Essay

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Selling and buying are basics in economic. Sellers are there to ensure supply and production of goods, as well as making a profit. Buyers are there to satisfy their needs and wants and they have to do this by incurring a cost (Jack & Ramon, 2018). When market forces comes into play naturally, business takes place which may either initiate profit, loss or equilibrium.

Willingness to pay is the highest amount that consumers are able to pay for a product or service (Acey et al., 2019). It may be caused by differences in the customer population. When a customer is urgently needing a product or service, they are willing to pay more than when the need is not urgent. In addition, it may also vary due to emergence of a new brand and the consumer feels that the product that he/she had been using is outdated. From the example given, it can be seen that the consumer is willing to buy a larger house at a budget of $450,000.

Consumer Surplus happens when the price that consumers pay is less that what they are willing to pay. This can also be defined as an additional benefit consumers receive. It always increases as the price decreases, and decreases as the price increases (Montes et al., 2019). In the example given, consumer surplus is the difference between the largest amount the consumer is ready to pay, $450,000, and actual price in market, $410,000.

Demand occurs when a consumer desires to buy goods and services, and is willing to pay them for a price. It is closely related with the price and how much the consumer wants to buy. From the example, it is assumed that the consumer previously lived in a house worth $350,000. He or She feels that a larger one will be more comfortable. Having searched for one, the consumer has found out that the price for the house looking for is $460,000.

Producer Surplus is the total profit obtained from participating in trade of a product/service. Sellers engage in businesses for more gains and therefore, it would be acceptable for them to sell a product for more than the amount and labor they use while producing (Gautier et al., 2020). From the example, producer surplus will be therefore the difference between the amount settled between the builder, $410,000 and the amount he bought the house, $300,000, plus the amount spent on remodeling it, $75,000.

Cost can be assumed to be the monetary expenses that producers have to spend in order for an activity to be done. In the example, the remodeling activity is the monetary value the producer incurred for the house, which is $75,000.

For a seller to accept and sell a product or service, there must be a price where he/she has come to an agreement with the buyer and the price should be acceptable to both of them. In as much as it is acceptable, it should be a profit to the seller (Jazinaninejad et al., 2019). This is referred to as the Willingness to sell. From the example given, the builder had set the price to be $460,000. However, the price later is agreed to be $410,000.

Therefore,

Willingness to pay= $450,000

Consumer Surplus; $450,000-$410,000= $40,000

Demand= $460,000

Producer Surplus; $410,000-($300,000+$75,000) = $35,000

Cost= $75,000

Willingness to sell= $410,000

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