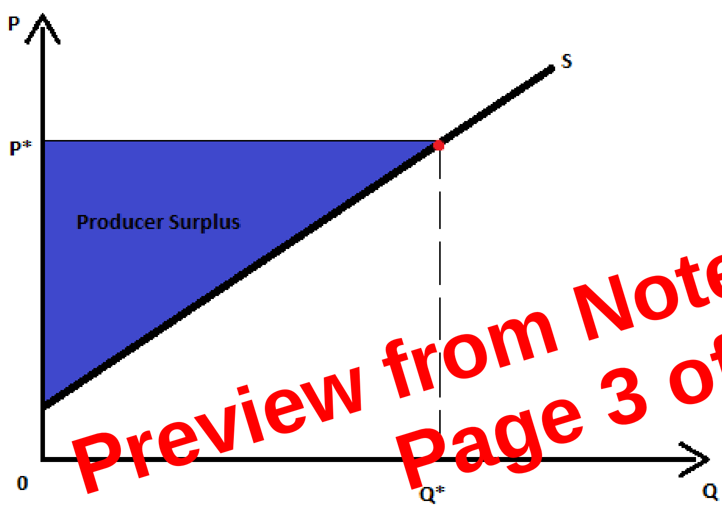
new consumer surplus is the yellow and orange areas. Consumer surplus rises a lot because a lower market price is paid and more is consumed.

Producer Surplus

Producer surplus is a measure of the benefit or welfare that producers derive from selling output. Producer surplus is the difference between what producers are willing (and able) to supply at and what they actually receive. Producer surplus is the area between the market price and the supply curve.

Producer Surplus

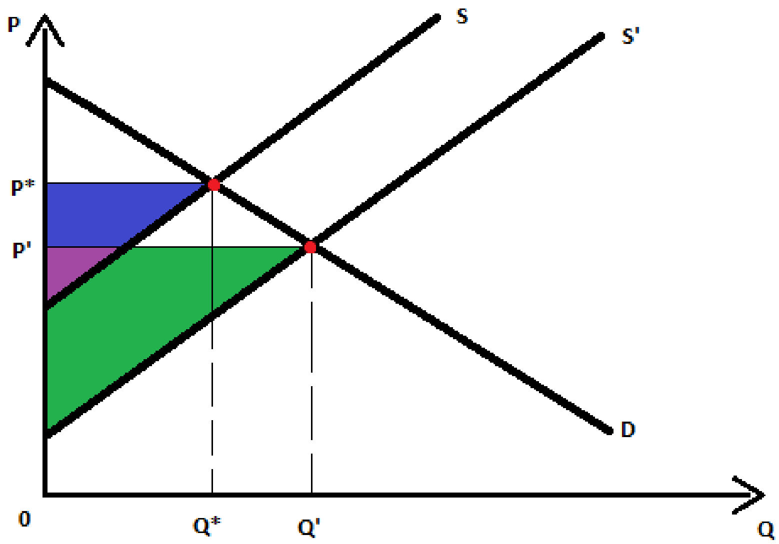


The supply curve shows the minimum price producers are willing and able to accept to sell different quantities of a good. Producers are willing to sell at a low price for the first unit but a higher price for each extra unit they sell. Although, producers receive the market price P* for each unit.

At the market price P* producers sell Q* units of output and producer surplus is the blue area.

An increase (decrease) in supply increases (decreases) producer surplus.

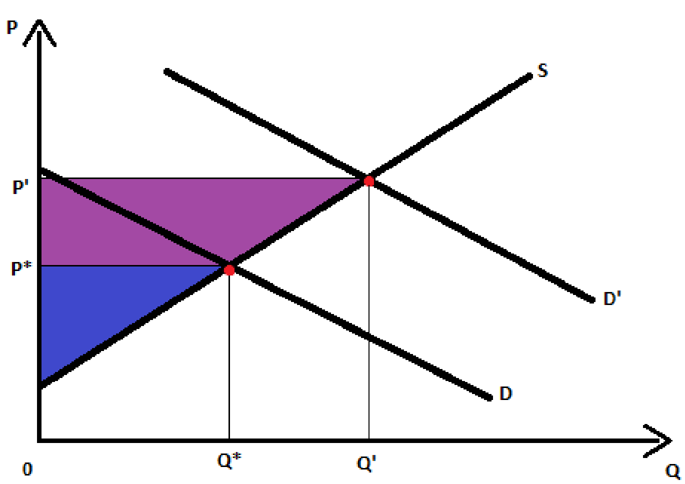
Producer Surplus and An Increase in Supply



Producer surplus is originally the blue and purple areas. After supply increases, the supply curve shifts rightwards from S to S', equilibrium price falls from P* to P' and output rises from Q* to Q'. The new producer surplus is the purple and green areas. Producer surplus falls a bit because a lower market price is received but producer surplus rises a lot because more is sold. Overall, producer surplus increases because the gain in producer surplus (the green area) is greater than the loss in producer surplus (the blue area).

An increase (decrease) in demand increases (decreases) producer surplus.

<u>Producer Surplus and An Increase in Demand</u>



Producer surplus is originally the blue area. After demand increases, the demand curve shifts rightwards from D to D', equilibrium price rises from P* to P' and output rises from Q* to Q'. The