Elasticity Of Demands & Consumer's Surplus

Explanation of Consumer's Surplus by Prof. Hicks:

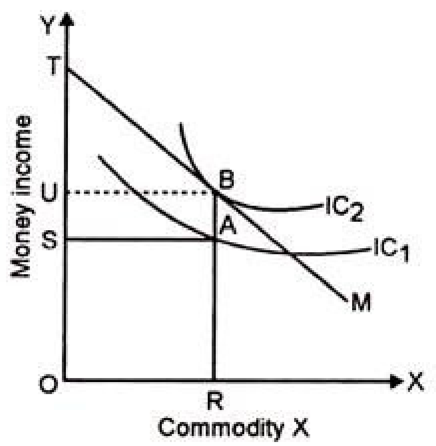
The concept of Consumer's Surplus was rehabilitated by Prof. J. R. Hicks even without the measurement of utility. In this connection Hicks has said that the best way of looking at Consumer's Surplus is to regard it as a means of expressing in terms of money income, the gain which accrues to the consumer as a result of all in price.

Hicks in his "Indifference Curve Analysis" takes resources to the external behaviour of a man whereby a man prefer one situation to another and with the help of this ordinal utility function, finds out the Consumer's Surplus.

For example:

Let us suppose that the consumer does not know the price of commodity X. He chooses to have the combination A on IC_1 i.e., OR of X commodity and OS amount of money. In other-words he is prepared to pay for OR commodity of X commodity and OS amount of money. In other words he is prepared to pay for OR commodity of X the TS amount of money.

Now let us suppose he knows the price of X which is indicated by TM budget line. The consumer finds that he can get on to a higher indifference curve with the same income. The consumer's new equilibrium is represented by B the tendency between IC_2 and TM. At this point consumers combination is OR amount of X commodity + UO amount of money.



In other-words, the consumer has to spend only TU amount of money as compared to TS which he is prepared to pay for the same amount of X commodity. Thus, Consumer's Surplus equivalent to SUBA. We can thus conclude that in indifference curve analysis Consumer's Surplus signifies a passage from a lower to a higher indifference curve which environment makes possible for an economic subject.