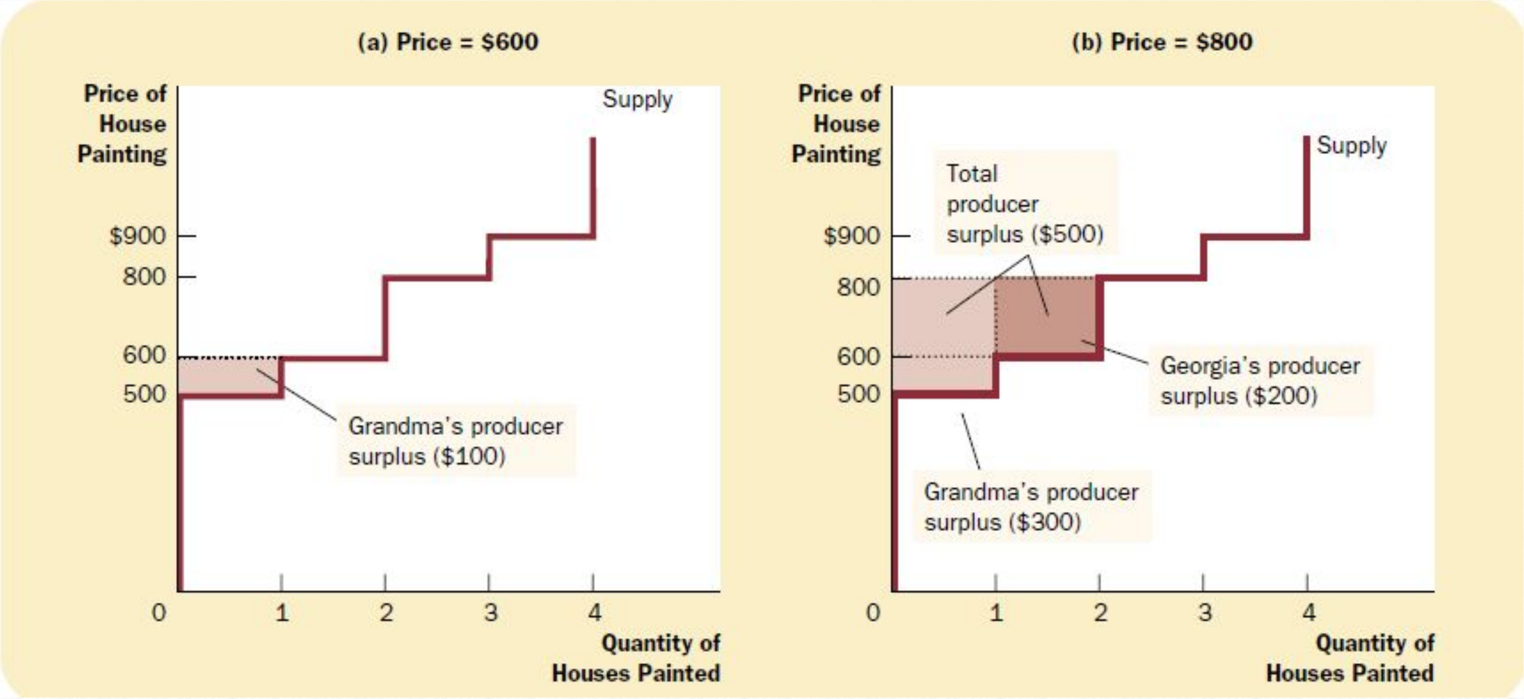
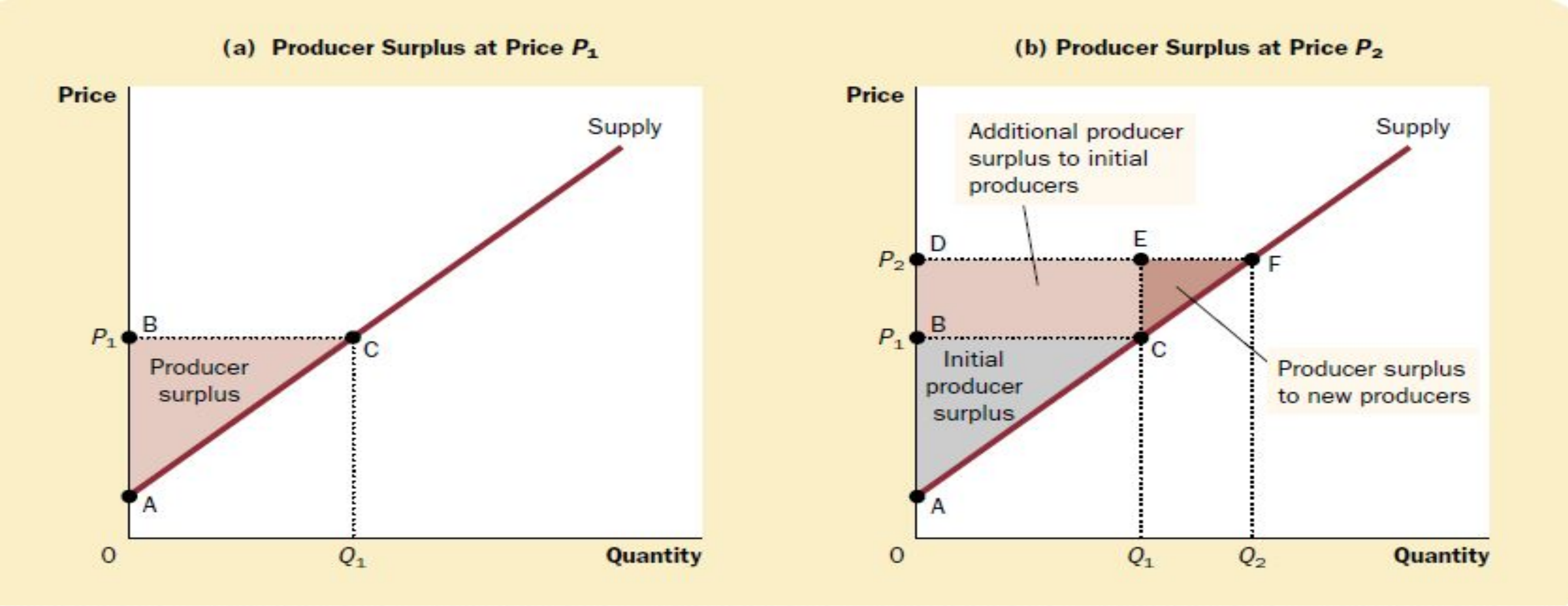


(a) Price = $600
Price of House Painting
Supply
$900
800
600
500
Grandma's producer surplus ($100)
0
1
2
3
4
Quantity of Houses Painted
(b) Price = $800
Price of House Painting
Total producer surplus ($500)
Supply
$900
800
600
500
Georgia's producer surplus ($200)
Grandma's producer surplus ($300)
0
1
2
3
4
Quantity of Houses Painted

Diagrammatic approach



Market Efficiency

- Total surplus is the sum of both the surpluses, i.e., consumers' as well as producers'
- The issue of equity discusses the normative idea

Evaluating the Market Equilibrium