

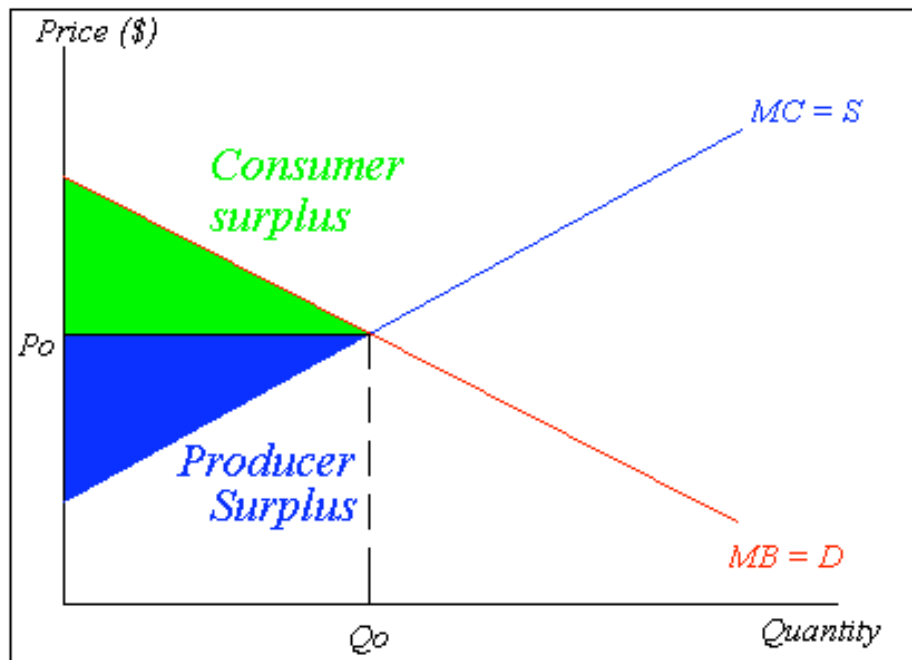
Consumer and Producer Surplus Handout

Consumer surplus is the difference between the price that the consumer is willing to pay and the actual market price paid for the good.

- Every consumer has surplus until there is a consumer who is willing to pay exactly what the actual market price for the good is.
- The consumer surplus is the area under the marginal benefit (MB) or demand curve between the price axis and the market price (the green triangle).

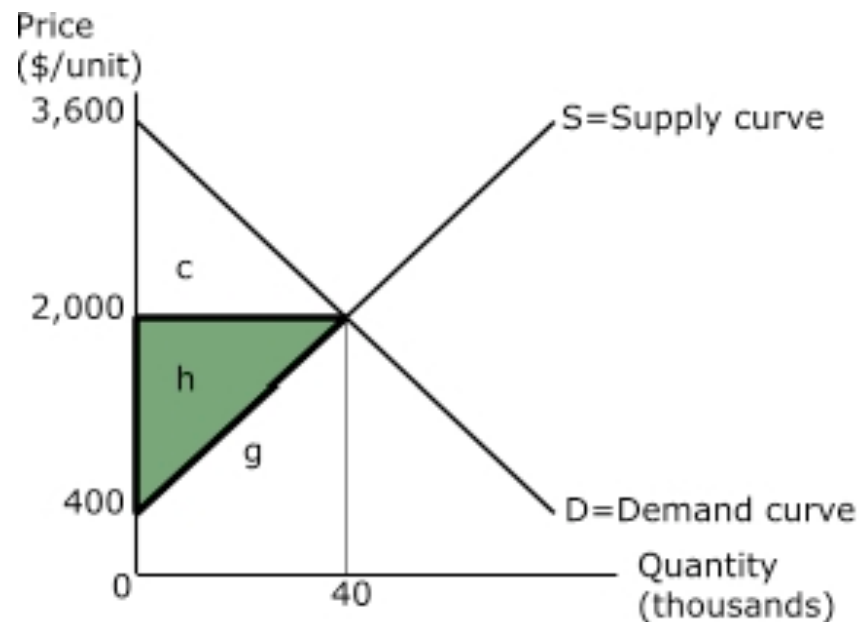
Producer surplus is the amount that producers benefit by selling at a market price that is higher than they would be willing to sell for.

- Every producer has surplus until there is a producer whose price they are willing to supply for equals the actual market price.
- The producer surplus is the area above the marginal cost (MC) or the supply curve and below the market price (the blue triangle).



The important thing to take from this chapter is how to calculate consumer and producer surplus. Notice that consumer and producer surplus are triangles and to calculate them, we just find the area of the triangle. Consider the following example...

What is the producer surplus shown in the graph below?



We know that the producer surplus is the triangle h. So we need to

find the area of triangle h. The formula that we will use is: $A = \frac{1}{2}bh$

Calculation:

$$A = \frac{1}{2}(2000 - 400)(40)$$

$$A = \frac{1}{2}(1600)(40)$$

$$A = \$32,000$$

We see by finding the area of that triangle, we get a producer surplus of \$32,000. Consumer surplus is calculated the same way. In this case, we would find the area of triangle c.