IT'S NOT FAIR IS THE RESULT ISN'T FAIR

- The fair approach conflicts with allocative efficiency and leads to what so called the big tradeoff between efficiency and fairness that recognizes the cost of making income transfer.

How a lower price raises consumer surplus?

At a price of P1, the consumer surplus is the area of triangle ABC (the area above the price and below the demand curve).

Figure 3a: Consumer surplus at price P1

Figure 3a shows a typical demand curve. In a market with many buyers, the resulting steps from each buyer dropping out are so small that they form, in essence a smooth curve.

Figure 3a: Consumer surplus at price P1

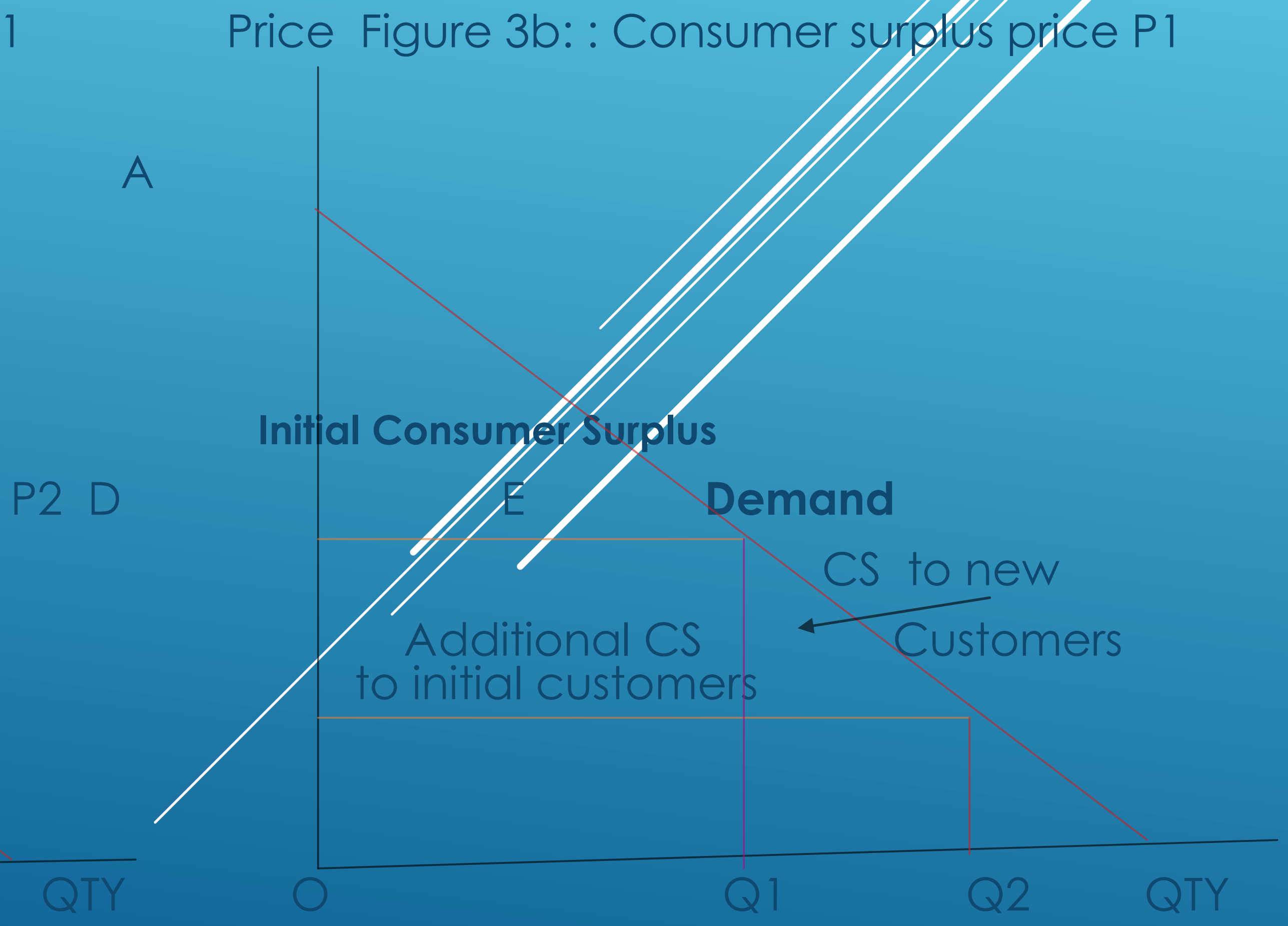
At a price of P1, the consumer surplus is the area of triangle ABC (the area above the price and below the demand curve).

How a lower price raises consumer surplus?

BCED – Consumer surplus of those buyers who were already buying Q1 of the goods at the higher price P1 are better off because they now pay less.

Figure 3a:


Figure 3a: Consumer surplus price P1
Price
A
Consumer Surplus
Demand
P1 B
C
Customers
o
Q1
QTY


P2 D
Price Figure 3b: : Consumer surplus price P1
A
Initial Consumer Surplus
E
Demand
CS to new
Customers
Additional CS
to initial customers
O
Q1
Q2
QTY