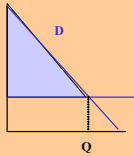


Applying Consumer Surplus

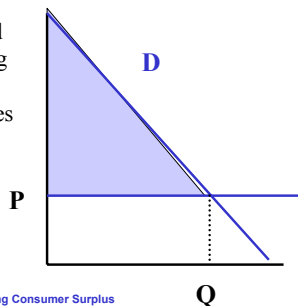


Value of a Process

- A firm has developed a new product, selling at P . How much consumer surplus does each consumer get?

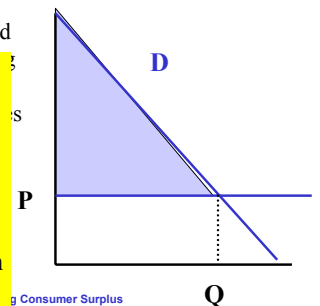
Value of a Process

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- Look at the graph to the right.



Value of a Process

- A firm has developed a new product, selling at P . How much consumer surplus does each consumer get?
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 .

Value of a License

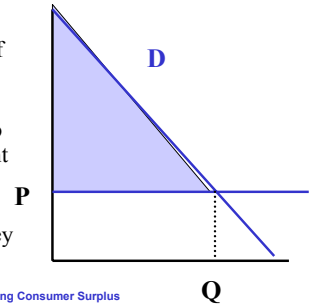
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Value of a License

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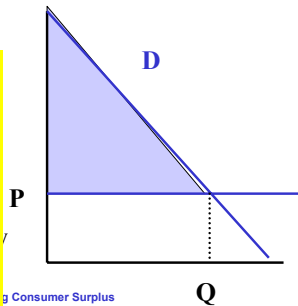
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Cost of Restrictions

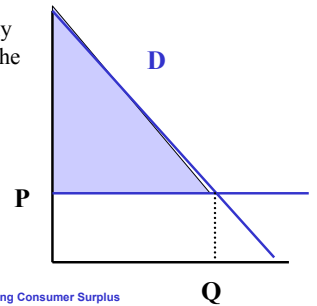
- A product is currently being sold for P . The government restricts sales by requiring a higher price.

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?

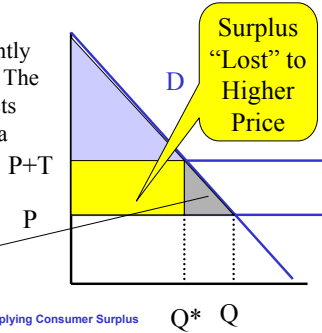
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Cost of Restrictions

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Deadweight Loss

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Q^* Q

A New Product

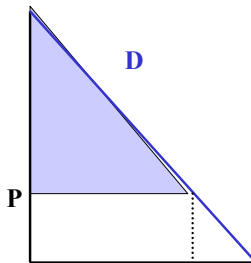
- A research program costing $\$X$ will lead to a new product which can be made and sold for $\$P$. How much benefit will consumers get out of the product?

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Applying Consumer Surplus

A New Product

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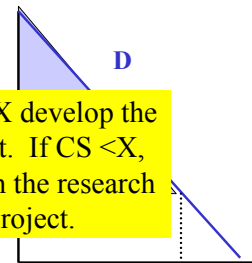
Applying Consumer Surplus

Q

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.



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Q

End

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