Ch 7. Consumers, Producers, and the Efficiency of Markets

- Willingness to Pay(WTP)

- Maximum amount the buyer will pay for that good
- How much the buyer values the good
- WTP and demand curve : If there were a huge # of buyers, as in a competitive market, there would be a huge # of very tiny steps, and it would look more like a smooth curve.
- At any Q, the height of the D curve is the WTP of the marginal buyer, the buyer who would leave the market if P were any higher.

- Consumer Surplus CS = WTP - P

- Amount a buyer is willing to pay minus the amount the buyer actually pays... Buyers' gains from participating in the market
- CS is the area between P and the D curve
- A higher price reduces Consumer surplus.
- Two reasons for the fall in CS.
  1. Fall in CS due to buyers leaving the market
  2. Fall in CS due to remaining buyers paying higher P

- Cost: Value of everything a seller must give up to produce a good... Measure of willingness to sell
- Produce Surplus PS = P - Cost

- Amount a seller is paid for a good minus seller's cost of providing it... Price received minus willingness
- A lower price reduces Producer surplus.
- Two reasons for the fall in PS.
  1. Fall in PS due to sellers leaving the market
  2. Fall in PS due to remaining sellers getting lower P

- Total Surplus = CS + PS

- Value to buyers - Cost to sellers

- Market's efficient allocation of resources maximizes total surplus(TS)

- The goods are consumed by the buyers who value them most highly

- The goods are produced by theproducers with the lowest costs

- Raising or lowering the quantity of agood would not increase total surplus