Consumer Surplus Formula

Consumer surplus is an important concept in Economics that is defined as the difference between the willingness of a consumer to pay for a product and the actual amount that the consumer ends up paying, in order to acquire the product.

Consumer surplus can be positive or negative. It will be positive if the market price of a good is lesser than the price the customer is ready to pay, whereas it will be negative if the market price is greater than the customer's willingness to pay.

Market price is the price of goods that is prevalent in the market, whereas the price which the consumer is willing to pay is the price that is determined by the consumer after researching the market.

The price for a product is determined by the company which is producing it and also depending on the demand and supply of the product.

The consumer surplus formula can be represented as follows

Consumer Surplus = Maximum Price Willing to Pay – Actual Price

The consumer surplus formula for multiple consumers can be expressed as

Consumer Surplus = ½ * Demand Quantity at Equilibrium * (Maximum Price Willing to pay – Market Price)

This is also known as the extended consumer surplus formula.