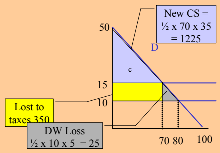
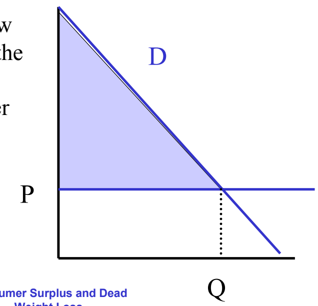
Consumer Surplus and Deadweight Loss



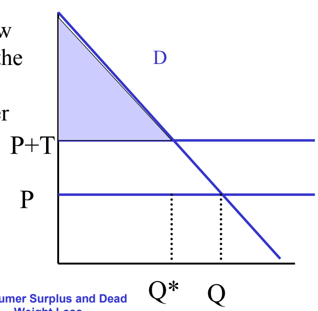
An Application

- The government now imposes a tax T on the product. What happens to consumer surplus?



An Application

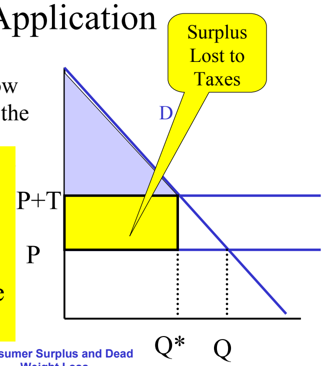
- The government now imposes a tax T on the product. What happens to consumer surplus?
- Consumer Surplus Declines



An Application

- The government now imposes a tax T on the product. What

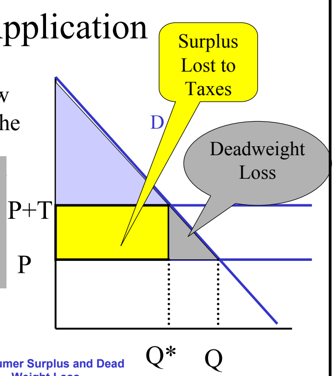
This is not a loss. The money is transferred to the government, and thus takes the place of other taxes.



An Application

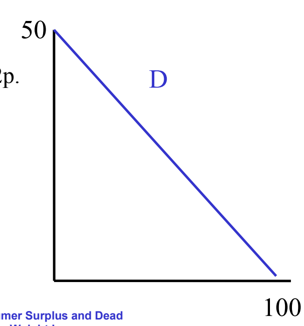
- The government now imposes a tax T on the product. What

This is a total loss. No one benefits from the Deadweight Loss



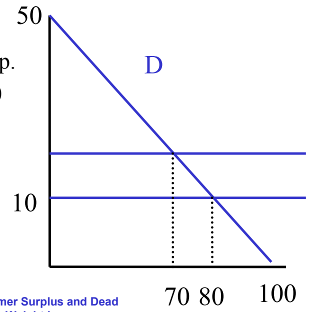
An Application

- The demand for a product is Q = 100-2p.



Taxes

- The demand for a product is Q = 100-2p.
- The good sells for 10
- The Government imposes a tax of $5



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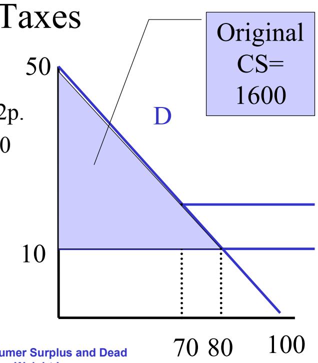

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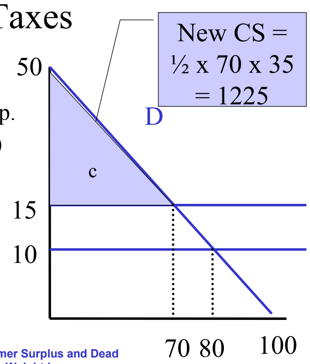

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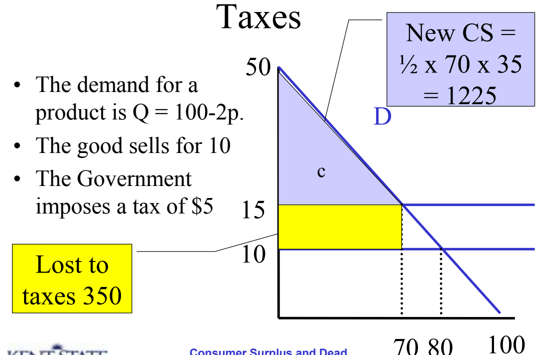

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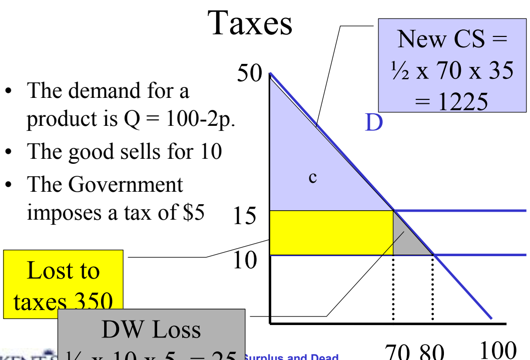
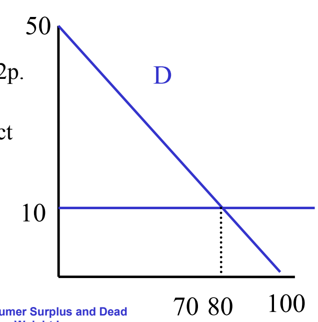


Monopoly Pricing

- The demand for a product is Q = 100-2p.
- A Monopolist, who can make the product for nothing, sells it $10



Monopoly Pricing

- The demand for a product is Q = 100-2p.
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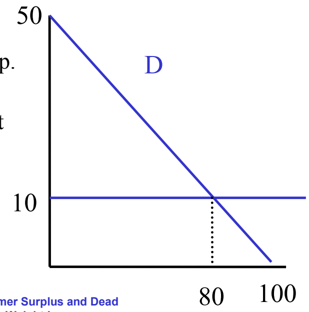
π = $800



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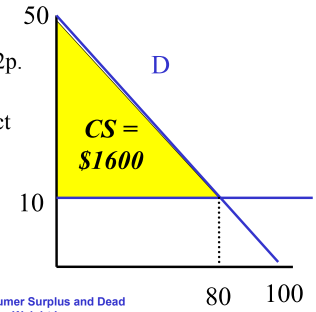
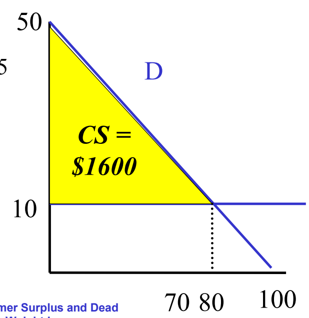


Monopoly Pricing

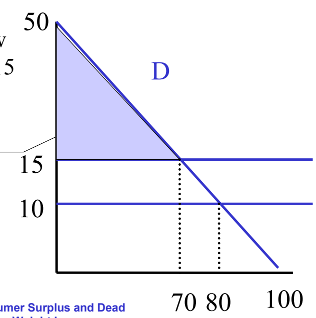
- The Monopolist now raises the price to $15



Monopoly Pricing

- The Monopolist now raises the price to $15

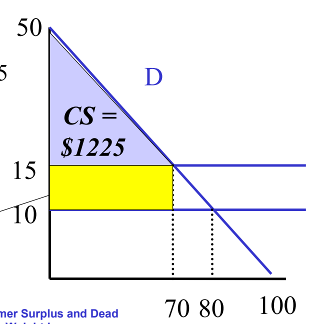
New CS =
½ x 70 x 35
= 1225



Monopoly Pricing

- The Monopolist now raises the price to $15

π = $1050

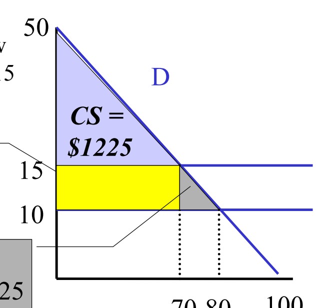


Lost to higher price 350

Monopoly Pricing

- The Monopolist now raises the price to $15

π = $1050



Lost to higher price 350

DW Loss
½ x 10 x 5 = 25

End