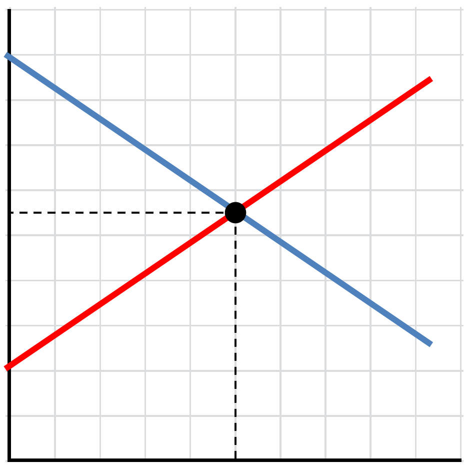
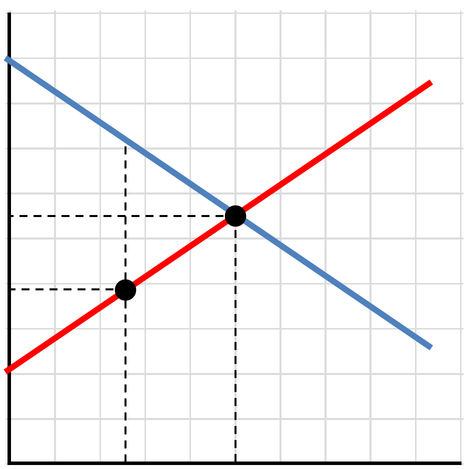
CONCEPT: ECONOMIC SURPLUS AND EFFICIENCY

● ***Economic surplus*** is the ____________ of consumer surplus and producer surplus.

□ The economic surplus is maximized when the market is ______________________________



What if the market is not at equilibrium? The inefficiency creates a _____________________________



	Equilibrium	Low Price
Consumer Surplus		
Producer Surplus		
Deadweight Loss		

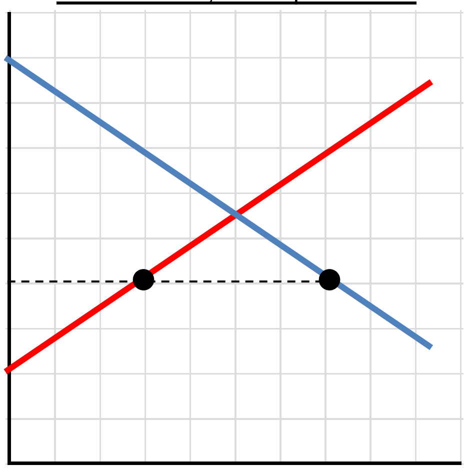
● At Equilibrium, marginal benefit to the consumer equals marginal cost to the producer.

□ We reach ***Productive Efficiency*** because competition forces suppliers to minimize costs.

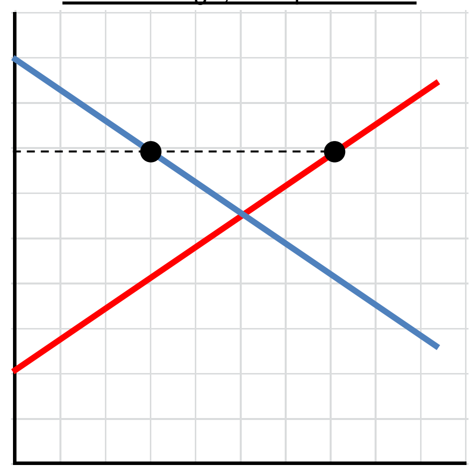
□ We reach ***Allocative Efficiency*** because the correct quantity of goods is being produced relative to other goods.

● Deadweight Loss occurs in cases of underproduction and overproduction.

Price too low; Underproduction



Price too high; Overproduction



● When a market fails to be efficient, it is called a ______________________

☐ Sources of market failure:

- Price or Quantity Regulations
- Externalities
- Monopoly
- High transaction costs