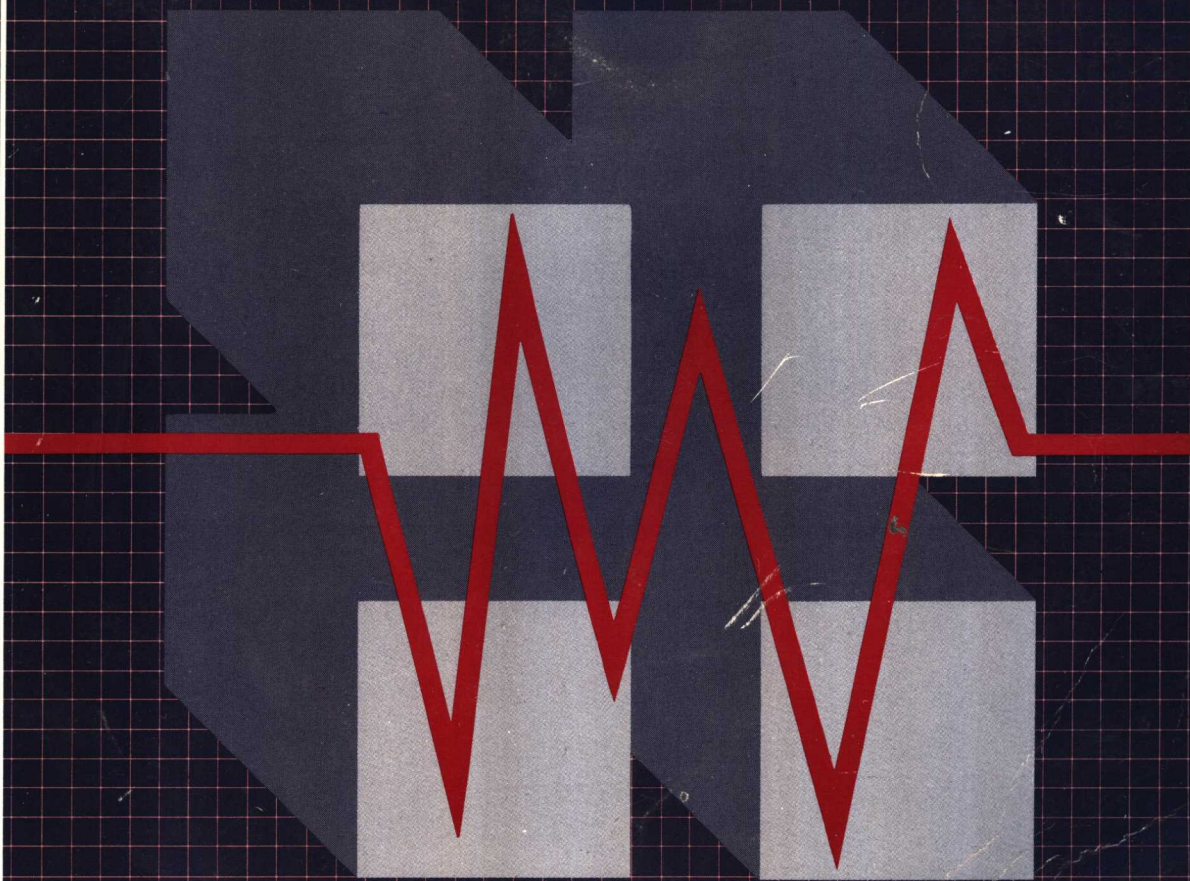


Microeconomics

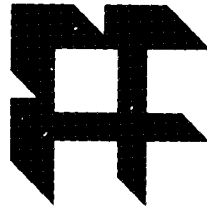


Truett



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Microeconomics



LILA J. TRUETT
DALE B. TRUETT

The University of Texas at San Antonio

with 191 illustrations

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PREFACE



In the preface to the previous edition of this book (1982), we noted that we were fortunate to have the opportunity to write during a period when economics was very much in the limelight but that we faced the challenging task of explaining economic change in a period marked by much confusion and controversy. Economics had attracted a great deal of attention from the news media and the general public, because both were very much aware that the problems of the day were mainly economic in nature. Then, the bugaboo was inflation, which was at double-digit levels in the United States for the first time in the twentieth century. Not only were prices rising rapidly, but unemployment was unacceptably high. The microeconomic dimensions of the crisis became evident as governments experimented with price controls on specific products, sometimes with unsatisfactory results that were all too predictable.

More recently, we have had some good times and bad, but economists have not forgotten the lesson that their discipline, which rather complacently rested in the shadow of Keynes for some 25 or so years after World War II, is not yet fully

grown. Recent soul-searching by economists has occurred mostly in macroeconomics, which, it seems, failed to adequately explain the combination of unemployment and inflation that plagued the United States periodically from 1973 onward. Nonetheless, the importance of a sound *microeconomic* background for policy analysis became increasingly apparent as theoreticians tended more and more to tie macroeconomic events to individual and business behavior.

As textbook writers, we are again challenged. Economics is no less newsworthy now than before; nor is it less riddled with controversy. We are again both fortunate and unfortunate. The continuing economic problems of the United States and many other industrialized nations have made it increasingly difficult to analyze economic events without a thorough grounding in both microeconomics and macroeconomics.

Because it deals with applications of microeconomics that are relevant to recent changes in policy (deregulation, antitrust, unions, public sector microeconomics, international trade), this book is a noticeably different product from our earlier edition. We believe it also differs signifi-

cantly from other beginning economics texts currently available for college and university students. Our task below is to tell you why.

IMPROVEMENTS AND CHANGES

The foundations of a basic course oriented toward microeconomics are laid in Part One of the text. This material introducing the subject matter of economics, its methodology, and the elements of demand and supply analysis is somewhat more compact than it was in the previous edition. Nonetheless, it does a thorough job of getting students started and contains some new material that is presented in an efficient way. For instance, Chapter 3 now includes a brief discussion of price ceilings and price floors in a boxed example that requires only one page to show students a way to apply concepts they have just learned. Also new in Chapter 3 is an expanded discussion of both the determinants of demand and the determinants of supply. For students who are unfamiliar with graphical presentations, Special Topic A, on working with graphs, has been substantially rewritten and simplified.

Although the core theoretical materials found in Parts Two and Three (consumer behavior, theory of the firm, and market structures) are much the same as in the previous edition, they are reinforced by many new and updated examples. As we have updated, we have attempted to illustrate economic principles and events with examples that we believe students can comprehend and that will stand the test of time. Finally, we have made numerous adjustments in coverage and presentation wherever we, our students, or our reviewers have found omissions or opportunities for clarification.

Important changes in Parts Four through Six include detailed coverage of recent antitrust decisions and their implications; thorough updating of the materials on international trade, international finance, and commercial policy; an improved discussion of the farm problem; and an expanded discussion of economic systems.

INNOVATIONS IN COVERAGE AND PRESENTATION

Certain chapters of the book either employ new devices or touch on timely materials that will help students understand economic analysis and its current application. For example, the discussion of demand in Chapter 3 clarifies the distinction between a demand function and a demand curve by using a unique set of diagrams that emphasizes the *ceteris paribus* condition while recognizing that consumers' purchasing decisions depend on variables other than a product's own price. Other innovations in presentation and coverage include:

1. A set of chapters on demand and the theory of the firm that clarifies revenue concepts, explicitly treats the connection between production and cost of production, and describes the fundamentals of profit analysis
2. Two chapters on the microeconomics of public sector decisions that concisely explain both the externalities issue and the steps required to conduct rational analyses of public capital projects
3. A completely up-to-date discussion of international trade, payments, and commercial policy that provides more depth than most other texts yet allows students to analyze problems using tools developed early in the book
4. A selection of optional "Special Topics" tailored to allow discretion in depth of coverage of certain theoretical materials and related subjects

It is unlikely that an instructor will choose to use every one of these innovations. Indeed, with certain academic calendars, such a strategy would not be possible. However, we think that these unique materials will add flexibility in the design of individual courses.

SPECIAL FEATURES

This edition contains several pedagogical elements, some of which are new and unique, that are designed to facilitate students' grasp of key

terms and concepts and to maximize the effectiveness of the text as a learning tool *outside the classroom*.

Perspectives

At the beginning of each chapter we have placed a brief vignette called a "Perspective." The Perspectives use interesting contemporary economic events to set the stage for the chapter and show how it applies to the real world. This is a feature that we introduced in the previous edition and have decided to retain. The new Perspectives tend to be shorter than the earlier ones. Some are quite similar to the original version, since we found that we had chosen topics that have remained in the headlines. Our intention was and still is that the Perspectives serve as a motivational device (a "teaser," if you prefer) to lead in to what follows in the chapter, not as something to initially provoke a great deal of discussion or analysis.

Introductions

Each Perspective is followed by a single-paragraph introduction to the chapter, under the heading "What This Chapter Is About." The purpose of this brief statement is to let the student know where the chapter is headed and to make it easy for instructors to anticipate what familiar topics will be covered. Instructors who so wish can then state formal learning objectives for the chapter (see *Instructor's Manual*).

Concept Reviews

Unique to this text, this feature asks students periodically throughout each chapter to test their comprehension of essential concepts by answering a brief series of questions related to the discussion of the preceding pages. Since an understanding of economics is largely predicated on concepts which build on one another, the self-testing built into the Concept Reviews serves to accentuate this relationship and give the student a more efficient way to study the subject.

Vocabulary Development

Considerable emphasis is placed throughout our text on the development and understanding of the language of economics. Whenever a new term is used, it appears in boldface type and is highlighted along with its definition. All key terms and concepts are listed at the end of the chapter in which they appear and are repeated with their definitions in a comprehensive end-of-text glossary.

One additional feature that will significantly enhance students' grasp of basic terminology is our approach to abbreviations. Except for the most commonly used abbreviations such as AVC, terms are spelled out each time they are used. This approach avoids unnecessary confusion later in the text where the accumulation of abbreviations can overwhelm many students.

Key Term and Concept Referencing

Another aid to student comprehension is a unique system of referencing key terms and concepts. Throughout the text, when a previously discussed term or concept reappears, a page reference is placed in the margin. This indicates the spot to turn to for review of that specific term or concept. For example, a student who runs across a reference to "factors of production" on page 37 in Chapter 2 (Economic Systems and Policies) will find that the term is followed by a small box like this: □. In the margin, a larger box will contain a reference to page 16 in Chapter 1, where the original definition and discussion of the concept appears. (In some instances, the page reference in the margin will refer to a section heading or figure rather than a highlighted definition.)

End-of-Chapter Materials

Each chapter concludes with the following learning aids.

1. Summary: A numbered review of the major subjects in the order that they were discussed.
2. Important terms and concepts: A list of terms and concepts in the approximate order that

they were defined in the chapter. In parentheses after each item is the page number where the term and further discussion can be found.

3. Questions and problems: For student self-testing or assignments, these items frequently test analytical skills rather than memory. Numerical problems related to the chapter's main arguments are provided whenever possible. For reinforcement, answers to odd-numbered questions and problems are supplied at the back of the book.

In addition to the above aids, each chapter has an end-of-chapter reading that appears under the heading "For Discussion." The readings are based on contemporary events and have been carefully selected to relate to the analysis of the chapter. They are interesting, timely, and often just plain fun to read. A set of questions following each reading helps students interpret and analyze what they have read and ties the reading back into the chapter.

History of Thought

A brief history of economic thought is provided as an integral part of this text. To avoid the discontinuities inherent in scattering such materials throughout the chapters on theory, issues, and policies, we have presented them as a three-part essay entitled "Economic Origins." The Economic Origins follow Chapters 1, 3, and 10. This treatment of the history of economic ideas allows instructors a degree of choice about including such material. Limiting it to only three parts avoids student confusion about what to read and what to omit.

OTHER LEARNING AND TEACHING AIDS

We have attempted in this book to strike a reasonable balance among the verbal, graphical, and numerical methods of description and analysis. *Immediately following Chapter 1 is a Special Topic on the use of graphs in economic analysis that serves to acquaint students with coordinate systems,*

slopes, and linear versus nonlinear curves. The early chapters also introduce theory construction, marginalism, and both partial and system-wide equilibrium in a way that makes understanding easy.

SUPPLEMENTARY MATERIALS

The complete package of ancillary materials for this text includes a *Study Guide*, a *Test Bank* that can be supplied in both printed and micro-computer formats, an extensive set of *Transparency Acetates and Masters*, a comprehensive *Instructor's Manual*, and an interactive *Software Package* for use as a tutorial. Each of these supplements is available free to adopters and is described below.

Instructor's Manual

In authoring this important resource, we have attempted in every way possible to stress utility over gimmickery and quality over quantity. In doing so, we have relied heavily on feedback from adopters and reviewers. Its contents include a set of *conversion notes* for each chapter. These notations identify where our coverage and approach differs from several leading texts. Additionally, a set of detailed *lecture notes* is provided for each chapter, with suggestions for use of the available transparency acetates and masters. Also included for each chapter is a set of *learning objectives*, *answers to concept reviews*, and *answers to the end-of-chapter and discussion questions*. The last element provided in this manual is a set of over 200 *transparency masters*, one for every graph or table found in the text which has not been reproduced in the package of acetates.

Printed Test Bank

Written by Jack Inch of Oakland Community College, the *Test Bank*, which covers both this volumn, and the companion volumn, *Microeconomics*, contains 2,200 multiple choice and true/false questions. In addition to providing the page reference from the text for correct answers, it

also includes a rationale for each. These questions have been constructed to test for general knowledge, terms and definitions, and application and analysis.

Computerized Test Bank

The previously described test questions are available for use on microcomputer. *MicroTest* allows you to edit, add, delete, or scramble questions as necessary. It is available for use with the IBM PC and compatibles, as well as for the Apple II and II/e.

Transparency Acetates

Approximately 100 of the most important graphs and tables from both *Macroeconomics* and *Microeconomics* have been reproduced in a two-color format as *Transparency Acetates*. We have carefully selected these illustrations to coincide with the topics which instructors have identified as the most difficult to teach.

Software

This package, authored by Stephen Lile of Western Kentucky University, features five interactive and user friendly lesson modules covering: (1) Demand, Supply, and Price; (2) The Income/Expenditure Model; (3) Macroeconomic Concepts and Their Measurement; (4) The Aggregate Supply/Aggregate Demand Model; and (5) Price Elasticity of Demand and Supply. It is available in both IBM and Apple versions and is accompanied by its own user's manual.

Study Guide

The *Study Guide* is authored by Robert Herman of Nassau Community College. Each chapter features a summary of key concepts, a vocabulary exercise, and a list of key terms. Also included for all chapters are approximately 35

multiple choice and true/false questions and 5 to 10 essay questions to enable students to prepare for examinations. Answers to all questions and exercises are provided.

ACKNOWLEDGMENTS

A project the magnitude of this book cannot be carried to fruition by authors alone. Scores of people, including survey respondents, reviewers, editors, designers, and typists have contributed substantially to the production process, and all deserve a vote of gratitude. We remember gratefully the help we received from reviewers of the previous edition, and we especially wish to thank those who reviewed this edition. Their numerous suggestions for improvement have had a positive impact on every chapter.

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NOTE TO STUDENTS



Many college and university students complete two or more courses in economics. However, very few people take beginning economics as an elective. It is, instead, a *requirement* for students in business administration and certain social sciences, as well as for economics majors. The latter usually are few in number, and introductory economics classes are thus filled with students whose goal is to become something other than an economist.

Why so much emphasis on economics if only a handful of students will ever get a degree in the field? The reason is simple. In business, government, and everyday life a large share of the most important and frequently asked questions that must be dealt with are fundamentally economic in nature. For example, your choice of a career involves evaluation not only of the purely monetary rewards that the career offers but also the personal satisfaction you get from doing one job rather than another. Both of these are economic questions involving economic choices.

In a very real sense, choices are what economics is all about. As an individual in a free society, your future life will involve thousands and thou-

sands of choices—not just about using your time or choosing your occupation but also about whom to vote for and what kinds of public programs you want or don't want. Economics, in one form or another, will often affect your decision.

Members of the United States Congress often express concern about questions that have to do with economic choices. In fact, a recent survey of newly elected senators and representatives revealed that virtually all of them wanted to be on "money" committees. When asked why, they usually responded that the economy was responsible for getting them elected—that the state of the economy was *the issue* and that they wanted to serve on a committee where they could do something about it.

No matter where your career may lead, you can bet that it will be filled with economic choices. That is why this book and the course or courses that go with it will be useful to you—not only to fulfill a degree requirement but also to show you how to think about economic events and their consequences. Here is how the book can do you the most good.

TEN HELPFUL HINTS

1. Read all assignments *before* they are discussed in class. As you read, test your comprehension by answering the brief questions you find under the *Concept Review* headings that appear at various points in each chapter. If at first you do not understand, read again.
2. Pay attention to the "Perspectives" and the "What This Chapter Is About" lists that appear at the beginning of each chapter. You can use these materials to help orient your thinking about the chapter.
3. Take advantage of the way this book handles terms and definitions. Most important terms are set in boldface type like this: **term**. Definitions are set in a different style of type to make them stand out. In addition, terms are cross referenced from later chapters to earlier ones. When a term is cross referenced, you will see a small box next to it like this: □. In the margin, you will find a larger box with a page reference. If you go to that page, you will find further information (a definition, section heading, or figure) relating to the term or concept.

There is a very complete glossary of terms at the end of the book. Also, at the end of each chapter, there is a list of important terms and concepts to review. Each item in the list is accompanied by a page reference that will tell you where you can find a definition or discussion of it in the chapter.

4. Take your time when you come to numerical examples in the chapters. If you gloss over them, you probably will not get the point.
5. Use the end-of-chapter summaries to review the major points in each chapter. Don't trick yourself into thinking you can read the summaries only and ignore the detailed analyses that appear in the chapter itself.
6. Answer all of the end-of-chapter questions and problems that your instructor assigns. For self-check, answers to odd-numbered questions and problems can be found in the back of the book.
7. A study guide has been prepared to accom-

pany this book. It contains a review of each chapter and many questions and problems that you can use to test your understanding of what you have read or heard in class.

8. To give you a bit of history on the evolution of economic concepts, the text contains a brief history of the economists and their ideas. The history is called "Economic Origins" and appears in three parts (after Chapters 1, 3, and 10). It can help you to understand how the various pieces of economic theory were eventually put together.
9. The "For Discussion" readings that follow each chapter are designed to help you apply the chapter's analysis to an interesting real world problem. These readings come from popular sources and can be fun to analyze. Each reading is followed by a few questions to help you think about its economic content. You can use the readings to test your skills in applying economic analysis.
10. Pay attention to the economic events going on around you. Read the local paper, *The Wall Street Journal*, *Newsweek*, *Time*, *Business Week*, or similar publications. Many of the "Perspectives" and "For Discussion" readings are based on economic news that has appeared in these sources. The more you read, the more you will convince yourself of the importance of economic analysis in making personal, business, and social decisions.

A LAST WORD

As textbook writers and professional economists we hope we have given you a product that will make learning economics relatively easy and even, at times, fun. Perhaps you will not take more than one or two economics courses beyond the principles level. At the other extreme you may find that economics interests you enough to choose it as a major, either in business or in liberal arts. Whatever your choice, we hope you will remember this book and refer back to it frequently as a reference on a broad range of economic questions and issues.

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