

Learning Objectives

Chapter 7

In this chapter you will

- Examine the meaning of welfare economics
- Examine the link between buyers' willingness to pay for a good and the demand curve
- Learn how to define and measure consumer surplus
- Examine the link between sellers' costs of producing a good and the supply curve
- Learn how to define and measure producer surplus
- See that the equilibrium of supply and demand maximizes total surplus in a market

You should be able to

- Derive a demand curve from a group of individual buyers' willingness to pay schedules
- Locate consumer surplus on a supply and demand graph
- Derive a supply curve from a group of individual sellers' cost of production schedules
- Locate producer surplus on a supply and demand graph
- Demonstrate why all other quantities other than the equilibrium quantity fail to maximize total surplus in a market
- Explain the relevance of consumer and producer surplus in at least one real-life situation