



[Frequently Asked Questions]

Markets: Consumer Surplus

Subject:	Business Economics
Course:	B.A., 1st Semester, Undergraduate
Paper No. & Title:	Paper – 101 Microeconomics - I
Unit No. & Title:	Unit – 5 Markets: Consumer Surplus
Lecture No. & Title:	Lecture – 2 Markets: Consumer Surplus

Frequently Asked Questions

Q1. What is Producer's surplus?

A1. Producer's surplus can be defined as the excess of market price then the marginal cost of per unit.

Q2. What is consumer's surplus?

A2. Consumer's surplus can be defined as the difference between the willingness to pay minus the actual amount paid by the consumer for same amount of quantity.

Q3. Why Producer's surplus is decreasing as the quantity selling increasing?

A3. As the quantity sold increasing the marginal cost per unit is increasing after some quantity and producer surplus is difference between price and the marginal cost. So this difference is decreasing and producer's surplus also decreasing.

Q4. How can we say that the perfect competition is the most efficient?

A4. In the perfect competition the demand curve and the supply curve intersect each other where marginal benefits of consumer surplus is maximum and also equal to the marginal cost of the producer's.

Q5. What do you mean by specific tax?

A5. Specific tax means a particular amount of tax levied on per unit sold.

Q6. What do you mean by incident of tax?

A6. Incident of tax means the ultimate person who pays the tax amount is called incident of tax on that person.

A7. What is dead weight loss?

A7. Dead weight loss means the excess harm done by the tax to the society which could be more fruitfully used by the society.

A8. What is the effect of dead weight loss to the consumer?

A8. By imposing tax, G is the triangle which shows the dead weight loss to consumer. This shows that consumer could have made more surplus by purchasing more quantity Q2. But now because of tax imposition he is only able to purchase Q1 quantity, which is a loss of consumer's surplus.

A9. What is the effect of dead weight loss on producer?

A9. Because of the T tax imposition the I is the triangle showing dead weight loss to the producer, otherwise producer could have sold more goods and could have increased the producer surplus which is not possible now. So it is a loss to the producer's surplus as well as society.

A10. Why the subsidy has positive effect on consumption?

A10. Subsidy has positive effect on consumption because after subsidy they can buy more goods on a lesser price than they could have purchased in previous time.