B.com-I | Principle of Eco(S) | Sujeet Kr. Suman
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Q. Explain fully the concept of Consumer's Surplus.

Ans:

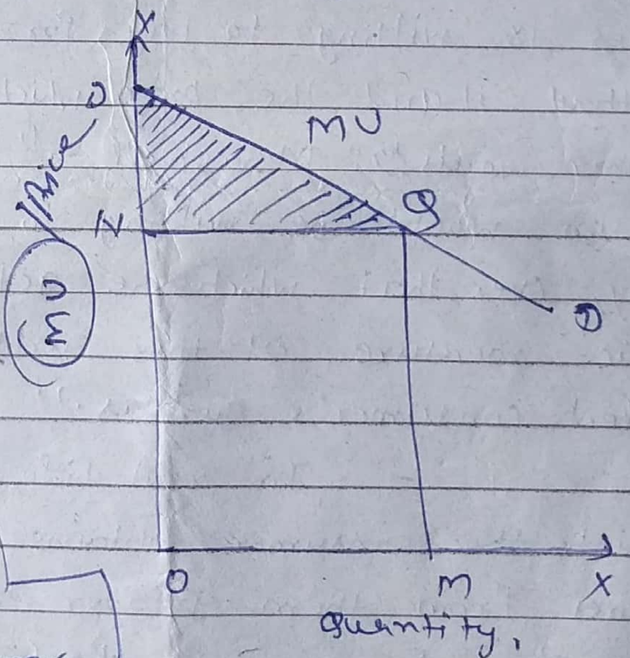
The doctrine of consumer's surplus plays a vital role in modern economics analysis. This doctrine is very often attributed to Alfred Marshall. The consumer's surplus may be defined as the excess of utility obtained by the consumer over utility forgone or disutility suffered. It is measured by the ~~consumer over utility forgone or disutility~~ difference between the maximum price which the consumer is willing to pay for a commodity rather than go without it and the price which is actully pays for it. In other words of Marshall – "The excess of price which a person would be willing to pay rather than go without the thing, over that which he actually does pay it is the economic measure of this surplus of satisfaction. It may be caled consumer's surplus."

In real life, there are several things from which the consumer obtains surplus satisfaction or he secures from them greater satisfaction than what he has paid for. For example, cheaper commodities like salt, newspaper, Sugar, electricity or cheap transport yield substantial surplus satisfaction to the consumer.

Quantity of Sugar (kg)	Margined utility (Rs)
1	10
2	8
3	6
4	4
5	3
6	1

Suppose that the table that the market price of sugar is Rs. 3/- per kg. In that case, the consumer buys 5 kg. of sugar. The reason being that at this purchase, the price of sugar becomes equal to the marginal utility obtained by the consumer. The Consumer enjoys a surplus utility measured by 7+5+3+1 = Rs. 16/- The total consumer's surplus enjoyed by the consumer thus comes to Rs. 16/-
This situation between represented in the diagram—

In this diagram, 'DD' is marginal utility curve of the consumer. It might as well be called his demand curve. QM is the price of the commodity and OM represents the quantity bought by the consumer.



QM represent is also the marginal utility of the consumer. Surplus of utility indicated by DNQ. The difference between the two is DNQ which may be called his consumer's surplus.

The Concept of an individual's consumer's surplus can also be extended to cover the entire market if we ignore the interpersonal differences in incomes, tastes, fashions etc.