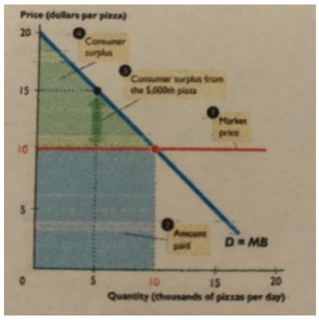
Consumer Surplus:

- The marginal benefit from a good or service minus the price paid for it, summed over the quantity consumed
- How much consumers are willing to pay vs what they actually paid

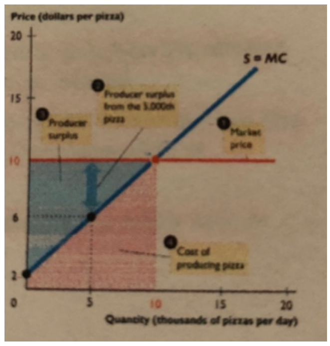


Supply and Marginal Cost:

- Cost is what the seller must give up to produce good, price is what the seller receives
- Cost of producing one more unit of g&s is marginal cost
- A marginal cost curve is a supply curve

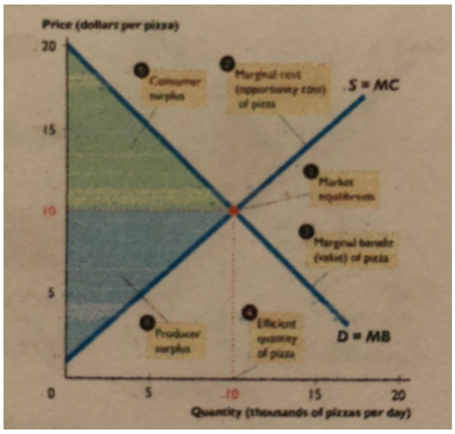
Producer Surplus:

- The price of a good minus the cost of producing it, summed over the quantity produced
- How much producers sell good for vs what they were willing to sell it for



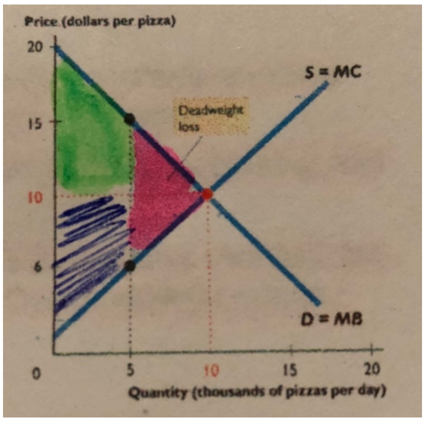
Market Efficiency:

- When marginal benefit (demand) equals marginal cost (supply) , there is equilibrium and resource allocation is efficient
- Total Surplus (TS) is the sum of CS and PS
- Equilibrium maximises TS and allows for allocative efficiency



Market Failure:

- Situation where market delivers inefficient outcome, occurs due to overproduction or underproduction
- Deadweight loss is the decrease in total surplus that results from underproduction or overproduction
- To calculate deadweight loss, it is the area of TS that is removed as quantity differs from the equilibrium quantity



Sources of Market Failure:

- Price & Quantity Regulation: Both lead to underproduction as they limit a firm's production or price adjustments
- Taxes and Subsidies: Taxes lead to underproduction, subsidies lead to overproduction
- Externalities: A cost or benefit that affects others besides buyer and seller, burning coal creates acid rain and doesn't consider this external cost, hence overproduction. Owner of a bad house provides an external benefit to neighbours if she repaired it, but she doesn't, hence underproduction.
- Public Goods: Benefits everyone and no-one can be excluded, everyone's self-interest to avoid paying for good, leads to underproduction
- Common Goods: Owned by no-one and used by all, everyone's self interest to ignore the costs of their use of good that fall on others, hence overproduction
- Monopoly: Sole provider, hence under produces to maximise profit
- High Transaction Costs: Opportunity costs of making trades in a market, some markets are costly to operate, hence if transaction costs are high, underproduction results