Chapter 5

## Consumer Welfare

Consumer Welfare

- Consumer Welfare is the total benefit a person gets from consuming goods and services

    - Can be positive or negative, depending on the person's demand curve and market conditions

- Willingness to Pay vs. Amount Paid

    - I might be willing to pay $X, even if the market price does not require that I pay that much
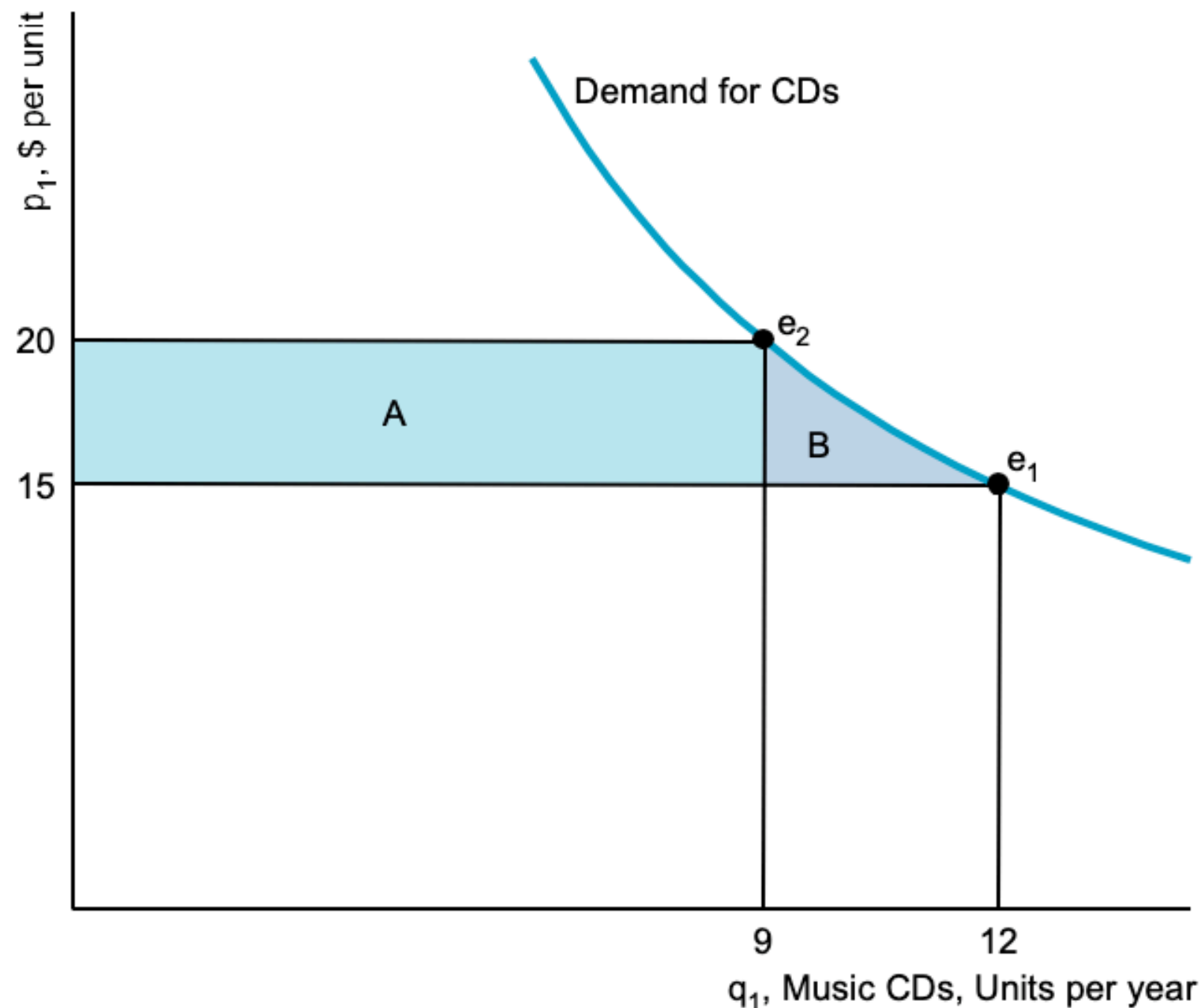
Consumer Surplus
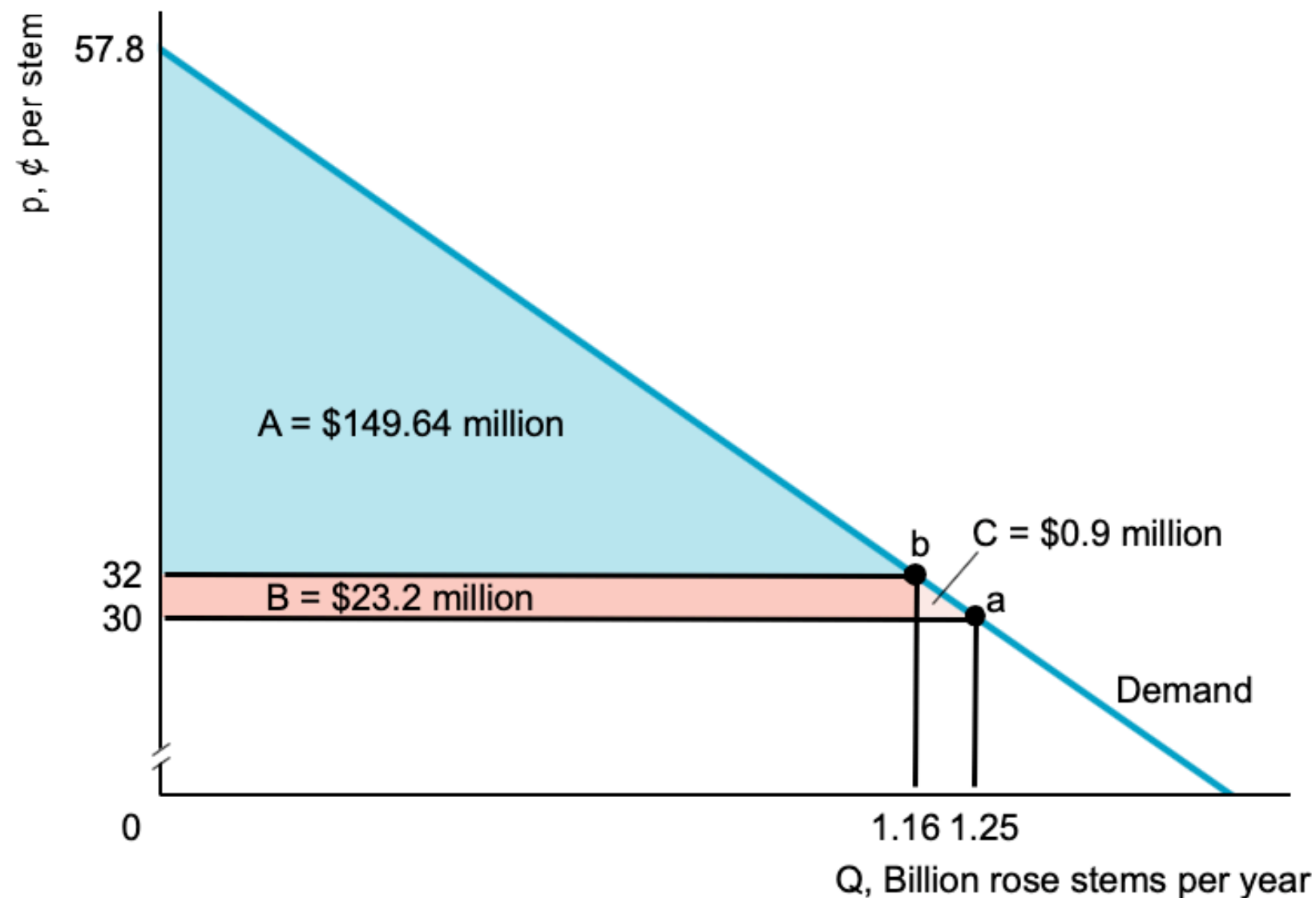

(a) David's Consumer Surplus
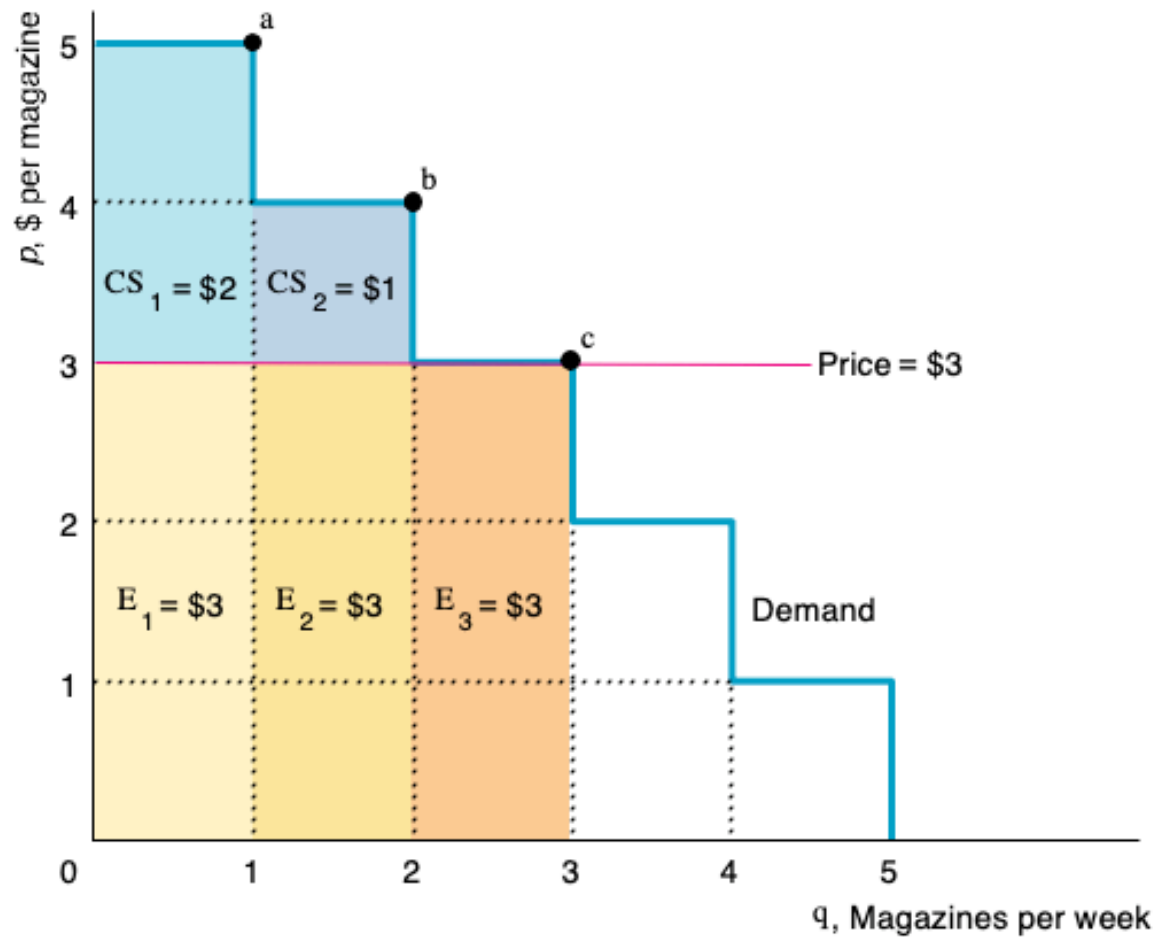
(b) Steven's Consumer Surplus
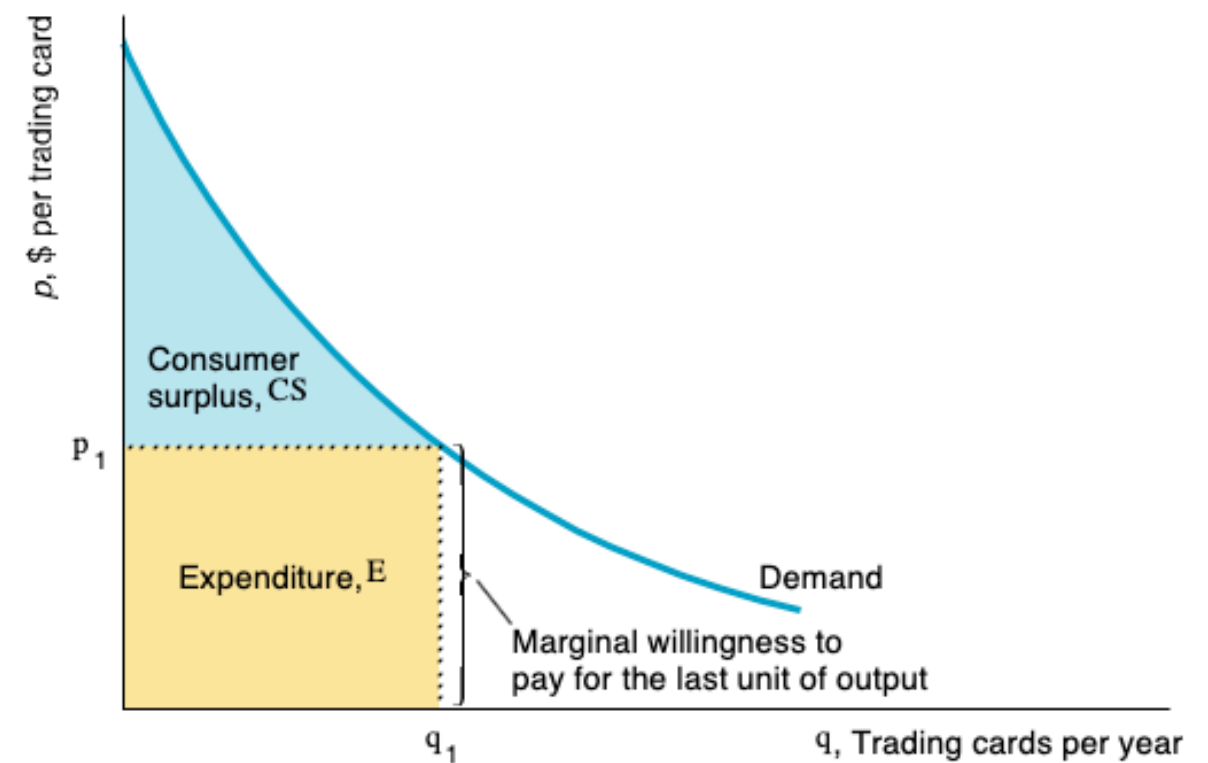
Changes in Consumer Surplus: Calculating Areas for Non-Linear and Linear Demand Functions

Decline in Consumer Surplus as the Market Price of Roses Increases

What formula would you use to find the area of the blue triangle?

Consumer Surplus Across Markets

- When prices rise, what markets experience the largest losses in consumer surplus?

  - In general, consumer surplus declines *most rapidly* when:

    1. The market is large and commands large expenditures from consumers (housing, transportation, energy/utilities, healthcare, etc)

    2. The less elastic (steeper) the demand curve

Practice Problem

- Assume the market demand for tickets to see the symphony is $Q_d = 600 - 2p$, where p is the price in dollars for a ticket. If the current price of tickets is \$60, what is the magnitude of consumer surplus coming from this market? If the price of tickets were to drop to \$50, what would be the new amount of consumer surplus, and how much would it have risen/fallen?

- Step 1: Solve for Q when $p = \$60$

- Step 2: Solve for p when $Q = 0$ and subtract \$60 from it

- Step 3: Use these numbers to find the area of the CS triangle

- Step 4: Repeat steps 1-3 but now using \$50

- Step 5: Compare your answers

Not Covered in Chapter 5

- Differences between consumer surplus and other measures of consumer welfare

- Consumer expenditure functions

- Effects of government policies on consumer welfare

- Deriving labor supply curves