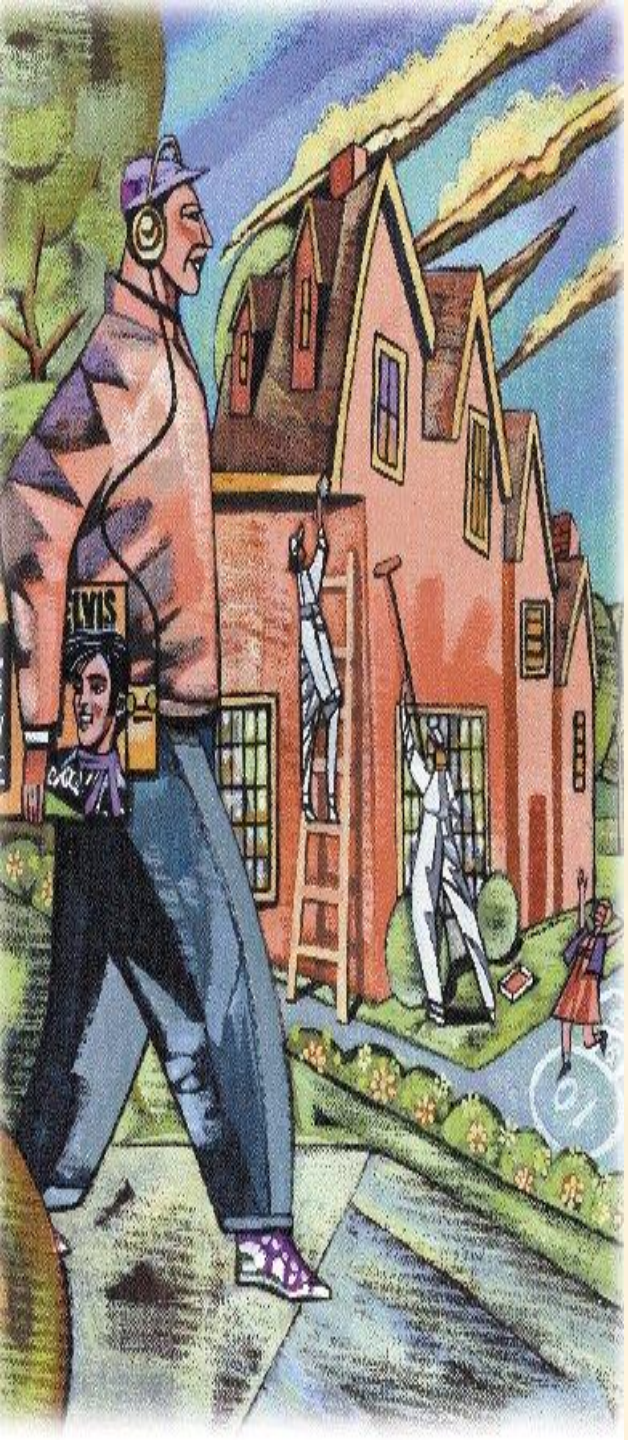


Kazakh Turkish College of Economics

Consumers, Producers, and the Efficiency of Markets

Chapter 7

By Kuanysh SHONBAY

Name	Quiz total	without words	Group points	Indiv points	total
1 Anuar	94	94	14		94/5
2 Aygerim	93	93	9	-5	93/5
3 Gulzat	90	76	5	10	90/5
4 Manasbek	87	71	38	-20	87/5
5 Islam	81	78	8		81/5
6 Arailym	78	62	5		80/5
7 Dias	72	60	14		80/5
8 Sagadat	72	58	5		77/4
9 Meruert	71	66	11		80/5
10 Aiganim	70	54	11	10	80/5
11 Botagoz	70	55	7		77/4
12 Aidana	69	69	9		78/4
13 Zhusip	68,5	60	38	-5	80/5
14 Zamira	62	47	11		72/4
15 Temirbek	60	59	8	20	80/5
16 Balzhan	59	48	9	10	78/4
17 Aigul	56	41	11		67/4
18 Daulet	54	51	14		68/4
19 Arailym Azi	54	42	9		63/4
20 Abay	52	42	8		60/4
21 Akmarzhan	53	37	5		58/3
22 Akerke	52	36	9	10	71/4
23 Vlad	49	34	14	10	59/3
24 Narul	45	37	8		53/3
25 Zhansaya	46	31	7		53/3
	66,98	56,72			75,04

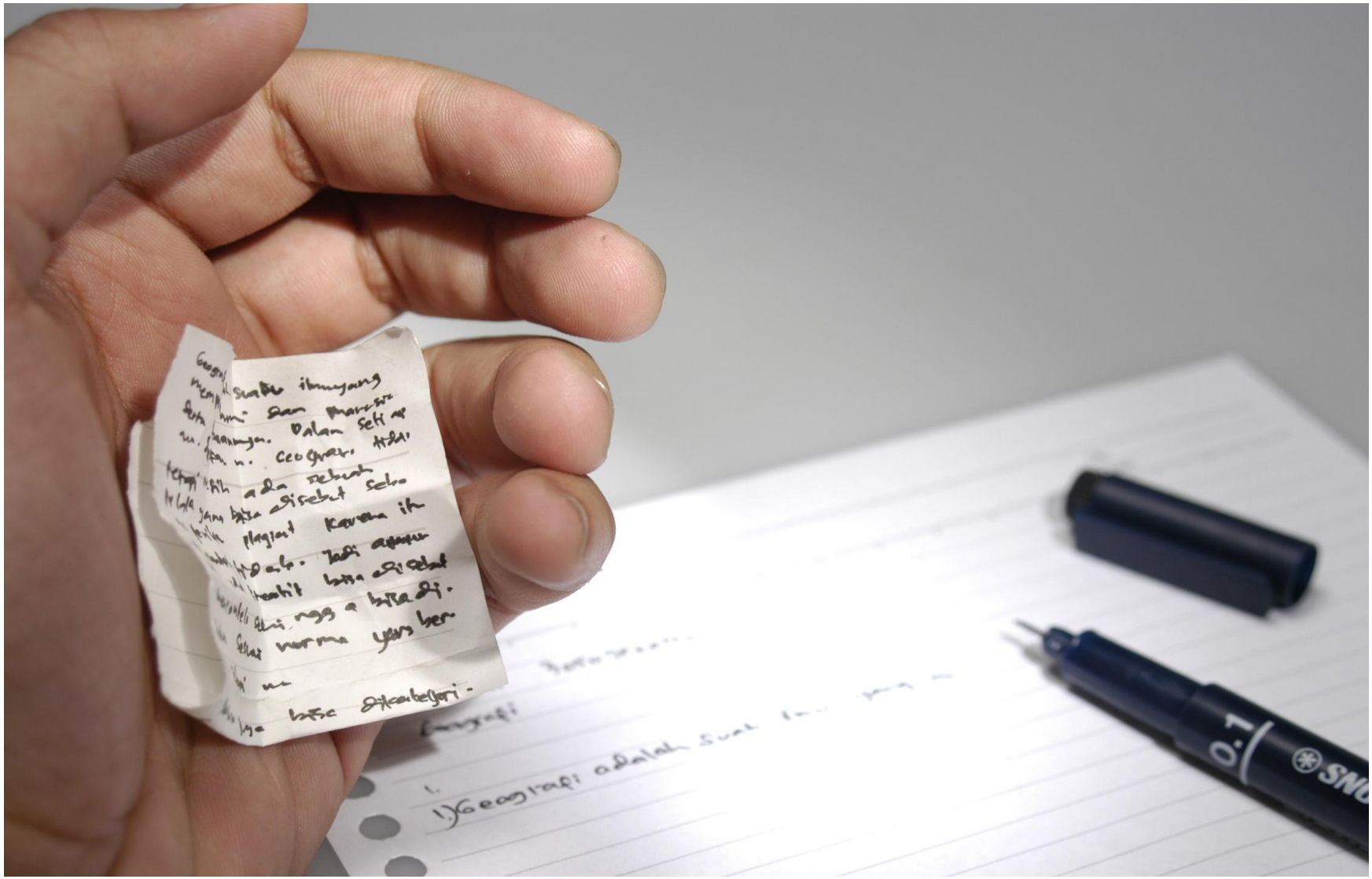
An internship is a system of on-the-job training for white-collar and professional careers

Poverty is the state of one who lacks a certain amount of material possessions or money.

Meager Deficient in quantity, fullness, or extent; scanty.

Quizzes are your feedback on my teaching

Your cheating makes me misevaluate your knowledge



Questions for Review
And
Problem and Applications
For
Chapter 7

1-)Explain how buyers' willingness to pay, consumer surplus, and the demand curve are related?

Buyers' willingness to pay, consumer surplus, and the demand curve are all closely related. The height of the demand curve represents the willingness to pay of the buyers. Consumer surplus is the area below the demand curve and above the price, which equals each buyer's willingness to pay less the price of the good.

2-)What is efficiency? Is it the only goal of economic policymakers?

An allocation of resources is efficient if it maximizes total surplus, the sum of consumer surplus and producer surplus. But efficiency may not be the only goal of economic policymakers;

they may also be concerned about equity - the fairness of the distribution of well-being.

3-) An early freeze in California sours the lemon crop. What happens to *consumer surplus* in the *market for lemons*? What happens to *consumer surplus* in the *market for lemonade*? Illustrate your answers with diagrams.

If an early freeze in California sours the lemon crop, the supply curve for lemons shifts to the left, as shown in Diagram 1. The result is a rise in the price of lemons and a decline in consumer surplus from A + B + C to just A. So consumer surplus declines by the amount B + C.

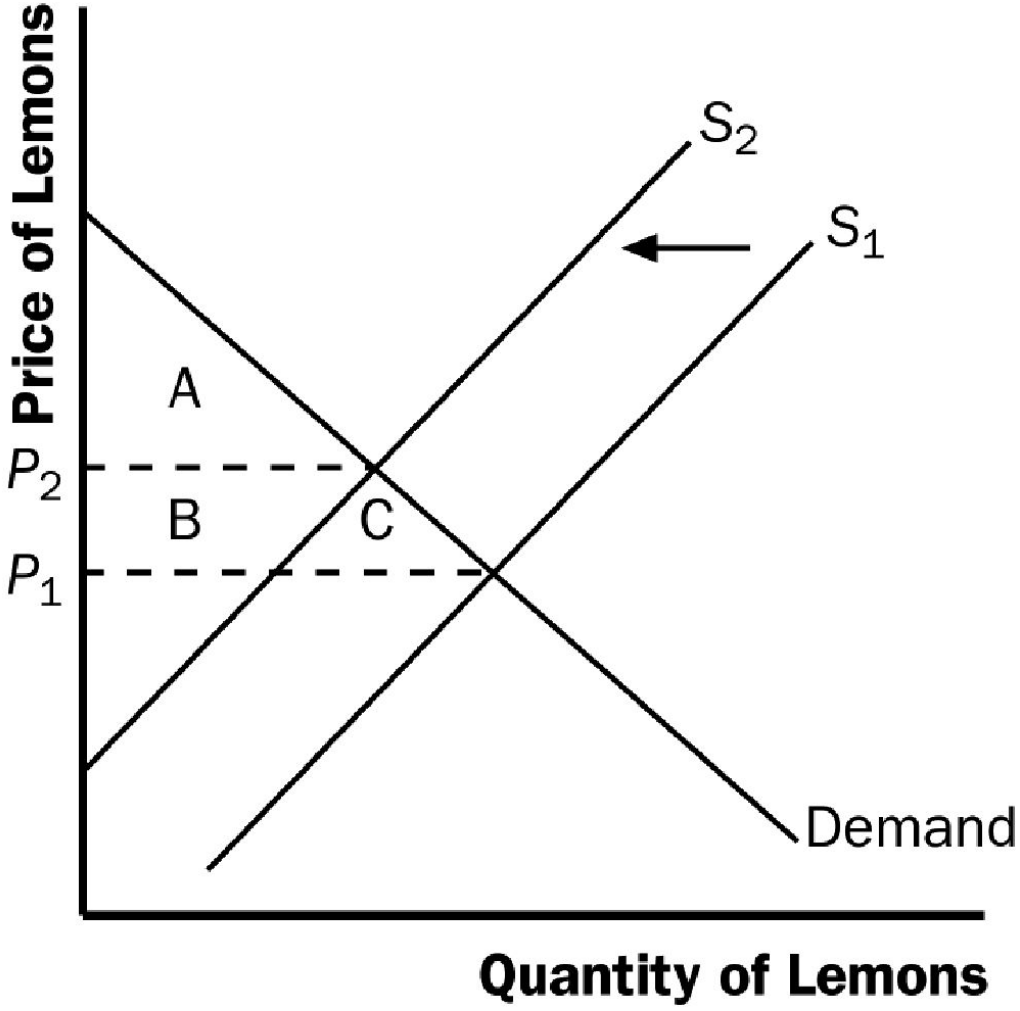


Diagram 1

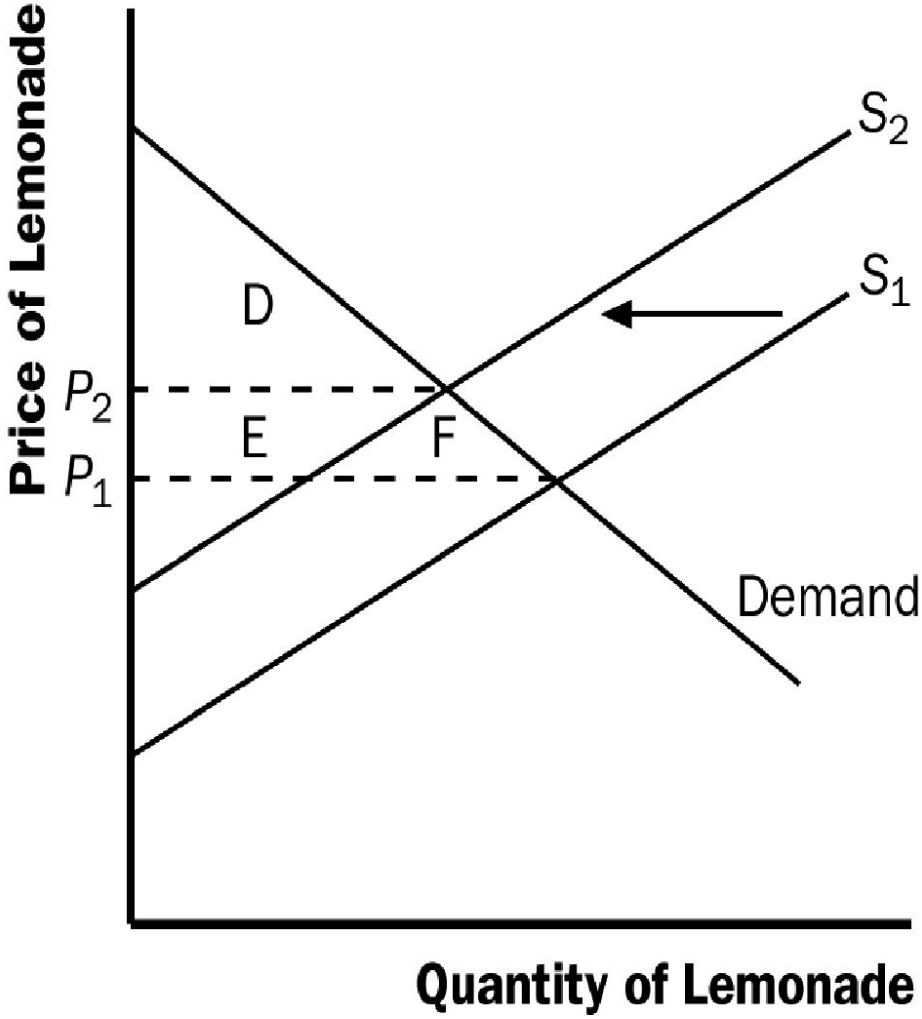


Diagram 2

In the market for lemonade, the higher cost of lemons reduces the supply of lemonade, as shown in Diagram 2. The result is a rise in the price of lemonade and a decline in consumer surplus from D + E + F to just D, a loss of E + F. Note that an event that affects consumer surplus in one market often has effects on consumer surplus in other markets.

4-) Suppose the demand for French bread rises. What happens to *producer surplus* in the market for *French bread*? What happens to *producer surplus* in the *market for flour*? Illustrate your answer with diagrams.

A rise in the demand for French bread leads to an increase in producer surplus in the market for French bread, as shown in Diagram 3. The shift of the demand curve leads to an increased price, which increases producer surplus from area A to area A + B + C.

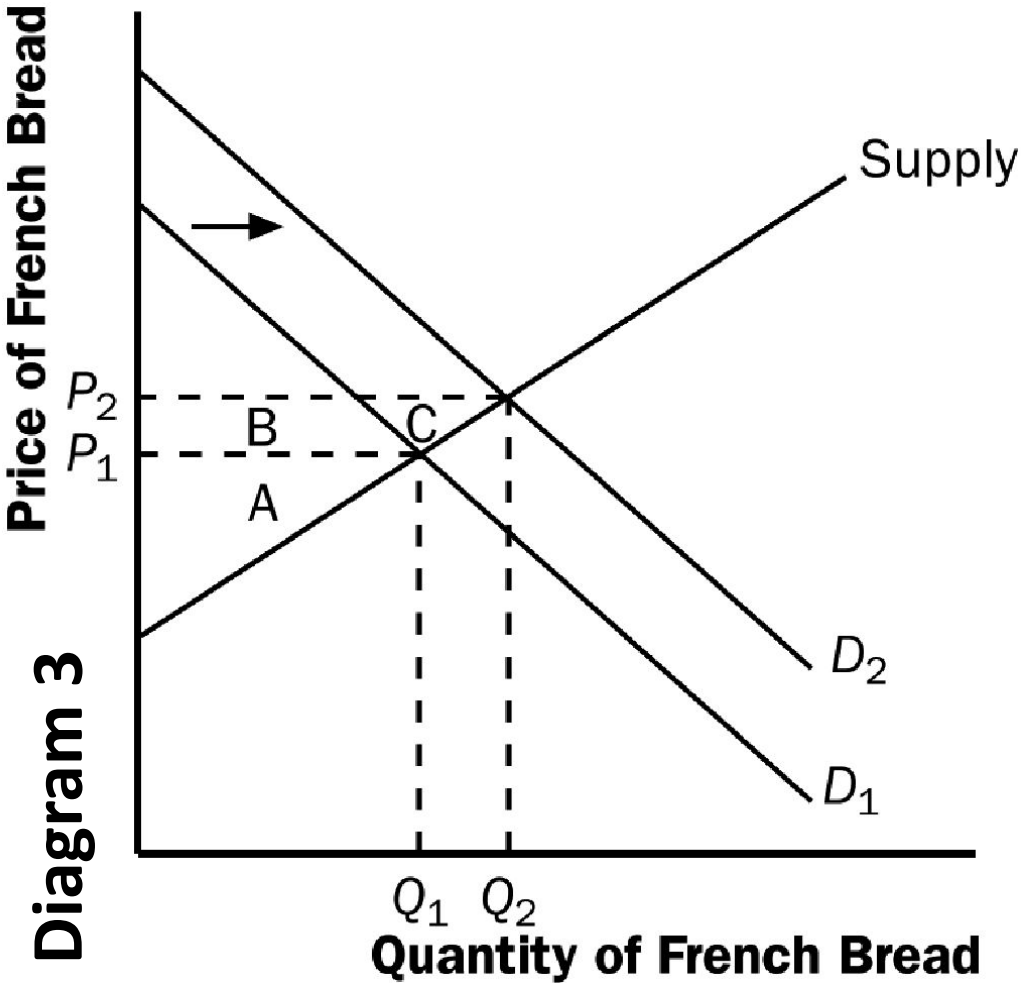


Diagram 3

The increased quantity of French bread being sold increases the demand for flour, as shown in Diagram 4.

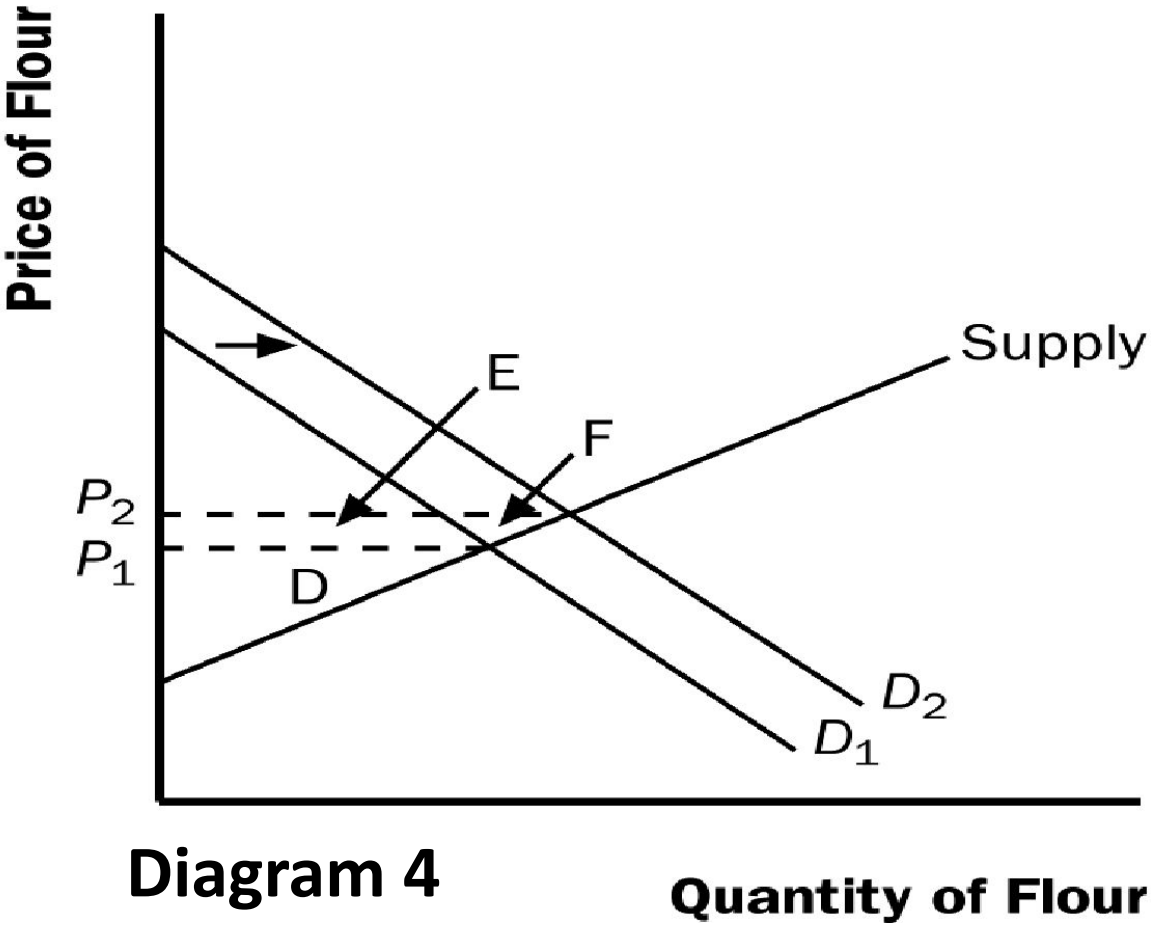


Diagram 4

As a result, the price of flour rises, increasing producer surplus from area D to D + E + F. Note that an event that affects producer surplus in one market leads to effects on producer surplus in related markets.

5-) It is a hot day, and mr.Yerlan is very thirsty. Here is the value he places on a bottle of water.

✔Value of first bottle $7

✔Value of second bottle $5

✔Value of third bottle $3

✔Value of fourth bottle $1

a)From this information, derive Mr.Yerlan's demand schedule(skéj'əl). Graph his demand curve for bottled water.

b)If the price of bottle of water is $4, how many bottles does mr.Yerlan get
from his purchases? Show Mr.Yerlan's consumer surplus in your graph.

c) If the price falls to $2, how does quantity demanded change? How does mr.Yerlan's consumer surplus change? Show these changes in your graph.

a. Mr.Yerlan's demand schedule is:

Price	Quantity Demanded
More than $7	0
$5 to $7	1
$3 to $5	2
$1 to $3	3
$1 or less	4

Mr. Yerlan's demand curve is shown in Diagram5.

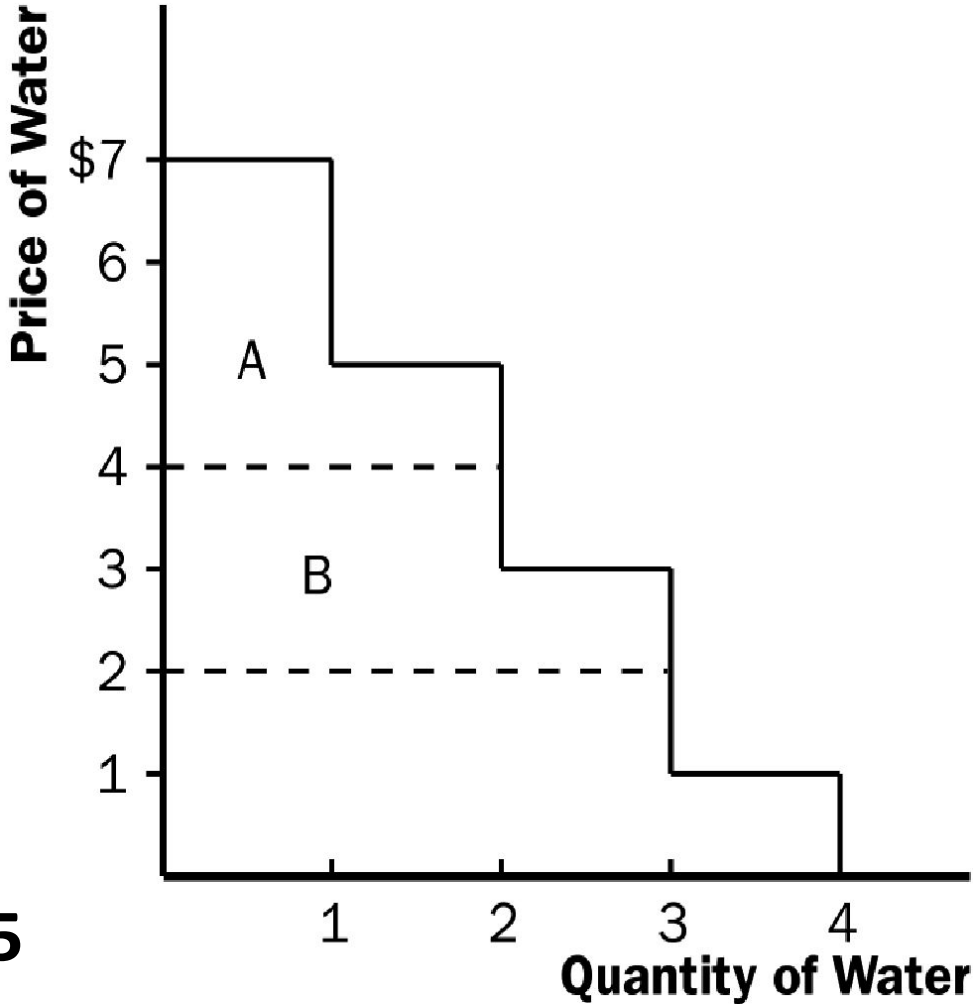
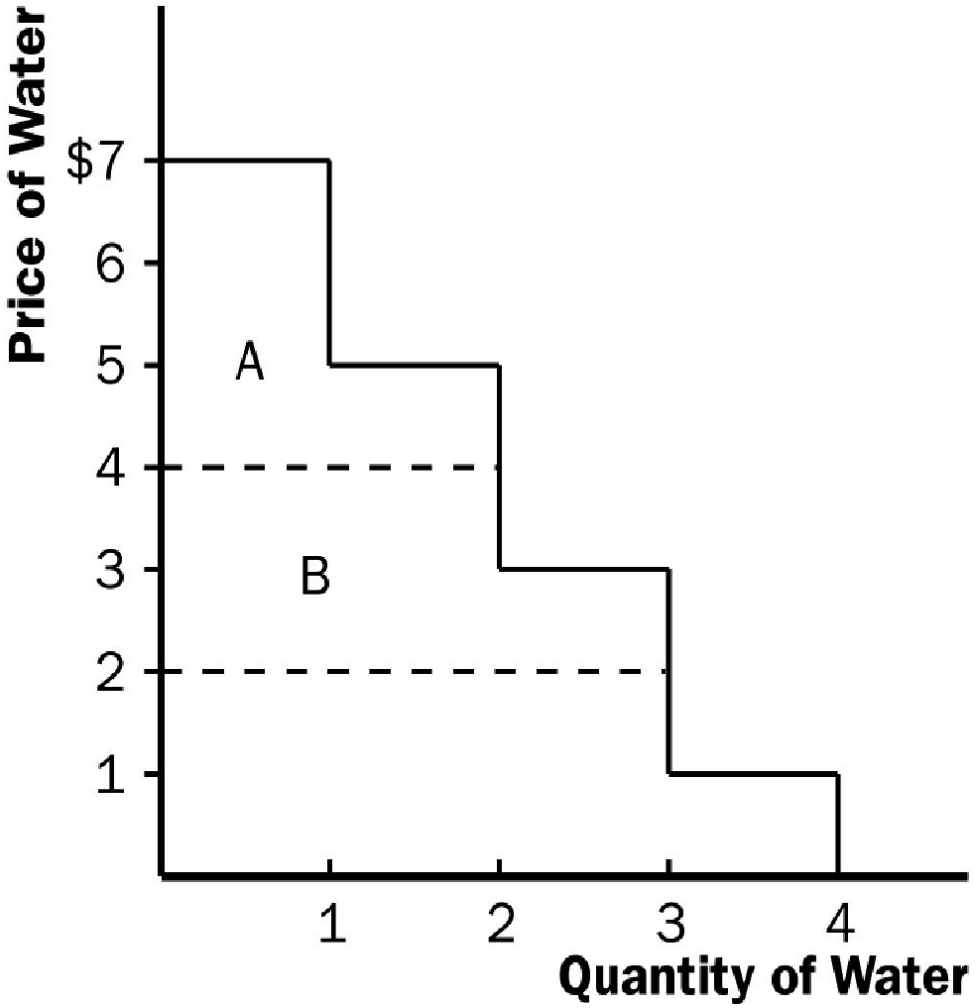
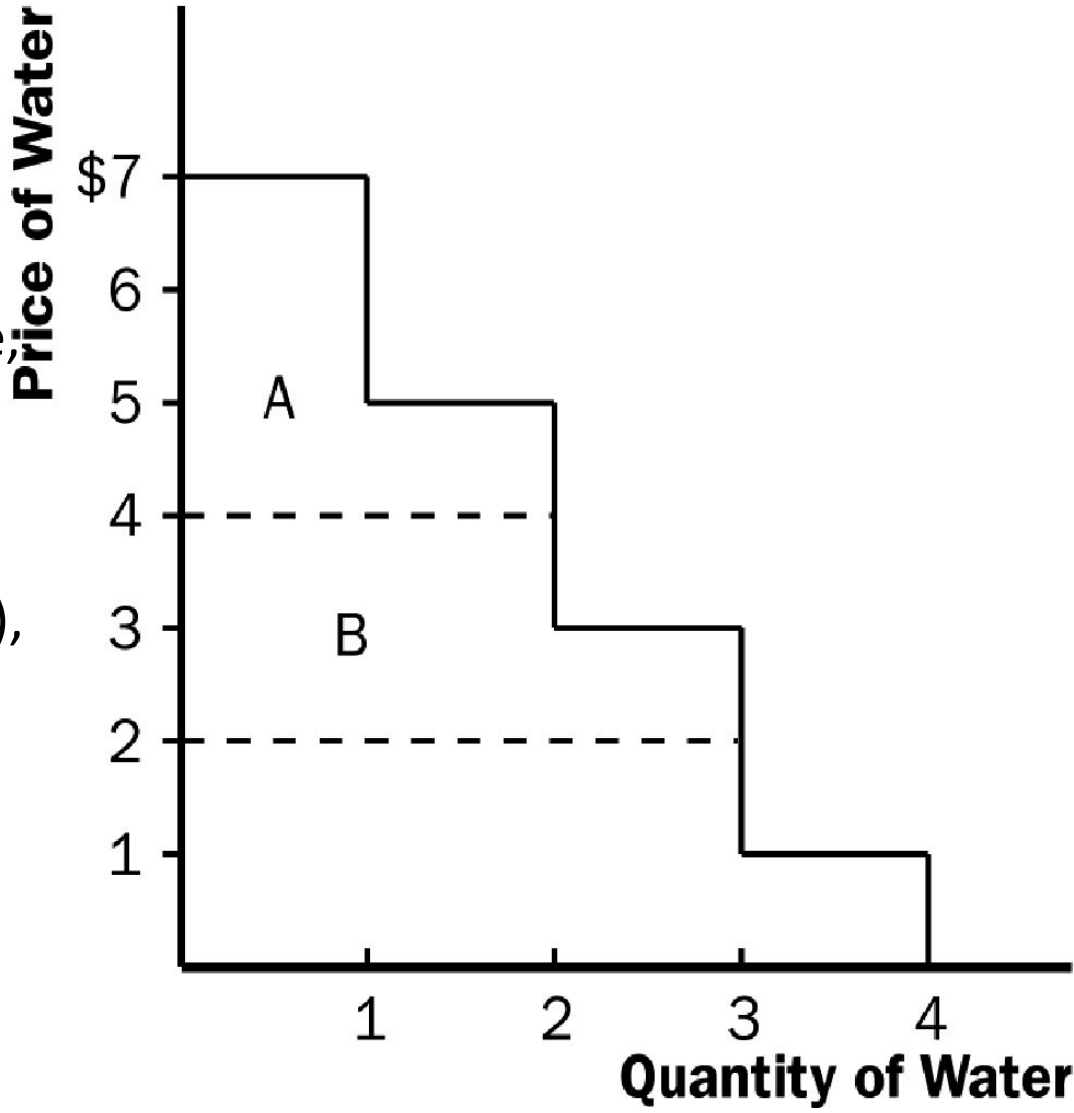


Diagram 5

b. When the price of a bottle of water is $4, Mr.Yerlan buys two bottles of water. His consumer surplus is shown as area A in the figure. He values his first bottle of water at $7, but pays only $4 for it, so has consumer surplus of $3. He values his second bottle of water at $5, but pays only $4 for it, so has consumer surplus of $1. Thus Mr.Yerlans's total consumer surplus is $3 + $1 = $4, which is the area of A in the figure.



When the price of a bottle of water falls from $4 to $2, mr. Yerlan buys three bottles of water, an increase of one. His consumer surplus consists of both areas A and B in the figure, an increase in the amount of area B. He gets consumer surplus of $5 from the first bottle ($7 value minus $2 price), $3 from the second bottle ($5 value minus $2 price), and $1 from the third bottle ($3 value minus $2 price), for a total consumer surplus of $9. Thus consumer surplus rises by $5 (which is the size of area B) when the price of a bottle of water falls from $4 to $2.



6-) There are four consumers willing to pay the following amount for haircuts:

- Jerry: $7 * Oprah: $2 * Sally Jessy: $8 *Montel $5

There are four haircutting businesses with the following costs

^ Firm A : $3
^ Firm B :$6
^ Firm C :$4
^ Firm D :$2

Economic Well-Being and Total Surplus

Total Surplus = Consumer Surplus + Producer Surplus

or

Total Surplus = Value to buyers − Cost to sellers

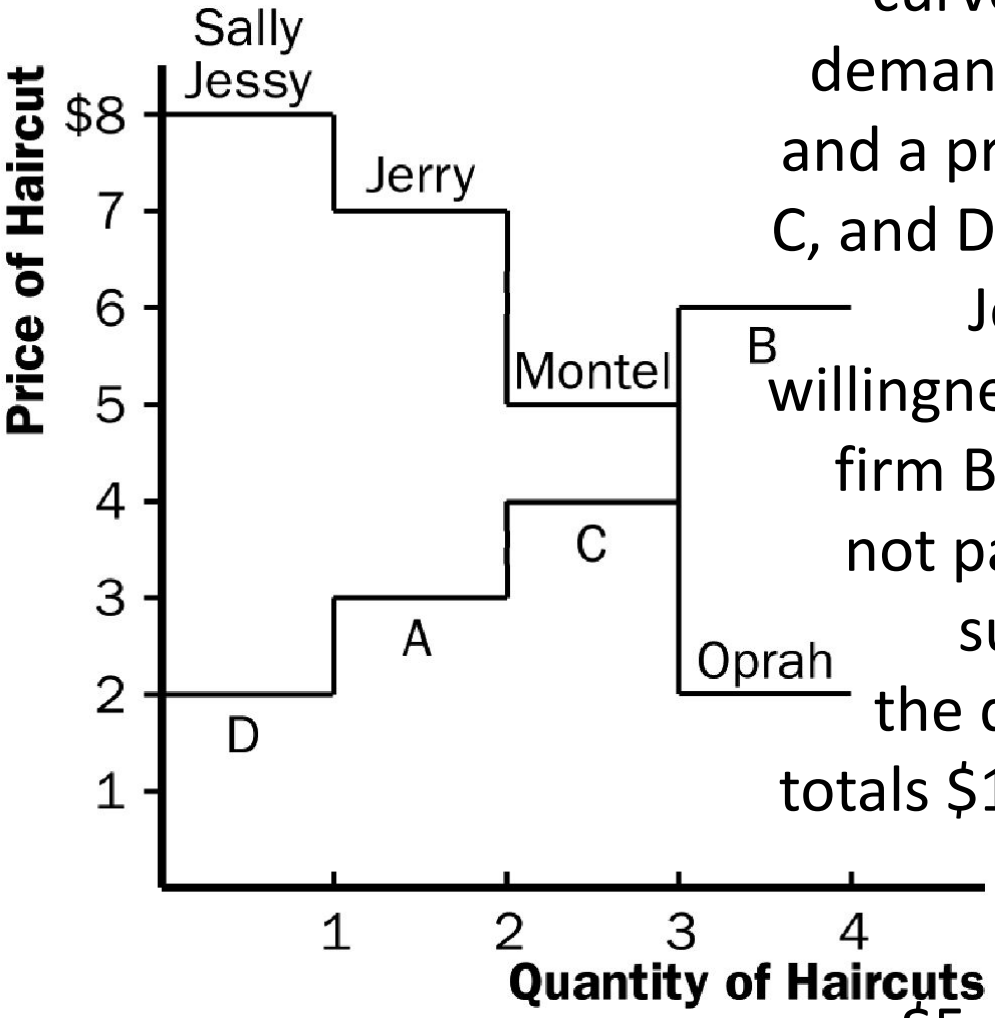


Diagram 6

Diagram 6shows supply and demand curves for haircuts. Supply equals demand at a quantity of three haircuts and a price between $4 and $5. Firms A, C, and D should cut the hair of Sally Jessy, Jerry, and Montel. Oprah's willingness to pay is too low and firm B's costs are too high, so they do not participate. The maximum total surplus is the area between the demand and supply curves, which totals $11 ($8 value minus $2 cost for the first haircut, plus $7 value minus $3 cost for the second, plus $5 value minus $4 cost for the third).

Thank you for your corporation!