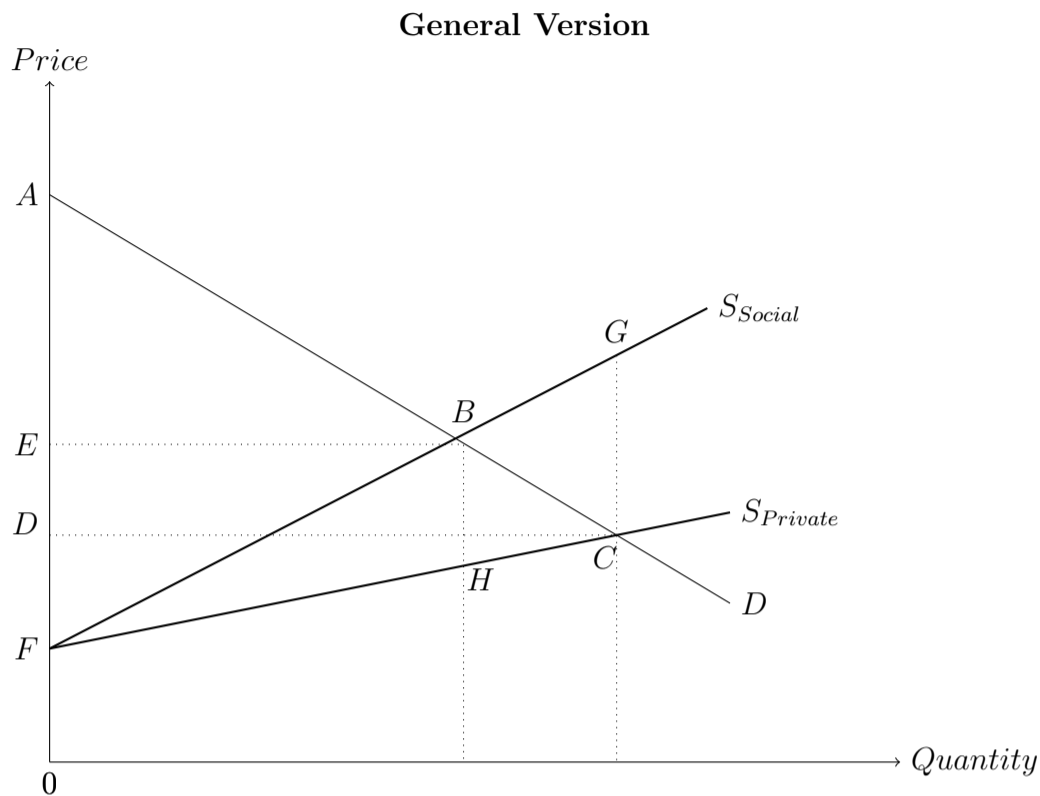


ECO232: Harberger Triangles



1. If firms and consumers work off the private supply curve ($S_{Private}$):

C: Equilibrium

ABC: Consumer surplus

DCF: Producer surplus

2. If firms and consumers work off the social supply curve (S_{Social}):

B: Equilibrium

ABE: Consumer surplus

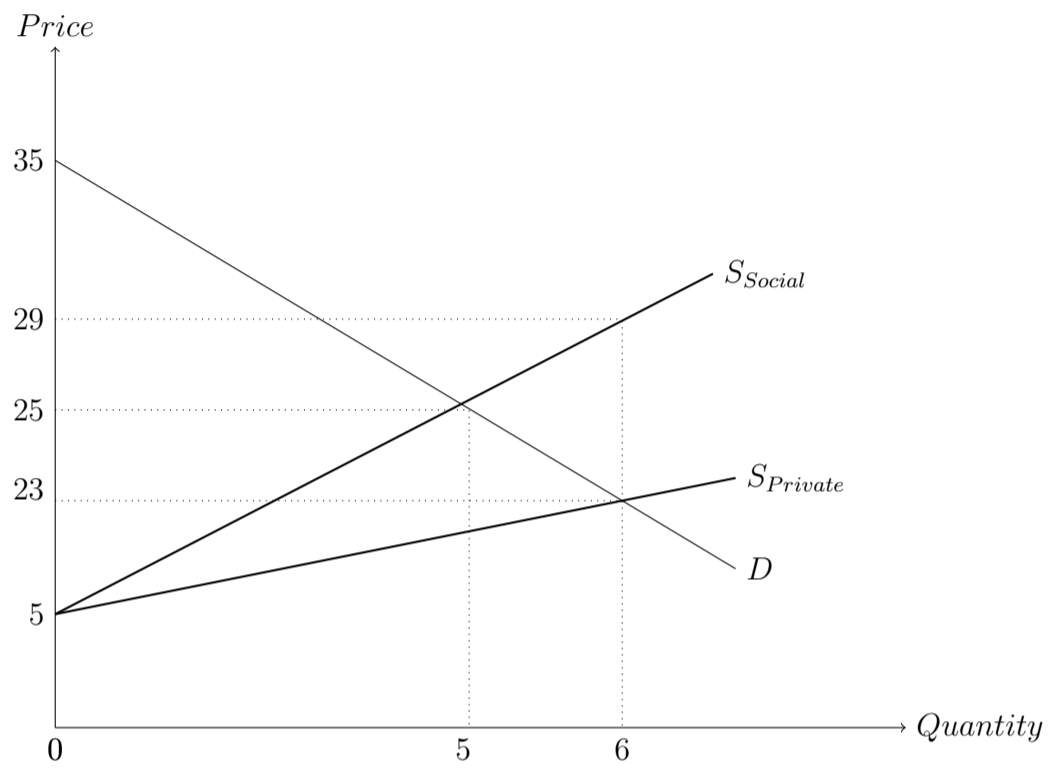
BEF: Producer surplus

What is the difference between 1 and 2?

- Producer surplus has changed by (EBF-DCF)
- Trade has gone down to the value of BCH
- With 1, external damage was FGC. With 2, there is only damage of FBH – and that damage is paid for by the firms as part of their costs
- The total reduction in external damage is GBHC
- The net social saving is GBC (GBHC-BCH)

Specific Version

$$P = 35 - 2Q^D$$
$$P = 5 + 3Q^S_{Private}$$
$$P = 5 + 4Q^S_{Social}$$



With these numbers, you should be able to estimate every triangle or quadrilateral within this figure. It is just geometry from here...