

Consumers and Producers

LECTURE 3

Consumers

Definition:

Consumers are the basic economic entities of an economy. All the consumers consume goods and services directly and indirectly to maximise satisfaction and utility.

Consumers have limited income and by which they want to satisfy their maximum utility (utility is the want satisfying capacity of a commodity).

Generally, consumer means an individual only; however, consumers will consist of a particular individual, a group of individuals, institutions etc.

Producers

Definition:

Producers are the group of persons who produce either goods or services for creating utility.

They usually produce with the help of factors of production.

Types of Consumers

According to the nature of consumption, consumers are of following types:

Direct Consumers

**Consumers by
Exchanging
Products**

Modern Consumers

Types of Producers

Producers are of following types:

**Agricultural
(Primary)
Producers**

**Industrial
(Secondary)
Producers:**

**Service
(Tertiary)
Producers:**

Importance (Significance) of Consumers

The importance of consumers in different avenues

**Encourage
Demand**

**Create
Demand for
Various
Products**

**Increase
Demand for
Consumer
Goods**

**Enhance
Service
Diversificatio
n**

Importance (Significance) of Producers:

There are several important roles a producer has to play. Following are some examples:

Supply of Different Goods and Services	Entrepreneurship	Optimal Use of Resources	Export Promotion	Increase in Income and Employment	Rise in Demand for Factors of Production
---	-------------------------	---------------------------------	-------------------------	--	---

Consumer Surplus

Welfare economics

- How the allocation of resources affects economic well-being

Willingness to pay

- Maximum amount that a buyer will pay for a good

Producer Surplus

A higher price raises producer surplus

- New, higher price, P_2

Greater quantity supplied, Q_2

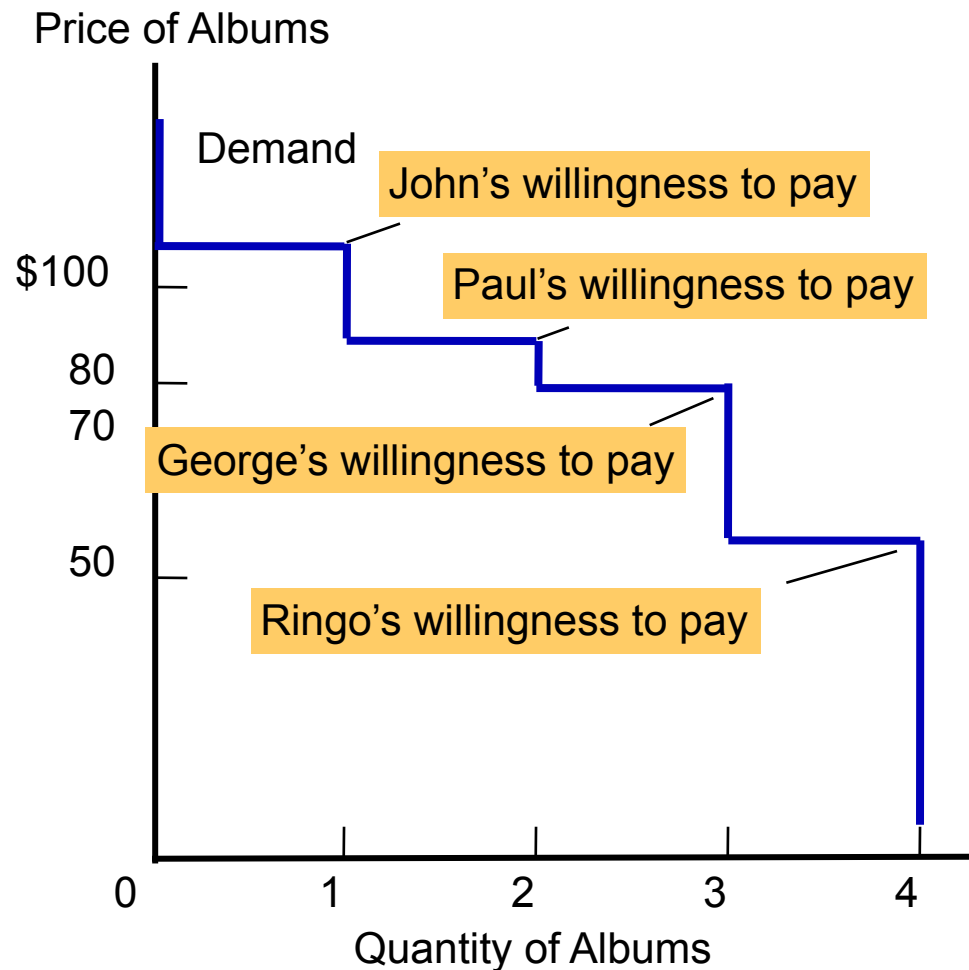
- New producers

Increase in producer surplus from area ABC

- From initial suppliers, add area BCDE
- From new suppliers, add area CEF

Four Possible Buyers' Willingness to Pay

Buyer	Willingness to Pay
John	\$100
Paul	80
George	70
Ringo	50



Price	Buyers	Quantity Demanded
More than \$100	None	0
\$80 to \$100	John	1
\$70 to \$80	John, Paul	2
\$50 to \$70	John, Paul, George	3
\$50 or less	John, Paul, George, Ringo	4

The Demand Schedule and the Demand Curve

Consumer Surplus

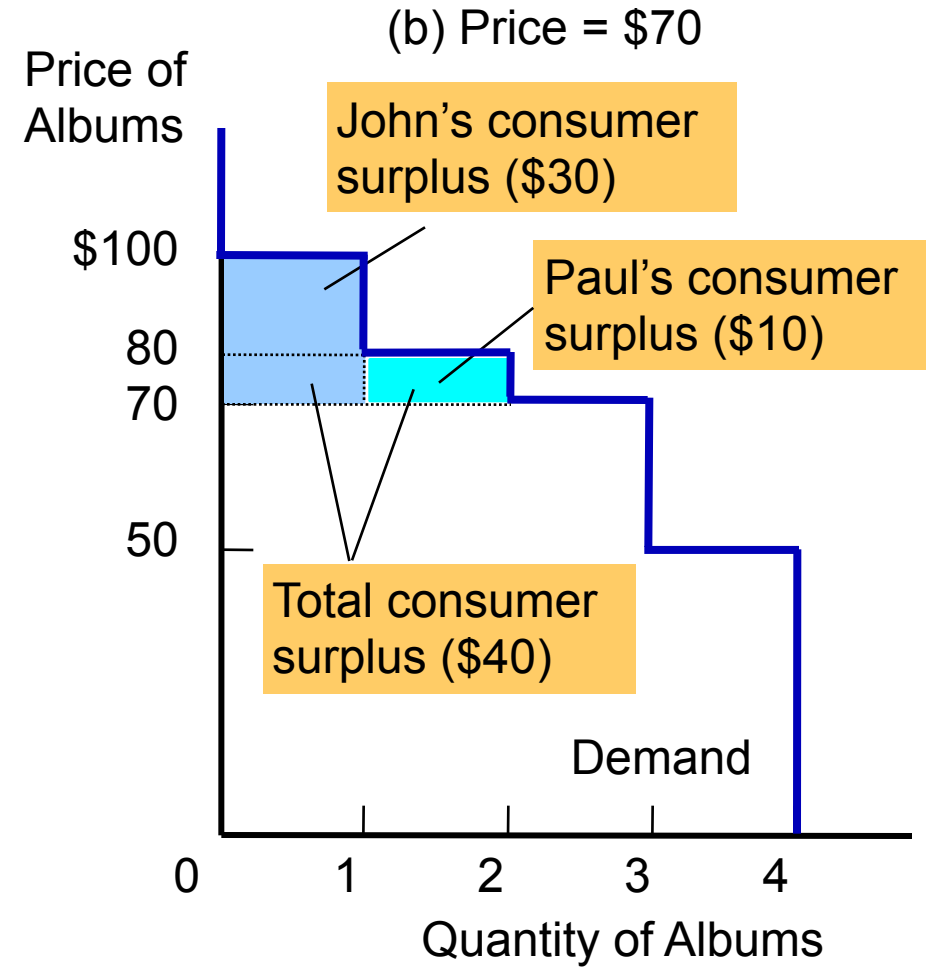
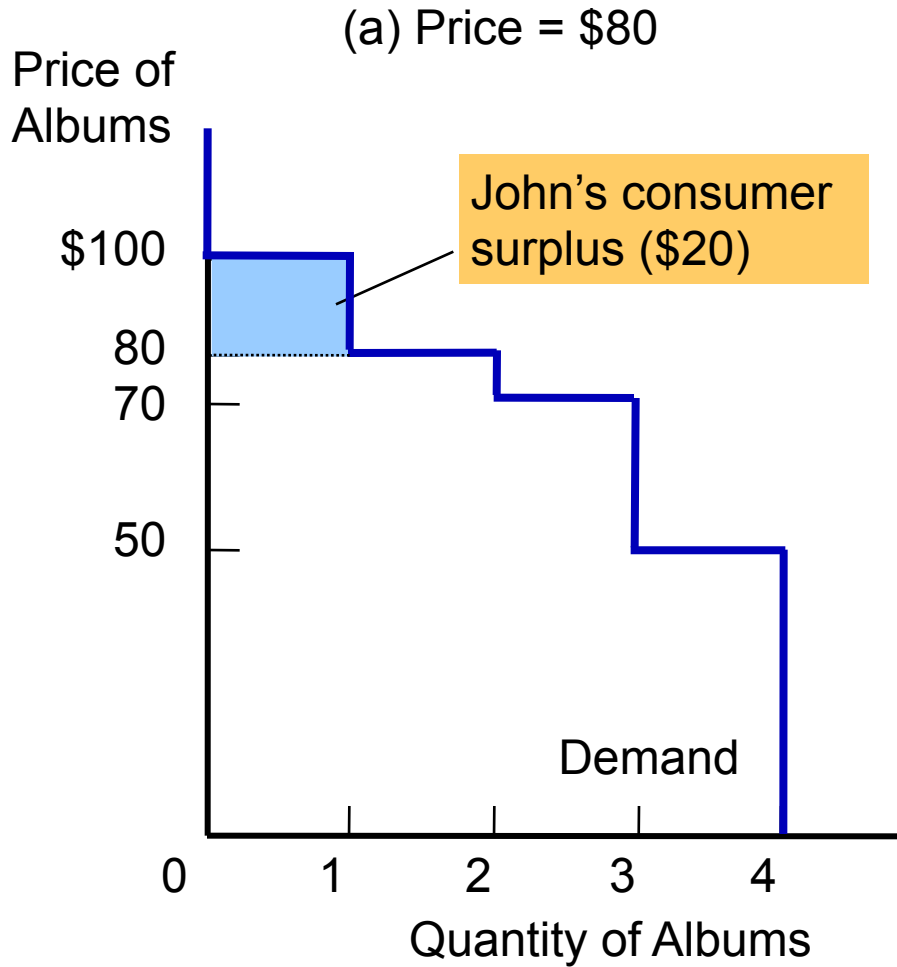
DEMAND CURVE

- Reflects buyers' willingness to pay
- Measure consumer surplus

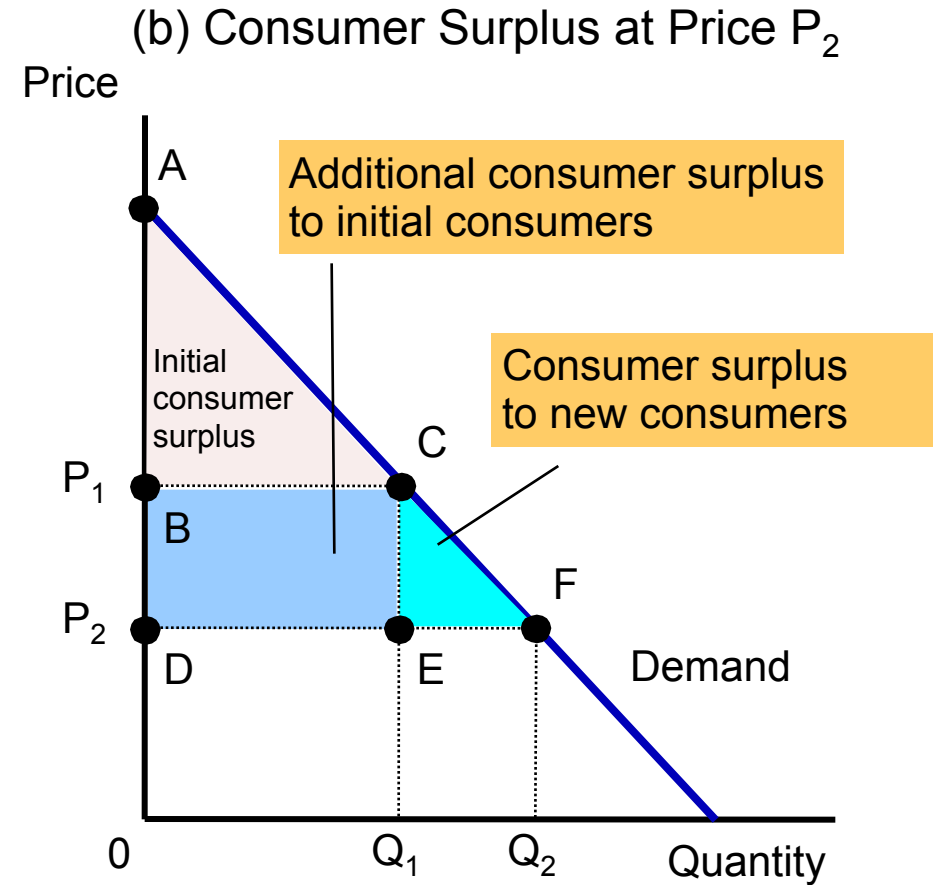
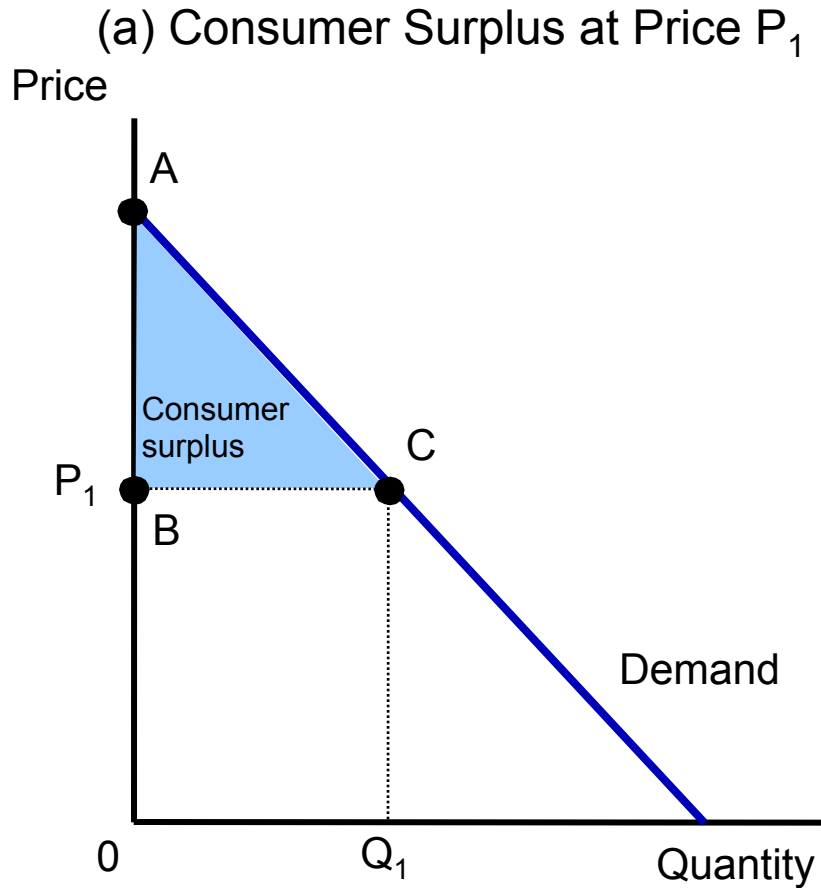
CONSUMER SURPLUS IN A MARKET

- Area below the demand curve and above the price

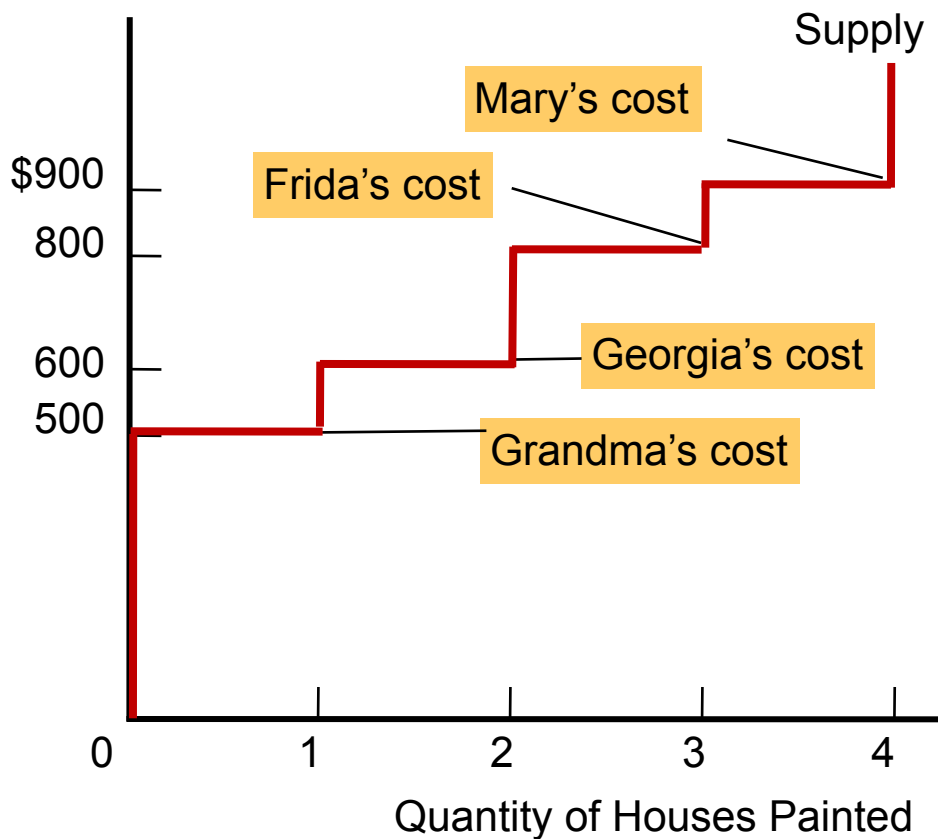
Measuring Consumer Surplus with the Demand Curve



How the Price Affects Consumer Surplus



Price of House Painting



Price	Sellers	Quantity Supplied
\$900 or more	Mary, Frida, Georgia, Grandma	4
\$800 to \$900	Frida, Georgia, Grandma	3
\$600 to \$800	Georgia, Grandma	2
\$500 to \$600	Grandma	1
Less than \$500	None	0

The Supply Schedule and the Supply Curve

Producer Surplus

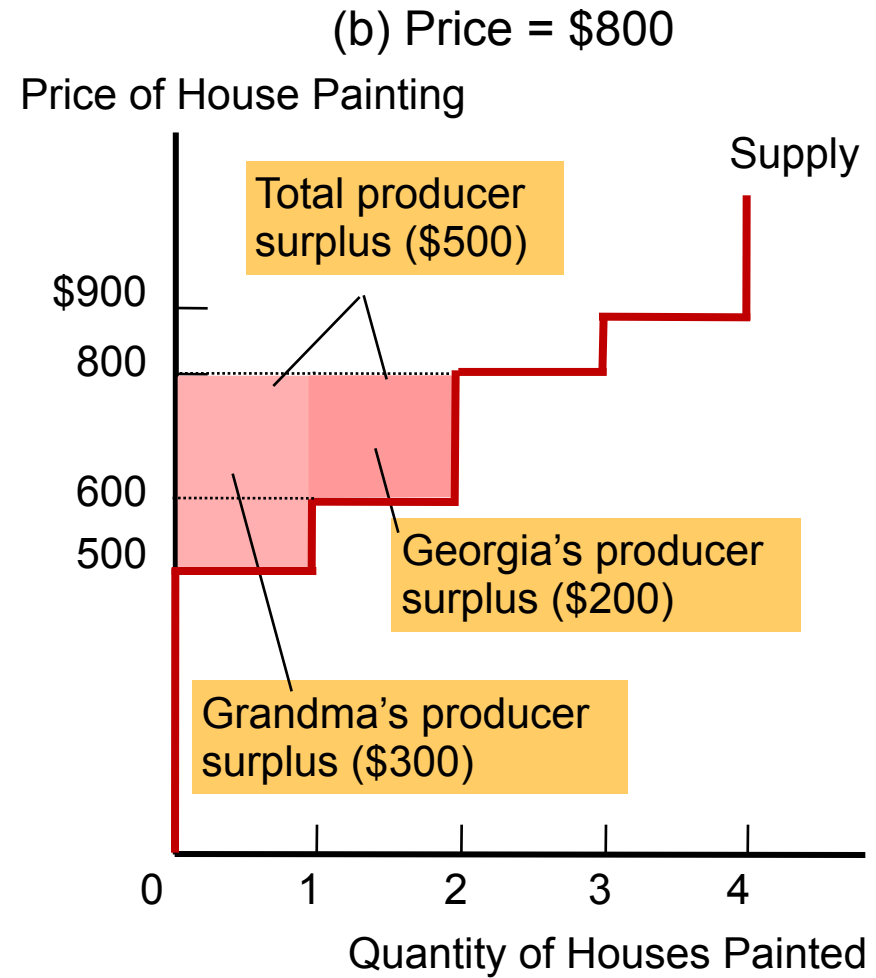
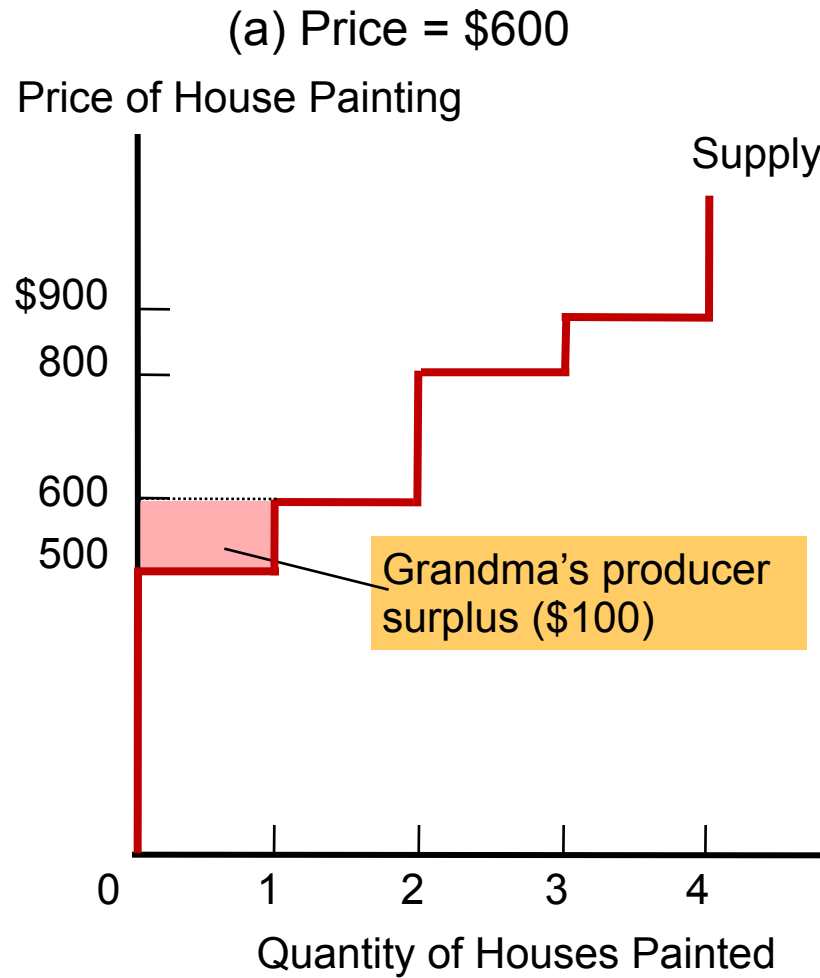
Supply curve

- Reflects sellers' costs
- Measure producer surplus

Producer surplus in a market

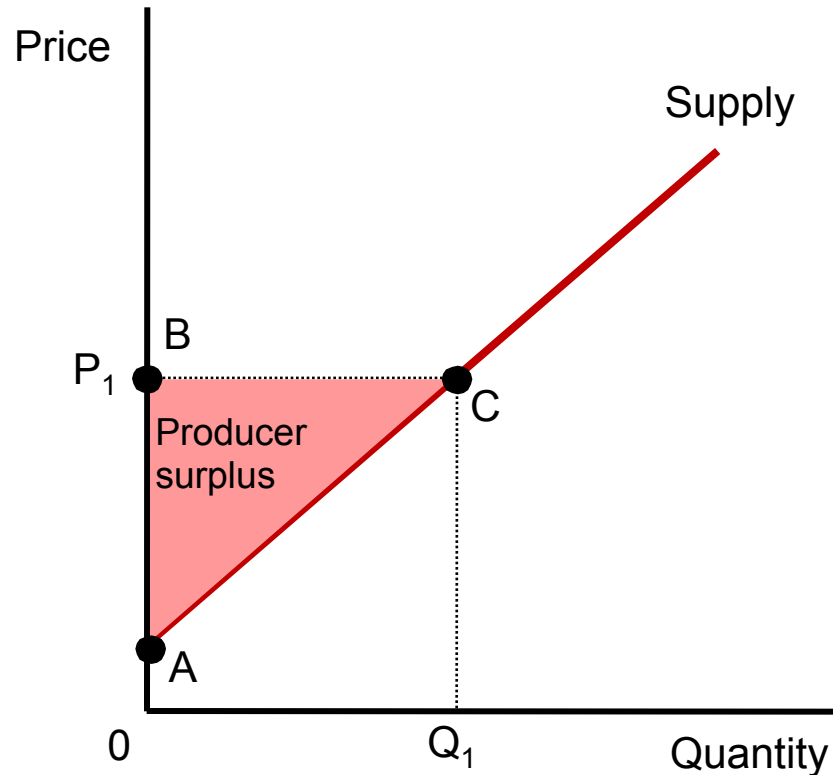
- Area below the price and above the supply curve

Measuring Producer Surplus with the Supply Curve

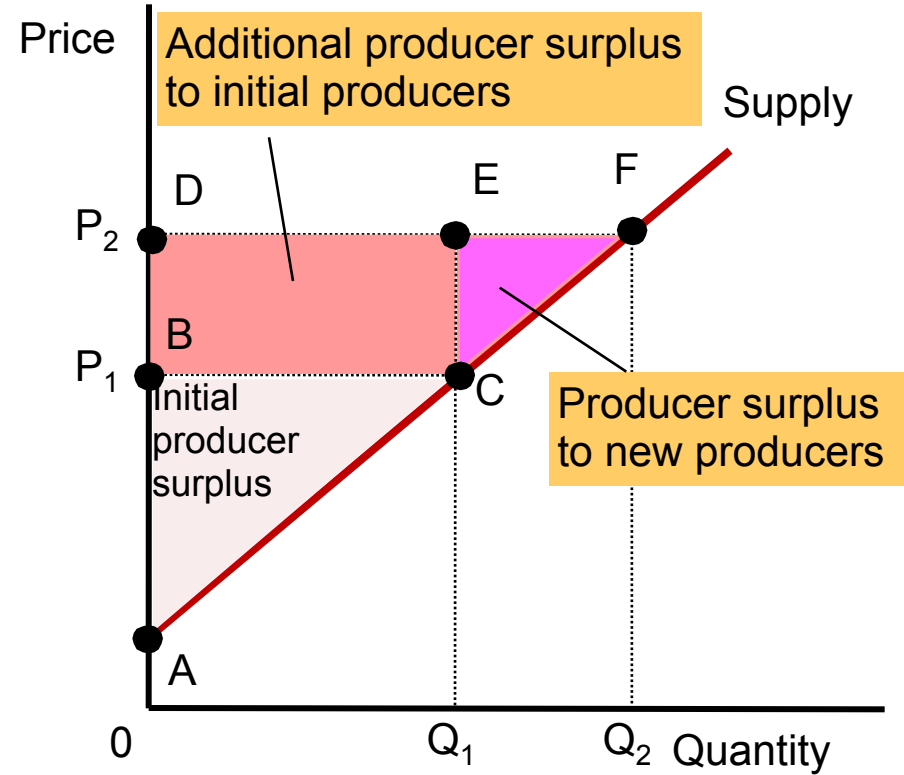


How the Price Affects Producer Surplus

(a) Producer Surplus At Price P_1



(b) Producer Surplus At Price P_2



Market Efficiency

Total surplus = Consumer surplus + Producer surplus

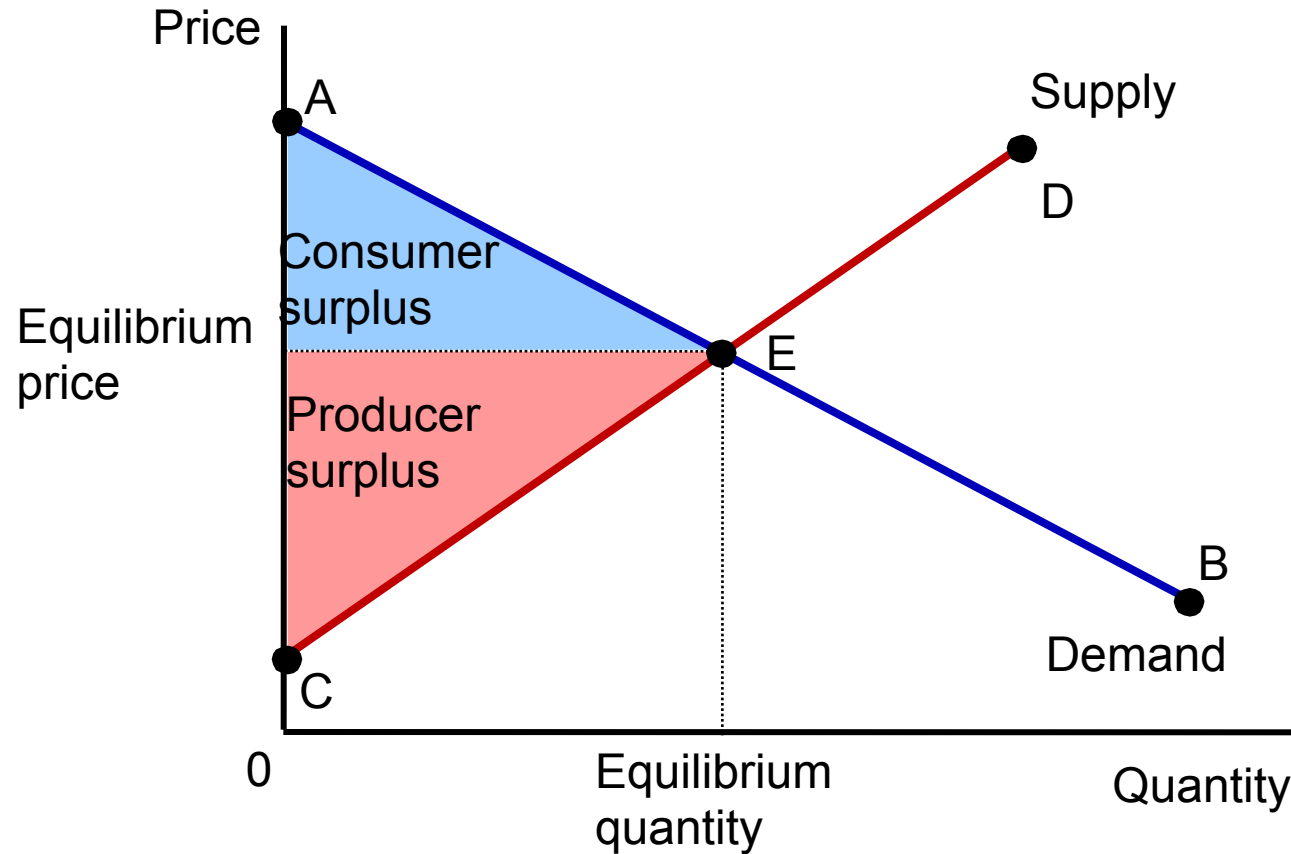
Consumer surplus = Value to buyers - Amount paid by buyers

Producer surplus = Amount received by sellers - Cost to sellers

Amount paid by buyers = Amount received by sellers

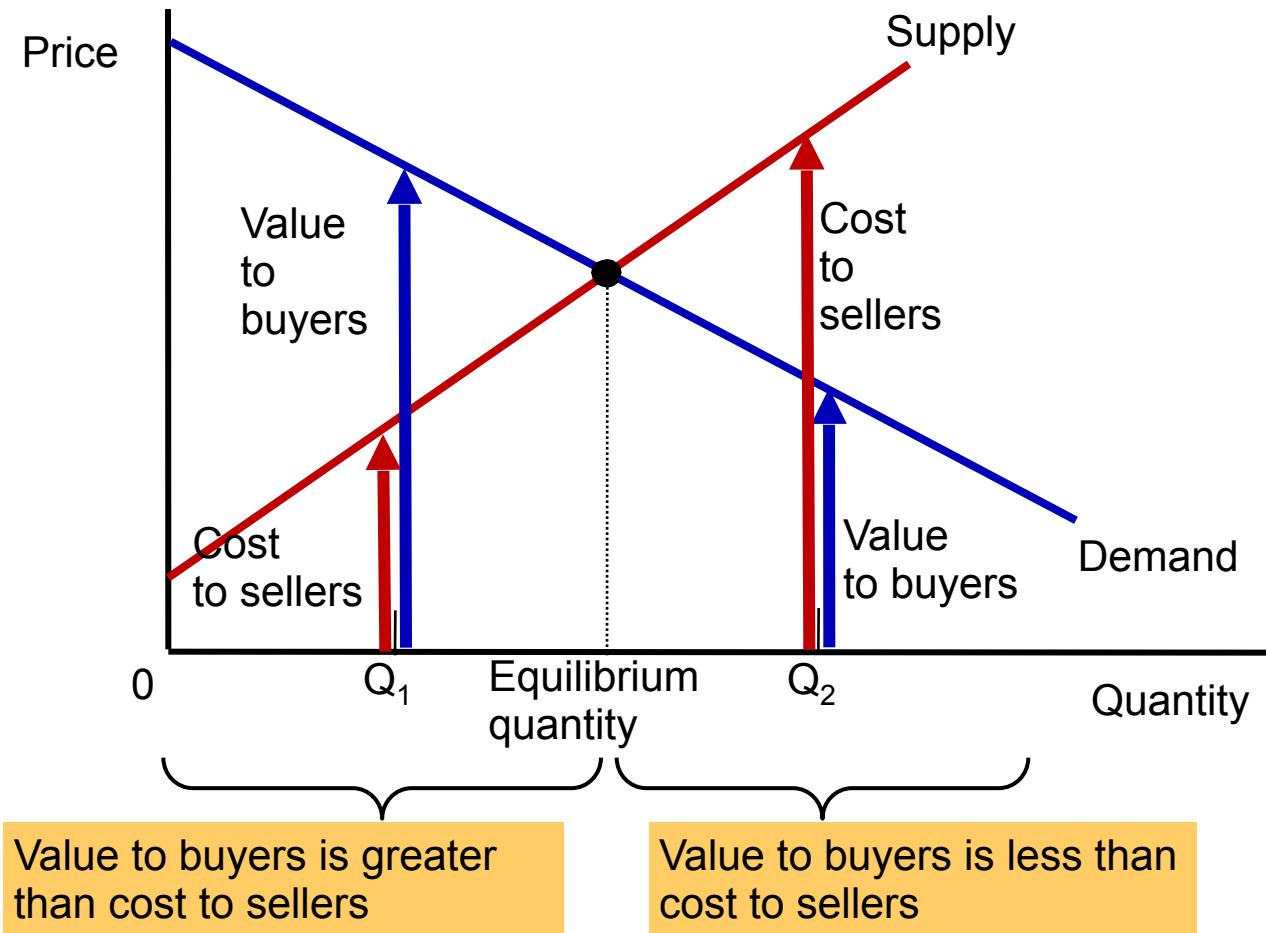
Total surplus = Value to buyers – Cost to sellers

Consumer and Producer Surplus in the Market Equilibrium



Total surplus—the sum of consumer and producer surplus—is the area between the supply and demand curves up to the equilibrium quantity

The Efficiency of the Equilibrium Quantity



Market Efficiency & Failure

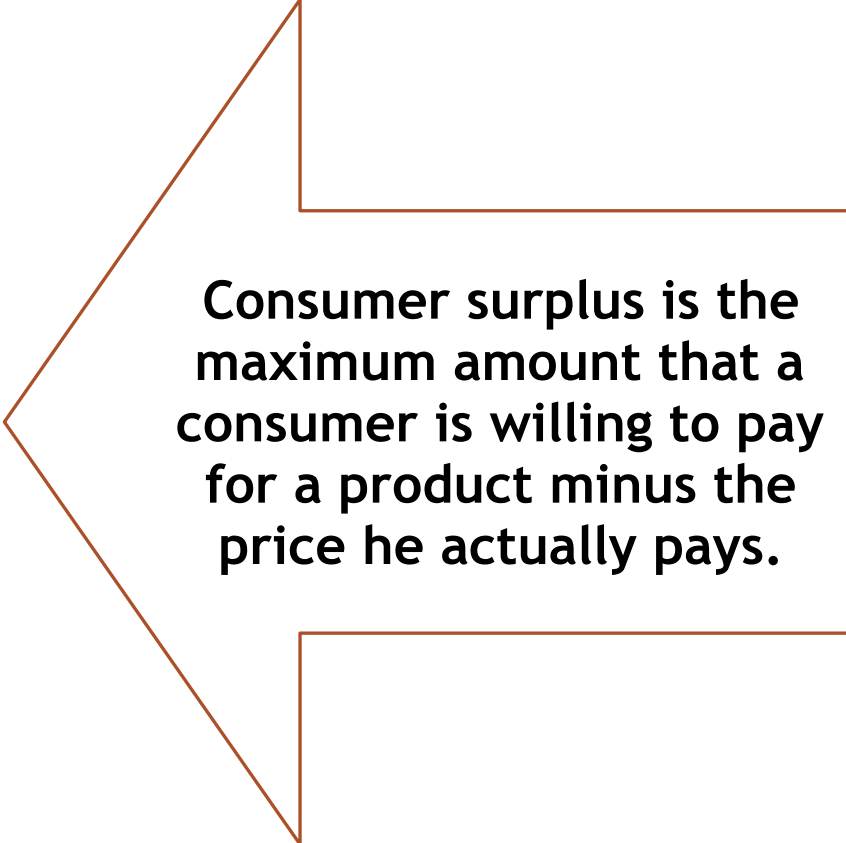
Forces of supply and demand

- Allocate resources efficiently

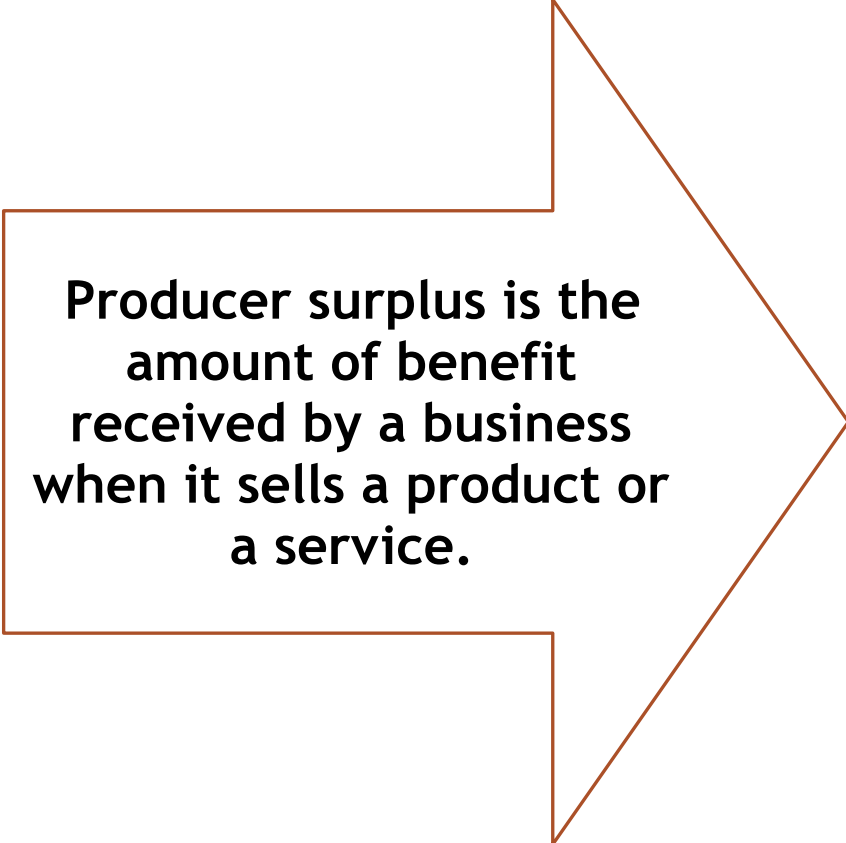
Several assumptions about how markets work

- Markets are perfectly competitive
- Outcome in a market matters only to the buyers and sellers in that market

Main Difference – Consumer Surplus vs Producer Surplus



Consumer surplus is the maximum amount that a consumer is willing to pay for a product minus the price he actually pays.



Producer surplus is the amount of benefit received by a business when it sells a product or a service.

CONSUMER SURPLUS VERSUS PRODUCER SURPLUS

Consumer surplus is the difference between the lowest price that a producer is willing to accept and the market price

Producer surplus is the difference between the highest price that the consumer is willing to pay and the market price

When price decreases consumer surplus increase up to a certain point below the equilibrium price

When price decreases the producer surplus increases

Consumer's welfare

Producer's welfare

Similarities Between Consumer Surplus and Producer Surplus

- *Both consumer and producer surplus has a negative relationship with price*
- *Both are welfare of their own party*

Conclusion

Companies differ greatly in terms of their missions, strategic goals, and product offerings, but every business has the essential goal of making a surplus. The surplus is a concept that describes the amount of utility or value that consumers and producers receive when making transactions. Every producer and consumer in an economy want to gain utility by increasing the surplus.

THANKS FOR YOUR ATTENTION!