

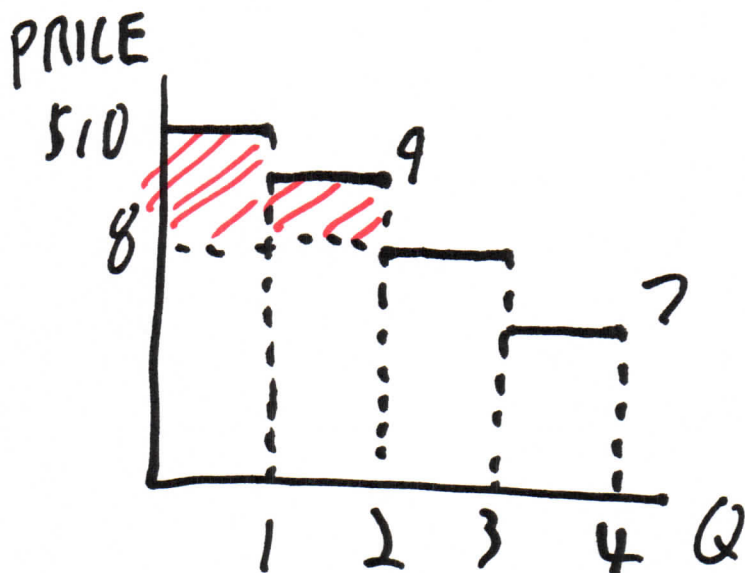
[H 7]

WELFARE

CONSUMER SURPLUS

- THE AMOUNT A BUYER IS WILLING TO PAY MINUS THE AMOUNT ACTUALLY PAID

	VALUE SHIRT	PRICE	CS
ANA	\$10	\$8 ↓	2
BILL	\$9		1
CARL	\$8		0
DAWN	\$7		-
			+

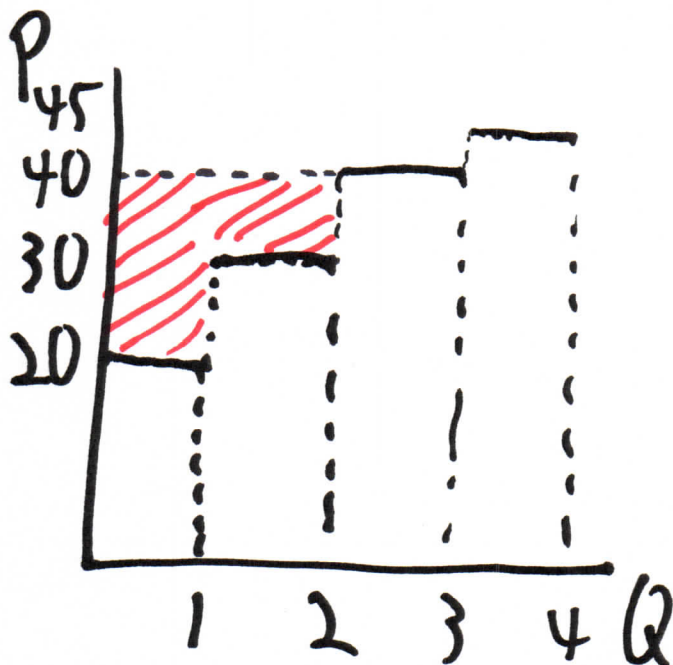


CS:
AREA BELOW
DEMAND +
ABOVE PRICE

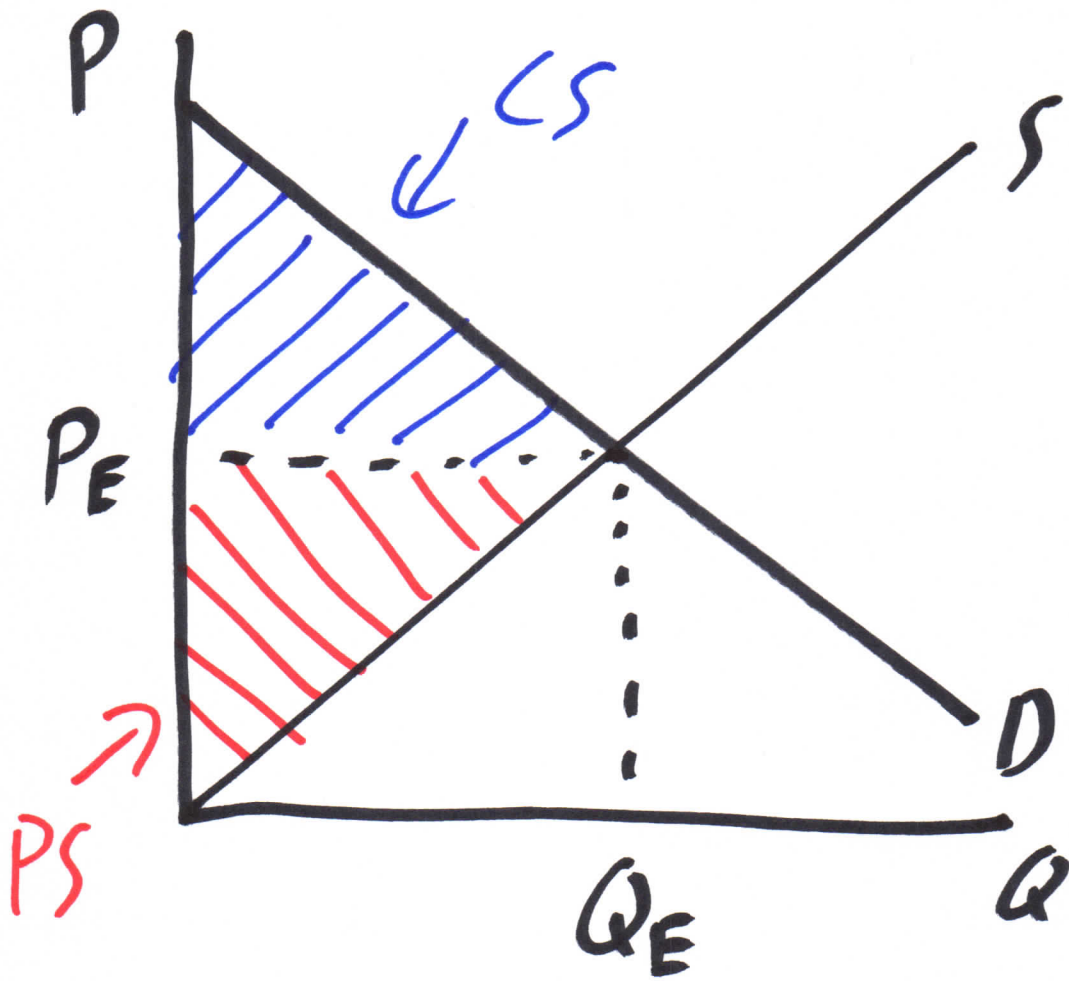
PRODUCER SURPLUS

- THE AMOUNT A SELLER IS PAID MINUS THE SELLERS COST TO PROVIDE (THE WILLINGNESS TO SELL)

	VALUE POSTER	PRICE	PS
ELLEN	\$20	\$40	\$20
FRED	\$30		\$10
GREG	\$40		0
HANNAH	\$45		—
			+
			\$30



PS!
 AREA ABOVE
 SUPPLY +
 BELOW PRICE

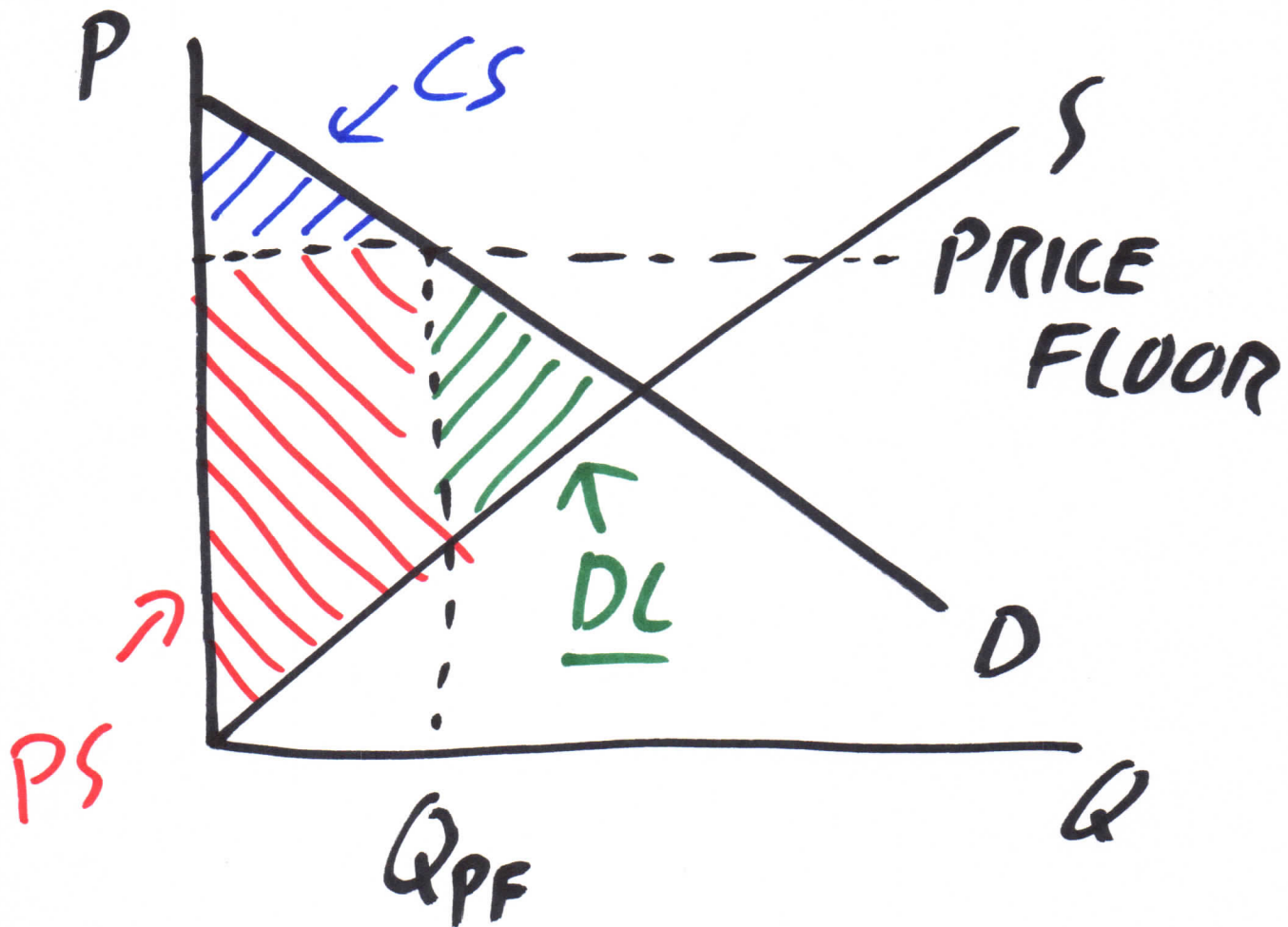


TOTAL SURPLUS

$$TS = CS + PS + \text{EXTERNAL SURPLUS}$$

TOTAL WELFARE TO ALL
PARTICIPANTS

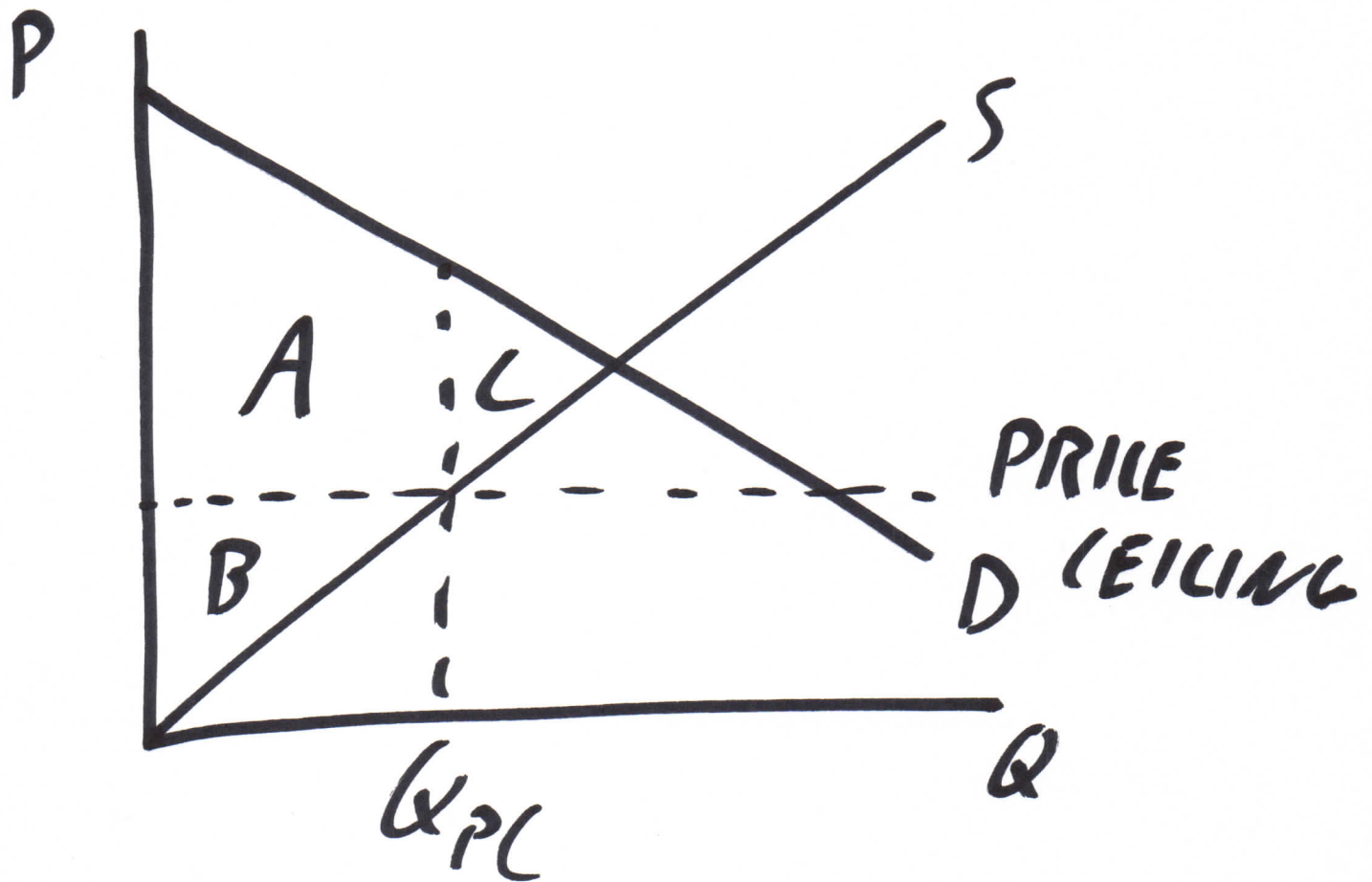
PRICE FLOOR = MIN. PRICE



DL = DEADWEIGHT LOSS

LOSS OF TOTAL SURPLUS
(EFFICIENCY)

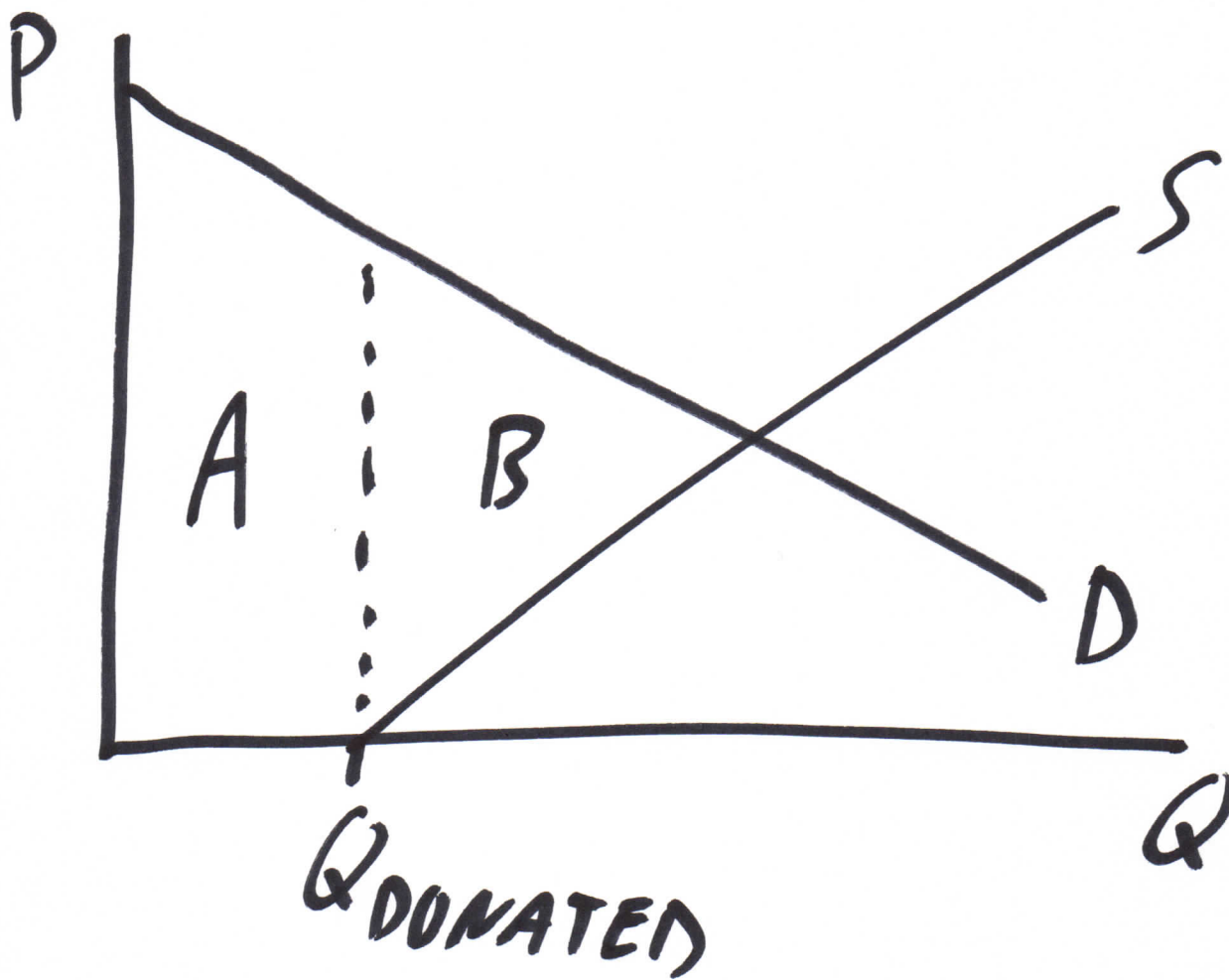
PRICE CEILING: MAX. PRICE



$$\begin{aligned} A &= CS \\ B &= PS \\ C &= DL \end{aligned}$$

$$TS = A + B$$

KIDNEY SALES



$$CS = A$$

$$PS = -$$

$$DL = B$$

NO SOCIAL PLANNER CAN
CREATE A GREATER (EFFICIENT)
TOTAL SURPLUS THAN THE MARKET

EFFICIENCY VS EQUITY

TRADEOFF

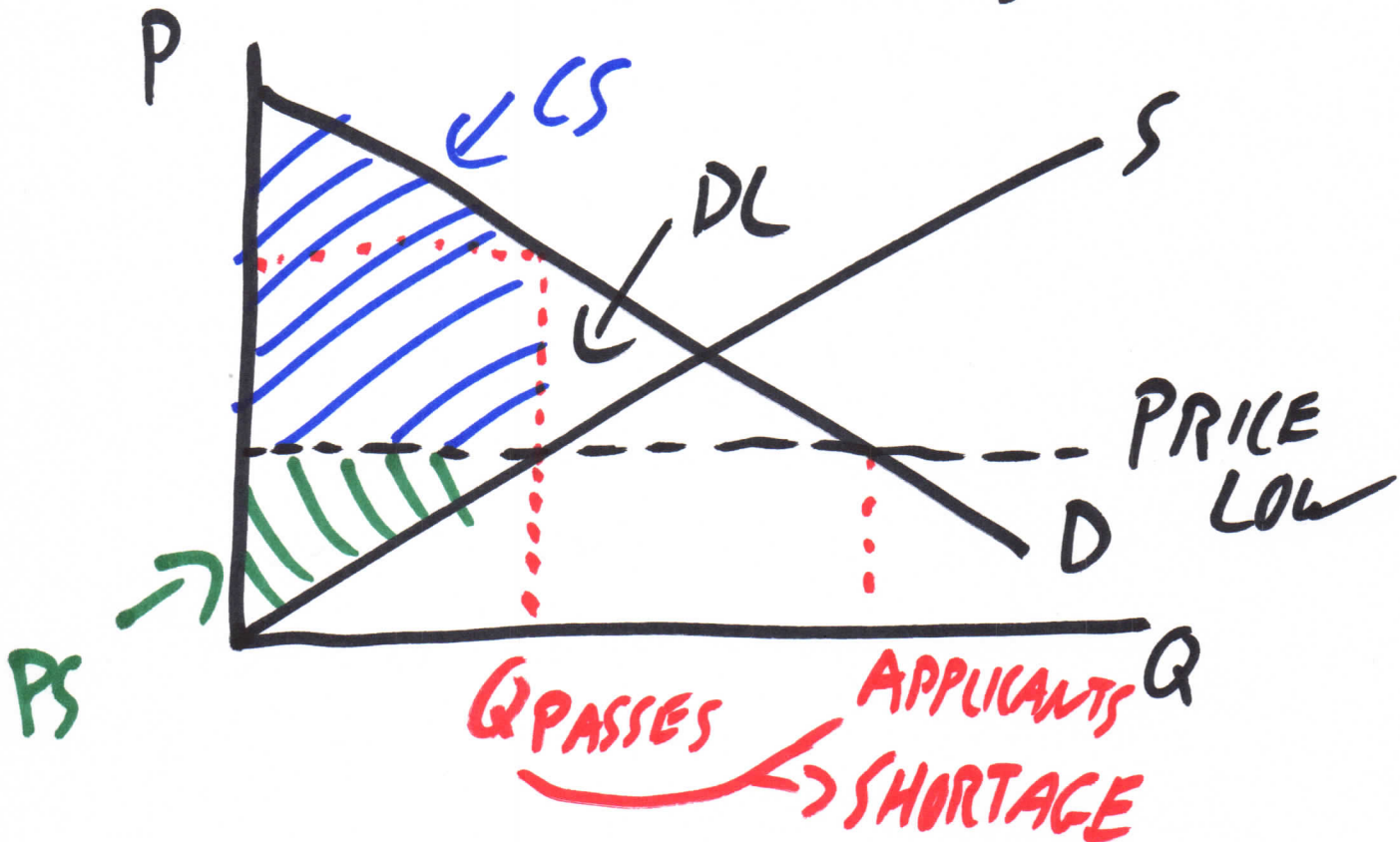
INEFFICIENT MARKET OUTCOMES

- (1) IGNORE EXTERNALITIES (FAILURE)
- (2) CONCENTRATED (OR 1) SELLER
- (3) UNCONCENTRATED (OR 1) BUYER
- (4) IMPERFECT INFORMATION

CH. 7 EFFICIENT OUTCOMES

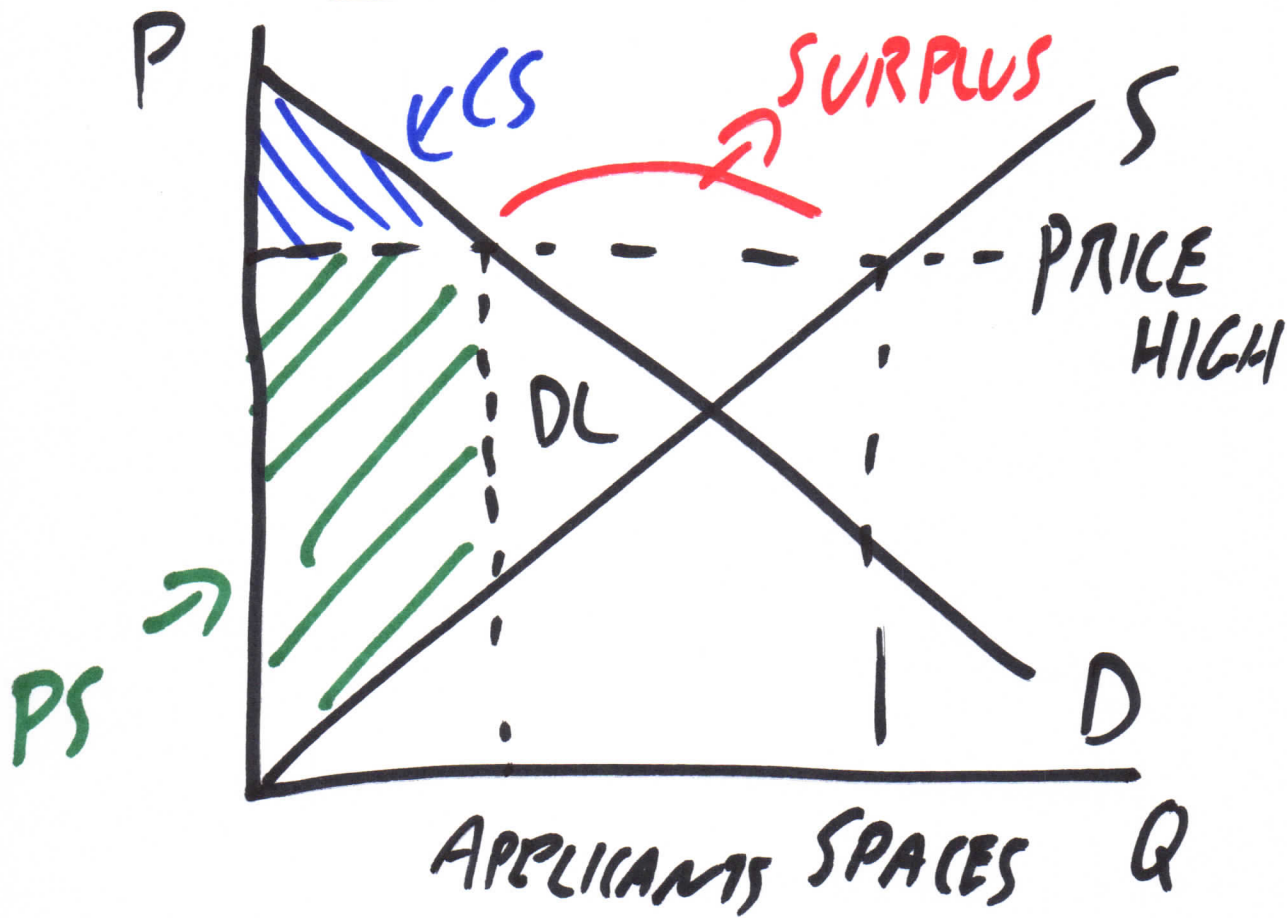
- SOCIAL PLANNER

PARKING PASSES



DEADWEIGHT LOSS = INEFFICIENT
OUTCOME

PARKING PASSES



NO SOCIAL PLANNER CAN CREATE
A MORE EFFICIENT OUTCOME THAN
THE MARKET

TRADEOFF

EFFICIENCY OR EQUITY