

Practical Importance of Consumer's Surplus:

3. Useful to Businessman and Monopolist:

It is of practical importance to the monopolist and businessman in fixing the price of his commodity. If the commodity is such that the consumers are willing to pay more for it, they will enjoy large surplus. In such a case the monopolist and businessman can raise the price without affecting the sale. Thus, the monopolist and businessman is guided by the knowledge of the Consumer's Surplus in fixing the price of his product.

4. Comparing Advantages of Different Places:

Consumer's Surplus proves useful when we compare the advantage of living in two different places. A place where there are greater amenities available at cheaper rates will be better to live in. In these places, the consumers enjoy large surplus of satisfaction. Consumer's Surplus thus indicates environmental and

conjectural advantages i.e., the advantages of environment and opportunities.

5. Importance in Public Finance:

The concept has a great practical importance to the Government in determining the desirability of imposing tax on certain commodity. A tax imposed on a commodity tends to raise its price and to reduce Consumer's Surplus thereby, but it yields some revenue to the government.

The Finance Minister is to compare the Loss of Consumer's surplus to the increase in tax-revenue. A tax is justified when the loss in Consumer's Surplus becomes less than the increase in tax revenue, otherwise it will be harmful.

6. Importance in Welfare Economics:

This concept is an important tool in welfare economics also.

This can be explained in the following manner:

(i) In his partial analysis, Marshall deals with the surplus of all the consumers in a market.

(ii) Next, the effects of price-quantity variations of commodities on the welfare of the commodity are also being worked out with the aid of this concept.

(iii) Further, the gain which accrues to the community from a new product and the loss from the total dis-appearance of a product from the market are some of the other problems which are being explained with the idea of Consumer Surplus.

(iv) In the end, the effects of a tax and a subsidy on total welfare can be explained by it.