Applying Consumer Surplus

Value of a Process

- A firm has developed a new product, selling at $P$. How much consumer surplus does each consumer get?
- Look at the graph to the right.

Of course, if I run the firm, I want to figure out how to get that consumer surplus for myself. There are ways; we talk about them later.

Value of a License

- A firm is selling a product, at its cost of $P$.
- Suppose it could require consumers to pay a fee for the right to purchase the product.
Value of a License

- A firm is selling a product, at its cost of P.
- Suppose it could require consumers to pay a fee for the right to purchase the product.
- How much could they charge?

Of course, if I run the firm, I want to figure out how to get that consumer surplus for myself. There are ways; we talk about them later.

Cost of Restrictions

- A product is currently being sold for $P. The government restricts sales by requiring a higher price.
- What is the lost consumer surplus?
Applying Consumer Surplus

Cost of Restrictions

- A product is currently being sold for $P$. The government restricts sales by requiring a higher price.
- What is the lost consumer surplus?

A New Product

- A research program costing $X$ will lead to a new product which can be made and sold for $P$. How much benefit will consumers get out of the product?

If CS > $X$ develop the product. If CS < $X$, abandon the research project.

End

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