4. At right you are given the market for hours of simple database programming in Kearny, Nebraska airport. This is monthly data.

- What is the equilibrium price and quantity in this market?
- What is the consumer surplus generated by this market assuming it goes to equilibrium?
- What is the producer surplus generated by this market assuming it goes to equilibrium?

![Graph showing supply and demand curves with price points]

**Problems From Old Exams**

1. You are on your own here.

2. PE = $16. QE = 2,000. Consumer Surplus = $16,000. Producer Surplus = $8,000.

3. PE = $16. QE = 1,500. Consumer Surplus = $9,000. Producer Surplus = $3,000.

Problems and Applications

Problems From Old Exams

1. A friend of yours is looking over some notes from your economics class. He/she/your friendly hermaphrodite, notes that you wrote;

   “Consumer Surplus = amt. a consumer values a good – price”

   “What a load of bull!” states your friend. “I can handle supply and demand. I mean those curves are something one can potentially measure. But how the heck can economists measure how much someone values an added good? I mean, we are talking a person’s subjective value, not pounds or inches or anything like that.”

   Answer your friend. Who can, and do, economists measure consumers’ valuation of a good?

2. At right you are given the market for low-quality pull-over fleece jackets.
   - What is the equilibrium price and quantity in this market?
   - What is the consumer surplus generated by this market assuming it goes to equilibrium?
   - What is the producer surplus generated by this market assuming it goes to equilibrium?

3. At right you are given the market for taxi rides home from the Scottsbluff, Nebraska airport. This is monthly data.
   - What is the equilibrium price and quantity in this market?
   - What is the consumer surplus generated by this market assuming it goes to equilibrium?
   - What is the producer surplus generated by this market assuming it goes to equilibrium?
Chapter 7 Review

Readings  Chapter 7, all

Outline

I.  What are we going to do with this?

II.  The Basic Idea
   A.  Gains from Trade
   B.  Consumer Surplus
   C.  Producer Surplus

III.  Our Experiment
   A.  What do markets do?
   B.  What “should” markets do?

IV.  Markets vs the Benevolent Social Planner on Social Welfare
   A.  What is desirable?
   B.  Reasons the Benevolent Social planner likely cannot achieve the optimal outcome
   C.  How will markets do?
      1.  If _______________ & _______________ , markets will maximize CS + PS.
      2.  If _______________ , CS + PS = gain to society.
         i.e. If there are no _______________ ,
         and no _______________
         Then CS +PS = gain to society.
      3.  In sum, If _______________ ,
         and________________________ ,
         and________________________ ,
         and________________________ ,
         Then markets will maximize social welfare
      4.  There are lots of exam questions about the material described in this Roman numeral IV.

IV.  Producer and Consumer Surplus:  Graphical Analysis

Text and Study Guide Questions

Questions for Review
   all