Microeconomic Decisions

Meyer

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To my wife,
Donna Jean (alias "H. Bear")

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Preface

This text emphasizes the development of microeconomic theory with a view to its applications. The subject is approached both analytically and empirically to use effectively the complementary qualities of microeconomic theory and practical research in an essentially information-building manner. Microeconomic methods are tools for analyzing the types of economic problems arising for producers, suppliers, or consumers. The solutions to problems like pricing, production, investment, inventory control, consumption versus saving, portfolio selection of liability as well as asset composition, and public utility regulation lie at the heart of our interest. Because each new problem one encounters is slightly different from its predecessors, we will isolate the basic common features of decision problems and learn to use them to solve a specific problem. The analysis of such contemporary issues as pollution abatement, rationing of commodities (e.g., gasoline or food), and price/wage/profit limitations brings the usefulness of microeconomic methods into sharper focus.

Empirical studies of market structure and market performance, examples of preference measurement and its application, and capital budgeting and financial decisions add a concreteness to theoretical concepts. Numerical examples illustrate topics like choosing investment projects, evaluating tax benefit effects, and choosing debt or equity financing alternatives. To support the discussion of the formal basis for such concepts as demand and cost, the text includes numerous examples that highlight the importance of problems

of economic measurement. Measurement is the key bridge linking the world of models and theory to actual events.

The chapter on linear programming develops many of its key points through a sequence of examples. Although the chapter focuses on the problem-solving ability of the linear programming method using only algebra and diagrams, a detailed appendix illustrates a simple vehicle for organizing, solving, and interpreting problems that cannot be visualized. Problem solving, rather than theory alone, is again the central theme.

Uncertainty is a pervasive characteristic of reality often ignored in microeconomics texts. This aversion is quite understandable—even relatively simple expositions require some probability concepts to which students may not have been exposed. Since uncertainty is an important factor in evaluating alternative policy proposals I have included at the end of most chapters a section that extends discussions into the realm of uncertainty. These sections are marked with an asterisk and may be omitted if student background and/or time prohibit their inclusion. The relevance of uncertainty to actual decision settings and my feeling that the area of uncertainty promises a rich and useful extension of knowledge are the chief reasons for including these sections.

Within each chapter the level of difficulty proceeds from basic concepts through simple applications and then to more difficult material. The broad span in the level of difficulty allows the text to be tailored to the students' background and the instructor's objectives.

The sequence of the chapters is a pattern that has proved its effectiveness. The content of each chapter reflects a balance of emphasis that emerged over the years from the undergraduate microeconomics courses I supervised at Purdue University and the University of California, Berkeley, and the courses I have taught while at Berkeley.

Courses in the principles of economics and college algebra are the prerequisites to an intermediate microeconomics course. The text presents all basic material in verbal, diagrammatic, and algebraic form to heighten clarity. Diagrams are used extensively to illustrate ideas, but the use of diagrams can imply too much. Therefore, footnotes contain precise restatements of technical details and mathematical versions of arguments. The inclusion of such footnote material again provides a text that can be used at several levels.

Questions at the end of each chapter suggest extensions and additional work that may be used for term papers and/or class discussions. The author's workbook *Problems in Price Theory* offers a further variety of problem sets on tear-out pages that can be selected individually for homework, examinations, and self-test quizzes. An instructor's manual with all solutions is available with the workbook.

Every author knows the heavy debt of gratitude he owes to those who first taught him and to his friends and colleagues who have provided the stimulus for learning as a way of life. For my wife, Donna Jean, a brief

acknowledgment is a small token for her encouragement, support and for her willingness to undertake the mammoth job of typing several manuscript revisions. Revisions benefited from comments by M. O. Clement, D. MacFarlane, G. H. Mellish and K. Rethwisch. In addition, I would like to express a special thanks to R. E. Kuenne, Roland Artle, C. A. Knox Lovell, R. D. Peterson, Paul Kohne, and Joseph C. Gallo for their extensive help.

R. A. M.

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