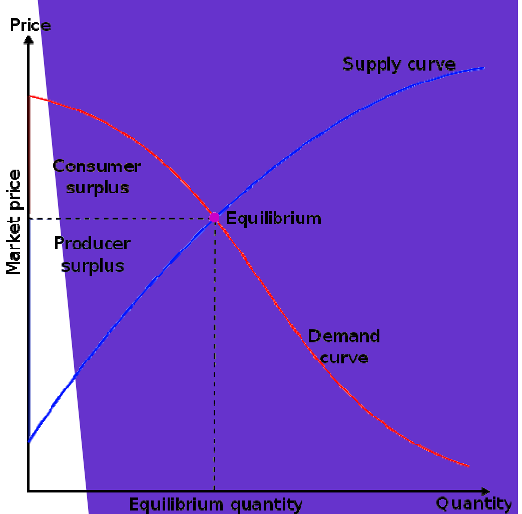
Consumer surplus

Consumer surplus is an economic measurement of consumer benefits. Consumer surplus happens when the price that consumers pay for a product or service is less than the price they're willing to pay. It's a measure of the additional benefit that consumers receive because they're paying less for something than what they were willing to pay.



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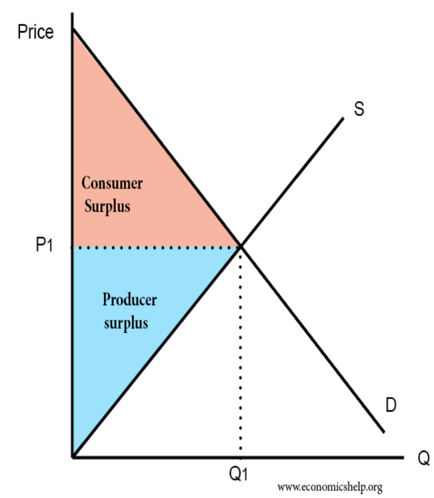
Everything for customers

Consumer Surplus



The Basics of a Consumer Surplus

The concept of consumer surplus was developed in 1844 to measure the social benefits of public goods such as national highways, canals, and bridges. It has been an important tool in the field of welfare economics and the formulation of tax policies by governments.

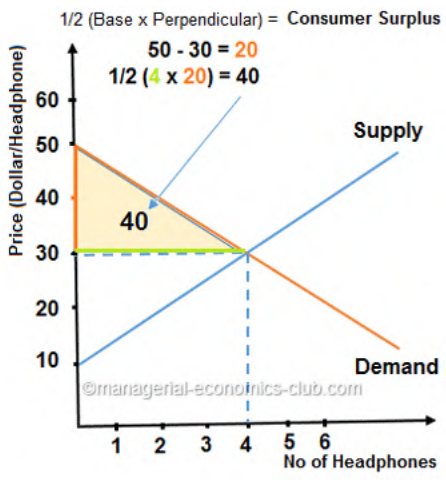
Consumer surplus is based on the economic theory of marginal utility, which is the additional satisfaction a consumer gains from one more unit of a good or service. The utility a good or service provides varies from individual to individual based on their personal preference. Typically, the more of a good or service that consumers have, the less they're willing to spend for more of it, due to the diminishing marginal utility or additional benefit they receive.

Measuring Consumer Surplus with a Demand Curve

The demand curve is a graphic representation used to calculate consumer surplus. It shows the relationship between the price of a product and the quantity of the product demanded at that price, with price drawn on the y-axis of the graph and quantity demanded, drawn on the x-axis. Because of the law of diminishing marginal utility, the demand curve is downward sloping.

Consumer surplus is measured as the area below the downward-sloping demand curve, or the amount a consumer is willing to spend for given quantities of a good, and above the actual market price of the good, depicted with a horizontal line drawn between the y-axis and demand curve.

Consumer surplus can be calculated on either an individual or aggregate basis, depending on if the demand curve is individual or aggregated. Consumer surplus always increases as the price of a good falls and decreases as the price of a good rises.



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