

## 1: Talk:Consumer surplus - Wikipedia

*1) With each kind of commodity  $d$  is associated a quality  $q$ , where  $q$  is a rating on a quality scale. [www.enganchecubano.com](http://www.enganchecubano.com) type of problems under consideration, quality can be measured meaningfully on a cardinal scale. [www.enganchecubano.com](http://www.enganchecubano.com) examples cited earlier.*

They may, however, be used interchangeably in certain contexts and where certain conditions are met. Where it is used alone, the context will usually make clear which of these is meant: Consumer surplus and producer surplus are normally defined in terms of supply and demand curves in a single market. Such curves can in principle be estimated from observations of supplier and consumer behaviour, without reference to utility. So although consumer surplus can be related to utility via marginal utility theory, utility is not needed in its definition and, as Steven Landsburg points out, surplus should be measured in monetary units, not units of utility. Welfare, equally, is often related to utility at a theoretical level, but in applied work is often estimated without reference to utility and measured in monetary units. But these are not entirely different senses of the term. They both retain from ordinary language the essential idea that welfare is good - something policy should aim to increase - and in this respect there is an important difference, even in microeconomics, between surplus and welfare. Firstly, consider a standard supply-demand diagram for a single product, and suppose supply increases the whole supply curve moves to the right. Normally, we would say that both surplus and welfare have increased. Now suppose that the product is one which is harmful to those consuming it. Would we still say that surplus has increased? Would we still say that welfare has increased? Points we might want to consider before drawing a conclusion are whether consumers are aware of the harm and acting rationally, and if not whether their pleasure from consumption outweighs the harm. This distinction between surplus and welfare can be found in debate on the regulation of smoking here is an example. Secondly, consider the effect of a tariff on an imported good. The tariff raises the domestic price of the good, with resulting changes in the consumer surplus and producer surplus relating to that good. Would we say that the change in welfare is the sum of those changes? No, because even if we ignore effects on related markets and on exporting countries the revenue raised by the tax is also relevant to welfare. In a simple partial equilibrium analysis, therefore: Thirdly, consider a change in a market for a good subject to a production externality, say air pollution. Here we would say that the change in welfare is not just the change in producer and consumer surplus in the particular market, but should also take account of the externality. However, to draw a distinction between surplus and welfare on this basis would be an oversimplification since, in the economics of environmental valuation, the concept of consumer surplus is routinely applied to non-market goods. For example although the details are complex and the results unlikely to be very accurate a demand curve for air quality suitably measured in a region might be estimated using the hedonic pricing method which uses the housing market as a surrogate for a market in air quality. Once a demand curve has been estimated, it is possible to calculate the change in consumer surplus due to a change in air quality and include this in a measure of change in welfare. Having said that, it is questionable whether methods are available to estimate consumer surpluses for all non-market goods, so to that extent there is validity in 2. The conditions that would be needed for a change in total surplus in the market for one product to be an accurate measure of the change in welfare resulting from a policy change would therefore be quite stringent, including at least the following: Finally, a brief consideration of the idea that surplus relates to one market while welfare relates to many markets. To overcome the path-dependency problem, either compensating variation or equivalent variation are sometimes used as alternatives to ordinary Marshallian consumer surplus, but then there is the further problem that the theoretical income-compensated demand curves underlying these measures cannot be estimated from observations of consumer behaviour. To that extent there is validity in 1.

*A note on consumer surplus with quality variation Research and Teaching Output of the MIT Community. Home.*

John Hicks suggested a different approach to measure welfare changes where we may contemplate asking the typical consumer what change in income is equivalent for her, to the proposed project-tax package. The consumer would then give the answer in terms of a sum of money which she would either want to receive if she thinks that the project stinks, or which she would be willing to pay if she thinks the project is good. This question is natural to ask before the project has been implemented, and before any prices have been affected by the project and the accompanying taxes. If the project has been undertaken, a different question could be asked: How much would you like to receive in order to be compensated for the impact of the project on your utility? The *ex ante* question will produce a measure, which Hicks called the equivalent variation, and the *ex post* question produces a measure he called the compensating variation. Let us ignore the benefits of the project and concentrate on the taxation issue. Only good 1 is taxed so its price will increase, as will the relative price ratio. The equivalent- and compensating variations are illustrated in Figure shown. If we use the equivalent variation measure  $EV$ , we use the original relative price ratio to push the original budget set budget set 0 inwards until it touches the final indifference curve budget set 2.  $EV$  is here the difference between the intercepts of the budget sets 0 and 2, and is thus the amount of money which should be taken away from the consumer in order for him to just reach utility level  $U_1$ . The new money income is: The compensating variation  $CV$  is shown in the right diagram in figure shown. Here we ask what income addition the consumer needs to attain the original utility level  $U_0$ , at the new relative prices. Hence, push budget set 1 until it touches the original indifference curve.  $CV$  is again the difference between the intercepts of the budget sets 0 and 2: What should we conclude from all this? The theoretically correct measure could be defined in two separate ways, and these measures will not in general coincide. So the situation seems depressing. However, we may go a little bit further and use the Slutsky equation to put some bounds on the  $EV$  and  $CV$  measures. The  $CV$  measure basically assumes that the consumer is compensated for the price increase so that she reaches her original utility level. I also mentioned that we can define a compensated demand function, which shows the pure substitution effect it is cleansed from the income effect. The income-compensated demand curves are functions, not of prices and money income, as the ordinary demand curve, but of prices and a given level of utility. That is why we have two of these sorts of demand curves to deal with. The one corresponding to  $EV$  is a function of  $U_1$ , the final utility level, and the one corresponding to  $CV$  is a function of  $U_0$  look back at Figure to check this out. The  $CV$  measure is now the area under its income-compensated demand curve between the prices,  $i$ . This is in a way favorable to the usual consumer surplus measure, since it is sort of an average of the two correct measures, furthermore, in most cases the difference between,  $e$ . That supports the use of the latter in practice. In terms of figure all the mentioned areas are of course positive. It is therefore quite confusing to keep track of which measure is positive or negative and the crucial questions are the welfare effect for the consumer. In this case we should calculate the absolute amount, so that we always get a positive number. For a normal good we therefore have the following relationships between the three welfare measures: Here you can get homework help for Intermediate Microeconomics, project ideas and tutorials. We provide email based Intermediate Microeconomics homework help. You can join us to ask queries 24x7 with live, experienced and qualified online tutors specialized in Intermediate Microeconomics. Through Online Tutoring, you would be able to complete your homework or assignments at your home. Tutors at the TutorsGlobe are committed to provide the best quality online tutoring assistance for Economics homework help and assignment help services. They use their experience, as they have solved thousands of the Computer assignments, which may help you to solve your complex issues of Intermediate Microeconomics. TutorsGlobe assure for the best quality compliance to your homework. Compromise with quality is not in our dictionary. If we feel that we are not able to provide the homework help as per the deadline or given instruction by the student, we refund the money of the student without any delay.

## 3: Compensating variation - Wikipedia

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Let us make an in-depth study of Consumer Surplus: Introduction to Consumer Surplus 2. Explanation of the Concept of Consumer Surplus 3. Explanation of the Law 6. Introduction to Consumer Surplus: Explanation of the Concept of Consumer Surplus: In the beginning, utility gained is usually higher than the utility lost. This concept is used to explain the gap between total utility that a consumer gets from the consumption of a certain commodity and the total money value which he actually pays for the same. Suppose, a student goes to buy a book. He is willing to pay Rs. But he gets the book for Rs. Thus, he has saved Rs. Definition of Consumer Surplus: The thing over that which he actually does pay, is the economic measure of this surplus satisfaction. This gap is the nature of a surplus which consumer gets because he always receives more than he pays. Marginal Utility of Money is Constant: The marginal utility of money to the consumer remains constant. It is so when the money spent on purchasing the commodity is only a small fraction of this total income. No Close Substitutes Available: The commodity in question has no close substitutes and if it does have any substitute, the same may be regarded as an identical commodity and thus only one demand should may be prepared. Utility can be Measured: The utility is capable of cardinal measurement through the measuring rod of money. Moreover, the utility obtainable from one good is absolutely independent of the utility from the other goods. No goods affect the utility that can be derived from the other goods. Tastes and Incomes are Same: That all people are of identical tastes, fashions and their incomes also are the same. Explanation of the Law: The above definition of Prof. Marshall can be explained with the help of practical examples: When a consumer purchases only one unit of a commodity even then the Consumer Surplus arises. Let us suppose a student is willing to pay Rs. In our real life one purchases number of units of a particular commodity. The price that a consumer pays for all the different units of commodity actually measures the utilities of the marginal unit and he pays the same price for different commodities. The above table expresses the various amounts of utilities he derives from the consumption of different units of bread. From the first bread alone he derives marginal utility of Rs. If he will consume the 6th unit he derive zero marginal utility where as he pays the price as Rs. A rational consumer will not consume that commodity. Diagrammatic Representation of Consumer Surplus: This can be shown by the following diagram: In this diagram AB is a demand curve of a consumer OR is the market price. The price line is parallel to X axis because of perfect competition. This Concept is Imaginary: The concept is complete imaginary, illogical and illusory. You just imagine, what you are prepared to pay and you proceed to deduct from that what you actually pay. It is all hypothetical. One may say that one is prepared to pay anything. Hence it is unreal. Measurement of this Concept is Difficult: It is because utility is a subjective concept and will vary from person to person. Total utility is impossible to measure because when we consume more units it is said that the marginal utility of even earlier units start diminishing. Hicks and Allen have contended and proved that utility being a subjective phenomenon, is determinate and immeasurable. This Concept is not Applicable to Substitutes: The concept may not apply in case of goods which have substitutes. Why should on imagine how much will be willing to pay for a commodity. One finds it hard to think that the substitute of a commodity has no significant effect on the surplus satisfaction he derives from the commodity. Decidedly, the consumer will feel more satisfied if two good substitutes as well as complements are made available to him than in case he gets only one of the two at a time. The consumer can properly appreciate the utility from a pen only when the same is accompanied by ink. It is improper to assume with Prof. Marshall that the marginal utility of money remains constant and does not alter with increase or decrease in the money stock with the consumer. Therefore, it is incorrect to believe the consistency of the marginal utility of money in real life. Exhaustion of Surplus Utility: It is said that if a consumer knew that any such thing existed, he would go on buying more and more till the surplus utility he enjoyed disappeared. This is not correct. A consumer does not run after a surplus yielded by one commodity. He has to weigh the utilities of other commodities too. This

Concept is not Applicable to Necessaries: In such cases the surplus is immeasurable. What would not a man be prepared to pay for a glass of water when he is dying of thirst? Another ground on which the concept has been criticized is that the complete and reliable list of demand and prices is never available to the consumer. The demand schedule according to which he regulates and decides his purchases is not necessary to come true in practice. How much the consumer would be willing to pay rather than go without the thing is something hard to answer correctly. Distinction between Value-in-use and Value in Exchange: Commodities like salt and match-box have a great value-in-use but much less value in exchange. Comparison of Gains from the International Trade: For example—“We can import things cheaply from abroad, but before importing, we were paying more for similar home produced goods. The imports, therefore yield a surplus satisfaction. The larger this surplus, the more beneficial is the international trade. Useful to Businessman and Monopolist: It is of practical importance to the monopolist and businessman in fixing the price of his commodity. If the commodity is such that the consumers are willing to pay more for it, they will enjoy large surplus. In such a case the monopolist and businessman can raise the price without affecting the sale. Comparing Advantages of Different Places: A place where there are greater amenities available at cheaper rates will be better to live in. In these places, the consumers enjoy large surplus of satisfaction. Importance in Public Finance: The concept has a great practical importance to the Government in determining the desirability of imposing tax on certain commodity. Importance in Welfare Economics: This concept is an important tool in welfare economics also. This can be explained in the following manner: Hicks even without the measurement of utility. Let us suppose that the consumer does not know the price of commodity X. He chooses to have the combination A on IC1 i. Now let us suppose he knows the price of X which is indicated by TM budget line. The consumer finds that he can get on to a higher indifference curve with the same income. In other-words, the consumer has to spend only TU amount of money as compared to TS which he is prepared to pay for the same amount of X commodity.

## 4: Consumer Surplus

*A note on consumer surplus with quality variation [Rajnish Mehra, Sloan School of Management] on www.enganchecubano.com \*FREE\* shipping on qualifying offers. This is a reproduction of a book published before*

The equilibrium price is an idealized price, in which the demand for the good equals its supply. If the equilibrium price is known, the consumer surplus can be calculated, using the demand equation. Consumer Surplus and the Demand Equation Economists calculate consumer demand, according to the law of diminishing marginal utility. How much the consumer is willing to pay for one additional good depends upon how much of this good the consumer already has. Since, according to the terms of the calculation, the demand for one more good decreases with each sale, the acceptable price for that good necessarily diminishes with each sale as well. A graphic representation of this phenomenon, called the demand equation, shows a straight line across the horizontal axis representing the fixed price of the good. Above that fixed price line is a curved line representing the additional amount above the actual sales price the consumer would willingly pay. Since, according to the law of diminishing utility, this acceptable price diminishes with each sale, this line representing the maximum acceptable price slopes downward to the right. The area on the graph above the sales price and below the downward-curving acceptable price represents the consumer surplus, the difference between the acceptable price and the lower fixed price actually paid. Determining the consumer surplus in a market uses the demand equation. An online calculator that makes the computation is available in the References. Once the equilibrium price is known, you can then use the information to calculate the demand equation. Some diminishing demands are linear and decline at a fixed rate. The calculation for a linear demand function is included in the References. Other demand functions are nonlinear: This equation requires either integral calculus or reasonable approximation of the consumer surplus using the method described below. Performing this simple calculation once is essentially the same thing as solving a linear demand equation. In both instances, the decreasing marginal demand is linear and therefore the "demand curve" is actually a straight line, sloping downward and to the right. By repeating this process for later sales periods after goods, goods, and so on, you can determine the approximate consumer surplus in each period. You then can total all intervals to determine the cumulative consumer surplus. If you need greater accuracy, reduce the width of the intervals  $\hat{\epsilon}$  instead of, say, making the intervals goods wide, you could have a separate interval after every 20 or 10 goods sold. You could even have a separate interval for each good, which would be accurate, but the improved accuracy would likely not justify the effort.

## 5: Advanced Microeconomics Notes | Oxbridge Notes the United Kingdom

$\hat{\epsilon}$   $\neq$  Equivalent Variation (EV)  $\hat{\epsilon}$   $\neq$  Change in Consumer Surplus ( $\hat{\epsilon}$   $\neq$  CS)  $\hat{\epsilon}$   $\neq$  Consumer surplus (CS) is the area to the left of the  $\hat{\epsilon}$   $\neq$  Note: Sometimes CS is.

## 6: DSpace@MIT: A note on consumer surplus with quality variation

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*Hines, John D., "Differences in empirically measured compensating and equivalent variation measures of consumer's surplus: A case study" (). Graduate Student Theses, Dissertations, & Professional Papers.*

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*variation of income, also called compensating variation consumer's surplus (CVCS), which is the area under the compensated (Hicksian) demand curve instead of that under the ordinary (Marshallian) demand curve.*

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