SUBJECT- PRINCIPLES OF ECONOMICS

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CONSUMER'S SURPLUS

The Doctrine of Consumer's surplus which occupies an important place in the Marshallian system of welfare economics analysis was originally stated by Williams Stanley Jevons and French engineer economist Ansens Jules Dupuit in 1844.

Later on Alfred marshall explained this concept in the pure theory of domestic values as consumers rent. In his "Principles of Economics" he further elaborated this concept in logical detail and describe it as consumer's surplus. He is called the consumer's surplus.

* Explanation of the concept of consumer's surplus

In actual life when we buy a commodity for consumption we gain some utility by consuming it at the same time we lose some utility in terms of the price that we need to pay for it. 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.

FOR EXAMPLE

Suppose a student goes to buy a book. He is willing to pay Rs 20 for the book. But he gets the books for Rs 15 thus he has saved Rs 5. This is called consumer's surplus.

Consumer's surplus = what a consumer is willing to pay – what he actually pays.

* Assumptions of Consumer's Surplus

1. marginal utility of money is constant.
2. No close substitute available
3. Utility can be measured
4. Tastes and incomes are same

The above definition of Prof. marshall can be explained with the help of practical examples

1. Consumer's surplus when there is single purchase:

when a consumer's purchase only one unit of a commodity even then the consumers surplus arises.

Let us suppose a student is willing to pay ₹30 for a particular book and when he actually go to market and purchase it at Rs 25. Thus Rs 5 (30-25) is the consumer's surplus.

2. Consumer's Surplus when there is multi-unit Commodity

In our real life one purchases number of unit of a particular commodity. The price that a consumer pay for all the different unit of commodity actually measures the utility of the marginal unit and he pays the same price for different commodity

The excess of utilities he derives from different commodities and the actual price paid is called as Consumer's surplus. Let us take an example of a person whose marginal utility, price and Consumer's surplus schedule for bread is given in the following table.

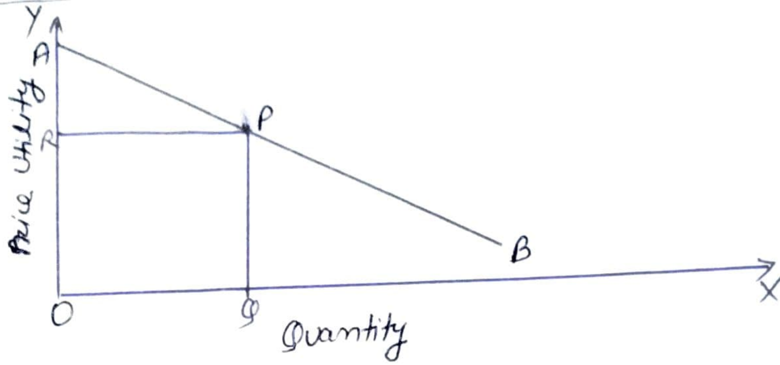
marginal Utility, Price and Consumer's surplus Schedule

Units of bread	Marginal Utility (in Rs.)	Price (in Rs.)	Consumer's surplus (₹)
1	10	2	8
2	8	2	6
3	6	2	4
4	4	2	2
5	2	2	0
6	0	2	-2

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 ₹10. But the price which he pays is Rs 2 and hence Rs 8 is the Consumer's surplus.

Similarly, the Consumer's Surplus from 2nd, 3rd, 4th and 5th units are 6, 4, 2 and zero respectively. A rational consumer will consume only 5th commodity where the marginal utility is equal to its price and thereby maximises his Consumer's surplus. If he will consume the 6th unit he derive zero marginal utility where as he pays the price as Rs 2. A rational Consumer will not consume that commodity.

Diagrammatic Representation of Consumer Surplus:



In this diagramme 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. At point P the marginal curve AB intersect the market price curve OR. Thus for OQ quantity the consumer derives utility as AOQP where as he pay ROQP thus triangular shaded are ARP is Consumer's surplus.

* Criticism of the Concept of Consumer's Surplus

1. This Concept is imaginary.
2. Measurement of this Concept is difficult.
3. This Concept is not applicable to substitute.
4. The marginal unit of money never remain Constant.
5. This Concept is not applicable to necessaries.