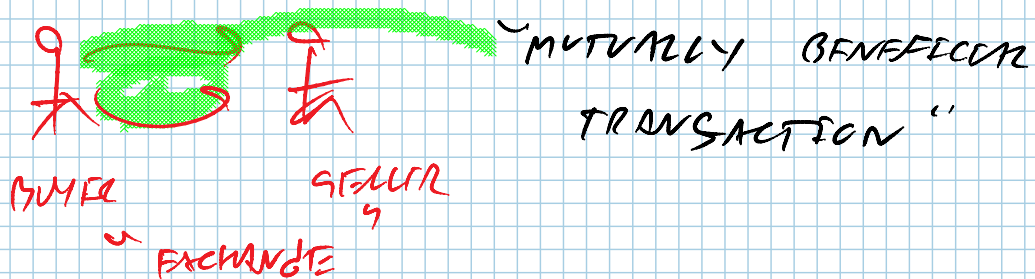


RESERVATION PRICE

CONSUMER SURPLUS = BENEFITS CONSUMERS GET FROM BUYING G&S.

(WTP)
= WELLBINGNESS TO PAY -
PRICE ACTUALLY PAID
(P)

"GAINS FROM TRADE"



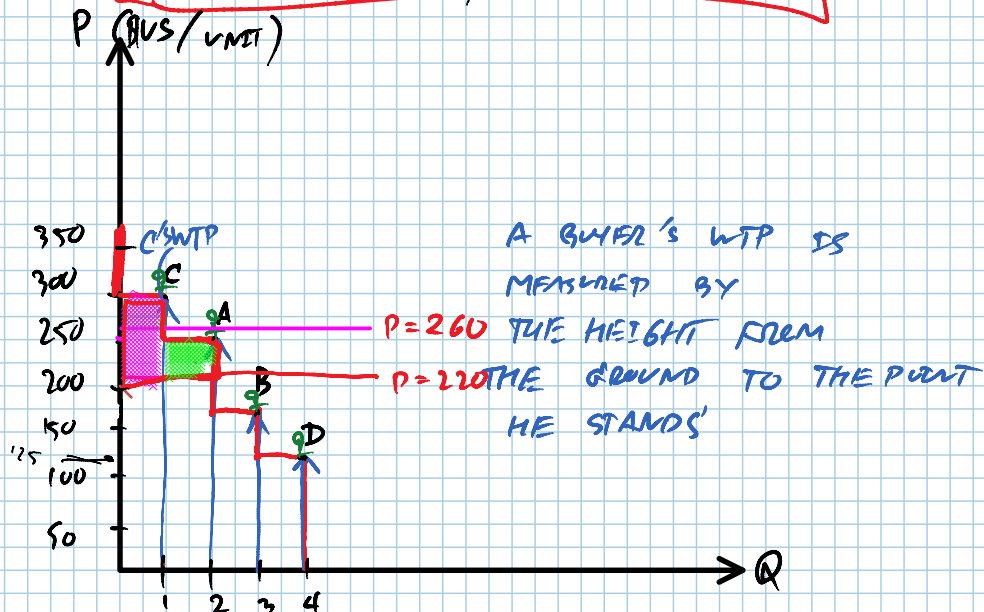
VOLUNTARY EXCHANGE

IPOD	
NAME	WTP
A	\$250
B	175
C	300
D	125

SUPPOSE $P = 200$ (TABLE)

DEMAND SCHEDULE		
PRICE	WHO BUYS	Q^d
301 & UP	NOBODY	0
251 - 300	C	1

251 - 300	C'	1
176 - 250	C', A	2
126 - 175	C', A, B	3
0 - 125	C', A, B, D	4



SUPPOSE $P = 260$

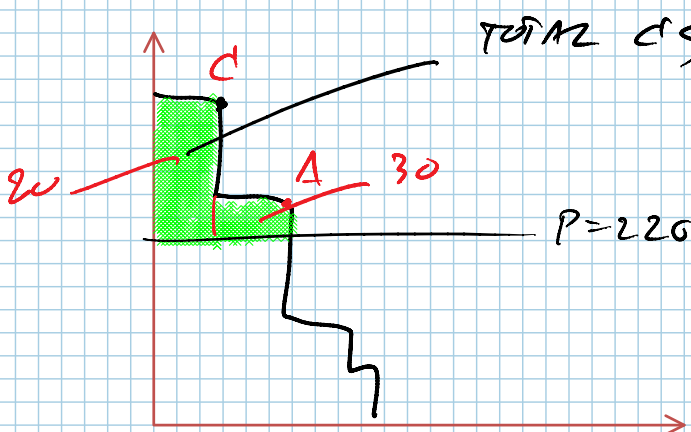
IF $P = 260$, C'S CONSUMER SURPLUS = $300 - 260 = 40$

TOTAL CS = \$40.

IF $P = 220$, C'S CONSUMER SURPLUS = $300 - 220 = 80$

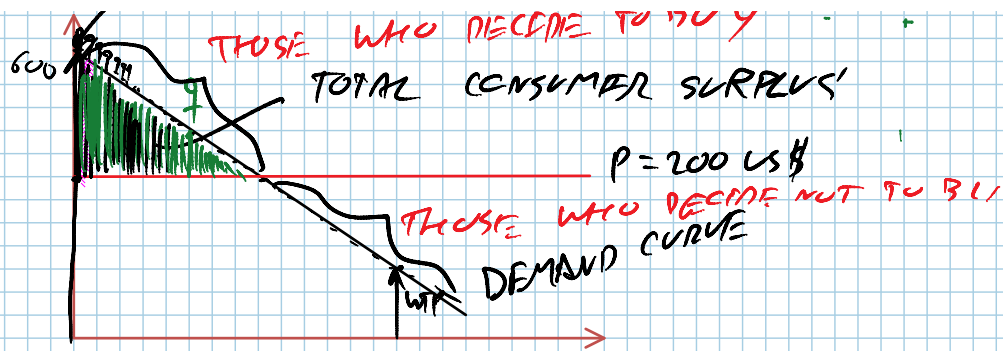
A'S CONSUMER SURPLUS = $250 - 220 = 30$

TOTAL CS = $80 + 30 = 110$

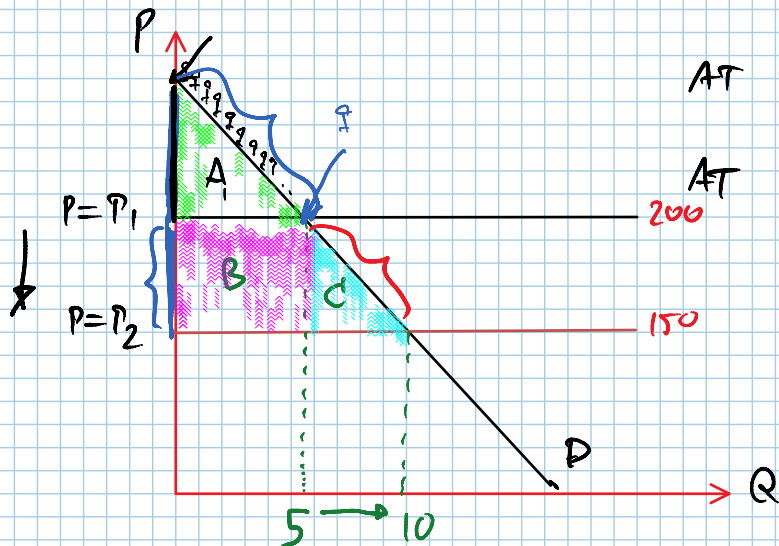


TOTAL CS = THE AREA UNDER THE DEMAND CURVE AND ABOVE THE PRICE

THOSE WHO DECIDE TO BUY - TOTAL CONSUMER SURPLUS'



HOW PRICE CHANGE AFFECTS CONSUMER SURPLUS



AT $P=P_1$, $CS = \text{AREA } A$

AT $P=P_2$, $CS = \text{AREA } A + B + C$

INCREASE IN
CS RECEIVED
BY ALL ORIGINAL
BUYERS

INCREASE IN
CS RECEIVED
BY NEW BUYERS
INCREASE IN CONSUMER

SUMMARY

FALL IN PRICE LEADS TO
SURPLUS

ORIGINAL $CS = A$

NEW $CS = A + B + C$

$$\begin{aligned}\Delta CS &= \text{NEW CS} - \text{OLD CS} \\ &= (A + B + C) - (A) \\ &= B + C\end{aligned}$$

PRODUCER SURPLUS

COST = THE VALUE OF ~~EVERYTHING~~ A SELLER
MUST GIVE UP TO PRODUCE A GOOD)
(i.e., $\text{OPPORTUNITY COST} = \text{EXPLICIT COST} + \text{IMPLICIT COST}$)

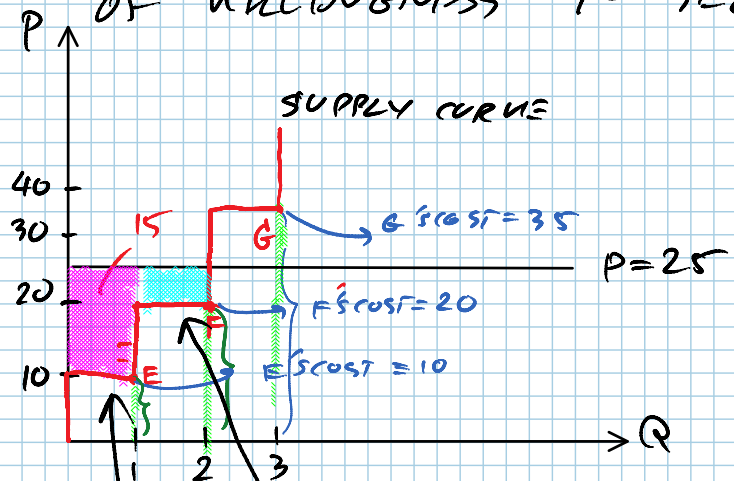
NAME	COST
E	\$10
F	\$20
G	\$35

COSTS OF 3 SELLERS IN THE LAWN-CUTTING BUSINESS

- A SELLER WILL ONLY PRODUCE AND SELL THE GOOD **IF** THE PRICE (RECEIVED) $\geq$ HIS OR HER COST.

P	Q^s
0-9	0
10-19	
20-34	
35 & UP	

- HENCE, COST IS A MEASURE OF WILLINGNESS TO SELL.



PRODUCER SURPLUS = PRICE A SELLER GETS - COST

AT $P = 25$,

$$E's PS = 25 - 10 = \$15$$

$$F's PS = 25 - 20 = \$5$$

$$TOTAL PS = 15 + 5 = 20$$

TOTAL PS = THE AREA ABOVE THE SUPPLY CURVE AND UNDER THE PRICE FROM 0 TO THE QUANTITY SOLD

