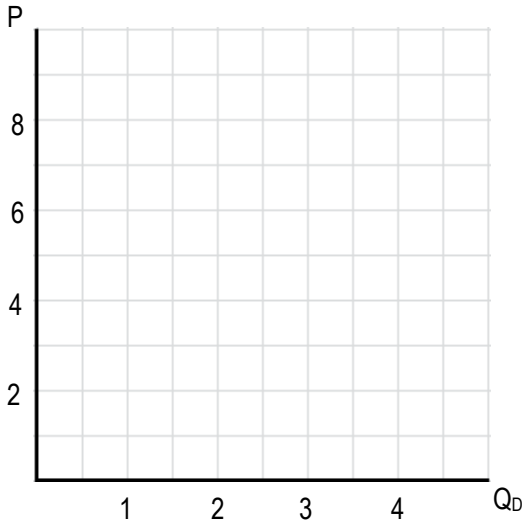
CONCEPT: CONSUMER SURPLUS AND WILLINGNESS TO PAY

- The _____ represents the ***willingness to pay (reservation price)*** of consumers.

  □ A ***consumer surplus*** exists when someone is willing to pay _____ than the market price.

$$Consumer\ Surplus = Willingness\ To\ Pay - Market\ Price$$

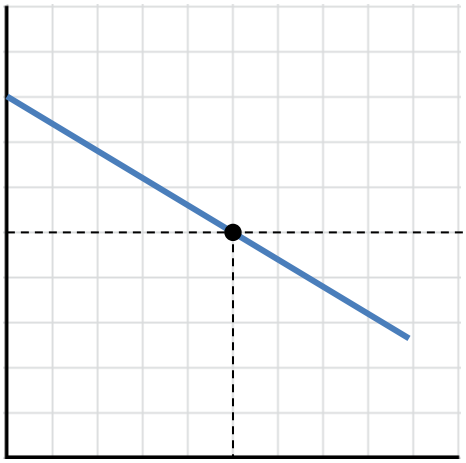
□ We can also think of willingness to pay as the _____ to the consumer.



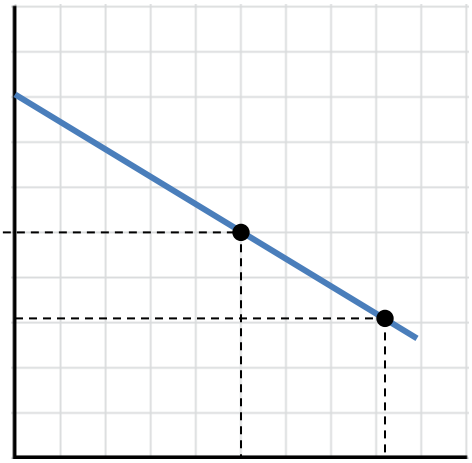
Consumer	Willingness to Pay ($)	Consumer Surplus when P=7	Consumer Surplus when P=5	Consumer Surplus when P=4
Cartman	8			
Kyle	6			
Stan	4			
Kenny	2			
	Q_D / CS			

$$Consumer\ Surplus = The\ Area\ Below\ the\ Demand\ Curve\ and\ Above\ Market\ Price = \frac{1}{2}bh$$

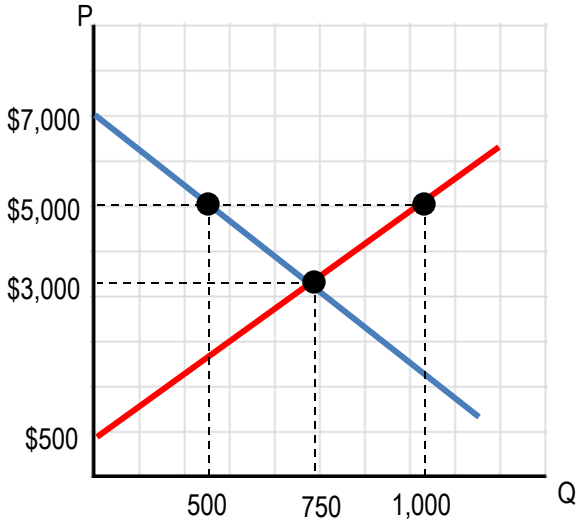
Original Consumer Surplus



Consumer Surplus After Price Decrease



EXAMPLE: The graph below represents the market for funky-fresh rhymes.



At a price of $3,000 per funky-fresh rhyme, what is the consumer surplus?

a) $750,000
b) $1,500,000
c) $2,250,000
d) $3,000,000

PRACTICE: Use the graph for funky-fresh rhymes above. If price increases from $3,000 to $5,000 per funky-fresh rhyme, what is the change to consumer surplus?

a) $500,000 increase
b) $500,000 decrease
c) $1,000,000 increase
d) $1,000,000 decrease

PRACTICE: Kanye West is ready to create his next hit single. He knows that he is willing to pay up to $3,000 for a funky fresh rhyme, and that he will need a total of ten funky fresh rhymes to create his hit single. After rounding up his best ghostwriters, he summarized the following schedule. If Kanye values all funky-fresh rhymes equally, what is his maximum consumer surplus?

a) $6,000
b) $12,000
c) $24,000
d) $30,000

Ghostwriter	Price per Rhyme	Quantity of Rhymes
Lupe Fiasco	$6,000	10
Rhymefest	$3,000	7
Consequence	$2,000	4
Brian	$1,000	1

PRACTICE: The demand curve for Nickelback's new album is downward sloping. At a price of $2, nationwide demand is 100 albums. If the price rises to $3, what happens to consumer surplus?

a) It falls by less than $100
b) It rises by more than $100
c) It falls by more than $100
d) It rises by less than $100