Welcome to Module 26, "Perfect Competition, Social Net Benefit Maximization and Market Success."

Here we see that under a fairly restrictive set of circumstances perfectively competitive markets succeed in generating maximum SNB.

We carefully go through several steps in this module to build this case.

Figures 8-5 through 8-8 demonstrate that the area under a SMB curve is STB and the area under SMC curve is STC.

Figure 8-9 puts these two ideas together and shows that we can represent SNB in the SMB and SMC model, with the maximum occurring, of course, where SMB=SMC.

In Figure 8-10 we show the shortfall from maximum SNB when the level of some activity is at a level greater than or less than the optimal amount. We call this deadweight loss.

All we have to do is understand that we can think of the Supply curve as a SMC curve and the Demand curve as a SMB curve. We do this by again referring to where the supply and demand curves come from. (Remember the summation of individual demand and supply curves to obtain market demand and supply curves?) The trickier one here is realizing that an individual's demand curve is her MB curve as well. Apply marginal analysis to this model and you'll eventually get it.

Finally, because demand is SMB and Supply is SMC, and they cross at the equilibrium P & Q, equilibrium in a perfectly competitive market maximizes SNB.

How about that?

End on the amazing note about price signals leading every person to have the same MB and each business to have the same MC.

WOW!!!