

SEVENTH EDITION

ECONOMICS TODAY THE MICRO VIEW

ROGER LEROY MILLER



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ROGER LeROY MILLER

Center for Policy Studies
Clemson University



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TO THE INSTRUCTOR

Virtually all economists in this country agree on one thing: The economic theory we have been teaching is alive, well, and perhaps more relevant today than ever before. While many of the revolutionary events in the Soviet Union and in its Eastern-bloc satellites at the beginning of this decade have been purely political, many were caused by well-publicized economic failures. The economics presented in this text and in most classrooms in America is the economics that many socialist politicians and theorists are now seeking to embrace. This fact alone should be a sufficient reason for your students to want to know about how our economic system works. Indeed, some of you using this book may want to start your course with its last chapter titled, aptly, "Converging Economic Systems."

CONVERGING ECONOMIC SYSTEMS

In this chapter I examine market capitalism in terms of the three Ps—prices, profits, and private property. Communism and socialism are examined in that context. The point is made that decentralized market capitalism involves lots of planning, but it is done by different people and different institutions than in a centralized command economy. Our private businesses and elected officials do our planning.

The problems and promises of *perestroika* are another subject of examination, as well as the various reforms in the People's Republic of China. Since the Japanese economy is so important in the world economy, its history is given along with the differences between that economy and our own. At the end of the text I examine the question of whether the great experiment in socialism, communism, and central planning has truly come to an end.

A MODERN APPROACH FOR YOU AND YOUR STUDENTS

Throughout all sections of the text, there is stress on modern theory with modern examples.

THE GENERAL INTRODUCTION

Part One serves as a general introduction to methodology and marginal analysis. Key aspects of Part One are

- Opportunity cost is stressed throughout and viewed as having meaning in all societies.
- Both individual and market demand and supply curves are carefully developed.
- Stress is placed on equilibrium.
- The difference between changes in demand and supply versus changes in quantities demanded and supplied is emphasized.
- Numerous policies affecting supply and demand are found in new Chapter 4, including (1) shortages of skilled laborers, especially nurses; (2) rationing by waiting; (3) black markets; (4) rent controls; and (5) the war on drugs.

MODERN MICROECONOMICS

Even though the way in which we normally teach microeconomics has not changed much in recent years, there are a number of important additions and innovations in microeconomics to which your students should be exposed. They are included in the microeconomic chapters of this text along with a thorough presentation of a complete range of concepts (some of which have already been examined in the general introduction above). Highlights of what can be found in the microeconomic chapters are

- Difference between elasticity and slope. (Chapter 5)
- How the consumer reaches consumer optimum. (Chapter 6)
- Methods of corporate financing. (Chapter 7)
- The market for corporate control, including hostile takeovers, golden parachutes, poison pills, and greenmail. (Chapter 7)
- The mirror image between marginal cost and marginal physical product. (Chapter 8)
- The relationship between marginal-cost pricing and perfect competition. (Chapter 9)
- Nonprice competition in the context of oligopoly and monopolistic competition. (Chapter 11)

- Social regulation, including the FDA, OSHA, and other regulatory bodies. (Chapter 12)
- Creative response by regulated firms as well as intended and unintended results of regulation. (Chapter 12)
- The call for re-regulation viewed in the current context of the airline industry. (Chapter 12)
- Application of contestable market theory to antitrust enforcement. (Chapter 12)
- The application of the theory of public choice to agriculture, including distributional coalitions, logrolling, rational ignorance, and the theory of the median voter. (Chapter 13)
- Full discussion of derived demand for a resource as well as market demand versus individual firm demand for that resource. (Chapter 14)
- The relative importance of unions and how they attempt to change the demand for union labor. (Chapter 15)
- An explanation of the difference between economic rents and transfer earning. (Chapter 16)
- The distinction between money income and total income. (Chapter 17)
- The comparable worth doctrine and how it relates to discrimination. (Chapter 17)
- New measures of poverty and determinants of poverty. (Chapter 17)
- Solutions to the homeless problem. (Chapter 17)
- The selling of pollution rights and the trading of pollution credits. (Chapter 18)

GLOBAL ECONOMICS

All of the last part of this text, "Global Economics," reflects the current world situation with respect to international trade, finance, and development. Key modern theoretical and empirical points that are made in the global economics chapters are as follows:

- Intra-industry international trade in the context of economies of scale and differentiated products. (Chapter 19)
- Rhetoric versus reality under the Reagan and Bush administrations with respect to trade restrictions. (Chapter 19)
- Thorough distinction between the current account and the capital account and the balancing of the balance of payments, including what affects the balance of payments. (Chapter 20)
- Purchasing power parity (PPP) doctrine. (Chapter 20)

- The dirty float and the effects of the Group of Seven (G-7). (Chapter 20)
- The importance of the J-curve. (Chapter 20)
- The worry over the deficit in our current account and the reality of the surplus in our capital account. (Chapter 20)
- What has happened to the industrially advanced countries (IACs) relative to developing countries. (Chapter 21)
- How the international debt crisis has affected developing countries. (Chapter 21)

THE PEDAGOGY

The pedagogy in *Economics Today* is the result of a decade and a half of classroom fine-tuning throughout the country. What the student sees is state-of-the-art motivational, conceptual, and review pedagogy. Every element listed below is linked into a whole, one that maximizes student comprehension and retention.

Taking Issue

Each chapter starts with a motivating section titled *Taking Issue*. In this paragraph, students are presented with a real-world problem and the indication that they will examine that problem at the end of the chapter. Each *Taking Issue* relates directly to the *Issues and Applications* presented at the end of each chapter.

Discovery Preview Points and Completely Self-Contained Answers

Each chapter also begins with four or five *discovery preview points*. The student is given an indication of what she or he is about to learn. Perhaps more importantly, each student can self-test at the end of the chapter by comparing her or his ideas of the answers to the *discovery preview points* with the actual answers given in paragraph form. These serve as a self-contained, self-study module for each chapter.

Marginal Definitions

Vocabulary remains a stumbling block in our discipline. To ease the burden, every important economic term is **boldfaced** when it is first introduced and then explained in the text. Additionally, the term is defined again in a marginal definition directly opposite where it first occurs. Finally, the definition of all boldfaced terms can be found in a full *Glossary* at the back of the text.

Concepts in Brief

At the end of most major sections, I have placed a list of *Concepts in Brief*. These are point-by-point major concepts that the student should have mas-

tered. They serve simultaneously as a review and as a check on student comprehension.

Point-by-Point End of Chapter Summary

To reinforce the key concepts presented in each chapter, a point-by-point chapter summary with an average of 10 key points is given. These also serve as a review and learning check system.

Problems

Many students respond well to hands-on learning experience. That's what they get when they work the problems at the end of every chapter. There are 50 percent more problems than in any previous edition of *Economics Today: The Micro View*. Additionally, instructors are now given the opportunity of assigning even-numbered problems as homework. Only the answers to odd-numbered problems are found in the back of the text. These serve as immediate reinforcement to students who work them out.

The complete step-by-step answer to every single problem is presented in the *Instructor's Resource Manual*.

ISSUES AND APPLICATIONS

Nothing makes students pay attention more than the real world. The *Issues and Applications* chosen to end each chapter bring the real world of economic applications to the student. They do this in a pedagogically complete manner. At the beginning of each *Issues and Applications* is a small section called *Concepts Applied*. This tells the student in advance which previously presented economic concepts will be demonstrated in the following issue or application.

At the end of each *Issues and Applications* the student is asked to answer two or three *critical thinking questions*. These questions cannot be answered simply yes or no, but require critical analysis. Suggested answers to those critical thinking questions are given in the *Instructor's Resource Manual*.

I have been careful to choose *Issues and Applications* to which I think students will respond. They are as follows:

- | | |
|--|---|
| ■ Economics: Learned Myopia? | ■ Where Have All the Small Airlines Gone? |
| ■ Matchmaking in High Style | ■ Competition in Action: Getting Rich Quick in the Stock Market |
| ■ National Service for Country and Community | ■ It's Hard to Keep a Monopoly |
| ■ Education's Dirty Little Secret | ■ Coke: It's the "Real Thing"—or Is It? |
| ■ The War on Drugs | ■ College Price Fixing |
| ■ Is the Demand for Crack Perfectly Inelastic? | ■ Singing the Sugar Blues |
| ■ The Diamond-Water Paradox | ■ The Controversy over Minimum Wages |
| ■ Salaries at the Top: How Much Is Too Much? | |

- Monopsony on the College Gridiron
- You've Hit the Jackpot—But How Big Is It?
- Welfare Policy Problems and Solutions
- Where There's Smoking, There's Fire
- 1992: The United States of North America Versus the United States of Europe
- Should We Worry About Foreign Trade Deficits?
- Malnutrition and Development
- Is the Great Experiment Over?

APPENDIXES

Two important appendixes are included in this edition. They are

- Appendix A "Reading and Working with Graphs"
- Appendix B "More Advanced Consumer Choice Theory"

Appendix B has its own summary and set of problems.

THE REST OF THE TEACHING/LEARNING PACKAGE

Economics Today: The Micro View has what is undoubtedly the largest and most complete supplemental package ever offered to principles of economics teachers.

STUDENT LEARNING GUIDE

Co-authored by Robert Pulsinelli of Western Kentucky University and myself, the *Student Learning Guide*, Seventh Edition, contains the following items for each text chapter: a set of learning objectives, an overview of chapter contents and main points, a list of key terms, approximately 15 completion questions, 15 true-false questions, 15 multiple-choice questions, about 5 problems and essay questions, and 5 homework problems. Answers to all of the short-answer questions are given at the back of the study guide; answers to all of the longer-answer problems are provided in the *Instructor's Resource Manual*.

Students appreciate finding the answers to short questions at the end of each chapter. Also, instructors can assign the additional issues and applications that are included in the *Student Learning Guide* when desired. Finally, in this edition, there are special sections on taking class notes, outlining, summarizing, studying, and taking examinations.

YOUR ECONOMIC LIFE: THE PRACTICAL APPLICATIONS OF ECONOMICS

New copies of *Economics Today: The Micro View*, Seventh Edition, can be optionally shrink wrapped with a free copy of a booklet for students titled *Your Economic Life: The Practical Applications of Economics*, written by me. My goal was to give students a motivating essay on the value of studying economics that they could keep and use later on. It shows them the applica-

tion of economic analysis to everyday living, whether it be understanding economic references they read or hear in the media or deciding whether to buy or rent a house.

TEST BANKS 1 AND 2

A total of nearly 5,000 multiple-choice questions is now available in two separate test banks.

Test Bank 1 has been revised by Maureen Burton of California State Polytechnic University–Pomona. Test Bank 2, a totally new bank, is by Clark G. Ross of Davidson College. These test banks include questions at all levels. Approximately one-third of the questions are definitional, involving recognition and memorization. Approximately one-third of the questions are conceptual, and the remaining third deal with applications.

COMPUTERIZED TESTING SERVICE

HarperTest, the undisputed leader in computerized testing programs, is available for both Test Banks 1 and 2. HarperTest permits the flexibility of using the entire bank, selecting certain questions, adding your own questions, or all of these options. HarperTest is available for IBM PC, Macintosh, and compatibles. It also now includes the ability to use graphics.

INSTRUCTOR'S RESOURCE MANUAL

This manual was prepared by Andrew Dane of Angelo State University. For each chapter, the instructor is provided with a chapter overview; lecture notes; sections titled "For Those Who Wish to Stress Theory"; answers to the questions that appear at the end of each *Issues and Applications* section; further questions for class discussion or essay tests; a list of selected references, films, and videos; and full answers to all problems and essay questions in the *Student Learning Guide*. A computerized version of the *Instructor's Resource Manual* is available on disk in ASCII format and can be coded for any IBM PC or compatible or Macintosh. It can also be modified to your specifications so you can customize your lectures and use of the manual.

DISCUSSION SECTION GUIDE

This manual for discussion section leaders adapt the content of the *Student Learning Guide* for use in group discussions. It provides guiding objectives for student comprehension of this material.

LOTS: LECTURE OUTLINE AND TRANSPARENCY SYSTEM

This is a new teaching tool also prepared by Andrew Dane of Angelo State University. Issued in a looseleaf, large-print format, it consists of nearly 500 sheets of topic outlines, illustrations and key tables from the text, problem solutions, and schematic diagrams for presenting economic concepts in lec-

tures or to use as masters for projecting them as overhead transparencies. This unusual new kind of support for instructors also assists students in their note taking for fuller comprehension of the subject.

FULL-COLOR ACETATES

In addition to all of the transparencies that can be made from LOTS (see above), over 100 of the most important graphs in the text are reproduced as full-color transparencies with expanded type for easy reading in large classrooms. Since all of the graph lines are color-keyed consistently, use of these acetates will greatly aid the student in understanding key graphic materials.

COMPUTER SOFTWARE FOR THE STUDENT

This edition of *Economics Today: The Micro View* contains a large number of separate computerized teaching devices. Instructors now have a choice.

ET7 Computer-Assisted Instruction

This diskette supersedes the well-received ET6 Disk that was originally developed by Robert W. Pulsinelli. Professor Dan Benjamin of Clemson University has expanded the number of chapters covered over the last edition. Students will find augmented discussions of key points within each chapter, expanded explanations, and motivational sound effects. *Computer-Assisted Instruction* problems are found on two separate diskettes, both free to adopters.

Graphing Tutorial

This new *Graphing Tutorial* developed by me and Bill Compton takes students step-by-step through the process of learning how to understand and manipulate graphs. The diskette is free to adopters.

Micro Tutorial

A selected number of important, but sometimes difficult, concepts are presented in the numerous lessons in this micro-tutorial diskette. Topics included are supply and demand, elasticity, marginal cost/marginal revenue, perfect competition, monopoly, and oligopoly. Free to adopters.

VIDEOCASSETTE SERIES ON CONTEMPORARY ECONOMIC PROBLEMS

Adopters can receive free up to ten contemporary videocassettes accompanied by printed teaching notes that give points for critical-thinking discussions after the videocassettes are viewed. Three general areas are covered:

- Converging Economic Systems
- International and Global Economics in the 1990s
- Environmental Concerns for the 1990s and Beyond

Each videocassette is approximately 15 minutes long and consists of a panel discussion that I moderate. These free videos can be used to augment your classroom presentation and to stimulate student interest in the application of economics to pressing world problems. Other videos may be obtained for use with this edition. For further information, contact your local Harper-Collins representative.

ECONOMICS TODAY NEWSLETTER

Each semester, I will prepare a newsletter that instructors may obtain in quantity for use in class. At a minimum, each newsletter will cover one new macroeconomic issue or application and one new microeconomic issue or application. Additionally, there will be teaching hints and any important new empirical data or theoretical augmentations of information already in the text.

THE INTEGRATOR AND MEDIA HANDBOOK

This pocket-sized reference guide keys every chapter's teaching and learning aids to the text. Additionally, films and videos that are appropriate to each chapter are listed and annotated.

ACKNOWLEDGMENTS

The first edition of *Economics Today* was published in 1971. Prior to that edition and since, I have received a tremendous amount of help from numerous reviewers, each of whom has added to the continuing usability and success of this text. Below I list the major reviewers alphabetically for the first six editions.

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THE SEVENTH EDITION

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Because I planned a truly major revision of this text several years ago, the development of this edition started nearly a year earlier than usual. Since then, my long-time editor, John Greenman, has served as a source of advice, inspiration, and enthusiasm. It is hard for me to thank him enough for the excellence he has brought to this project. My developmental editor, Kate Aker, worked tirelessly throughout the many phases of the manuscript's evolution. She is also responsible for choosing the photographs and helping develop the captions for them. My research assistants, Bayo Adedeji and Jamie Price, helped with data collection and problem solving. Special thanks go to Professors Daniel K. Benjamin, Clemson University; Robert W. Pulinelli, Western Kentucky University; and Todd Idson, University of Miami, for their detailed analyses of specific sections of the manuscript. Expert typing was cheerfully undertaken by Sue Jasin, and additional expert proofreading was provided by Eric Hollowell. I wish to thank Bruce Emmer of Parallax International for his superb copy editing; Dr. Willard W. Radell for masterfully checking every single graph; Michael Mendelsohn and his staff at M'N'O Production Services, Inc., who put up with my endless demands for increased precision in the graphs; and Donna DeBenedictis and Karen Dubno, the project editors who masterminded the production process for many months.

It goes without saying that all remaining errors are, of course, my responsibility. If you or your students discover any, please let me know ASAP. If you or your students have comments, criticisms, or ideas about how the text can be improved in future editions, please write to me directly. I have strong ideas about how economics should be taught, but those ideas can be, and have been, tempered by the needs of the ultimate users of this text. I can promise you that I will respond to each and every letter I receive.

R. L. M.

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