

A · N · N · U · A · L E · D · I · T · I · O · N · S

MICROECONOMICS

98/99



● ANNOTATED WORLD WIDE WEB SITES NOW INCLUDED IN THIS BOOK

The Annual Editions Series

ANNUAL EDITIONS, including GLOBAL STUDIES, consist of over 70 volumes designed to provide the reader with convenient, low-cost access to a wide range of current, carefully selected articles from some of the most important magazines, newspapers, and journals published today. ANNUAL EDITIONS are updated on an annual basis through a continuous monitoring of over 300 periodical sources. All ANNUAL EDITIONS have a number of features that are designed to make them particularly useful, including topic guides, annotated tables of contents, unit overviews, and indexes. For the teacher using ANNUAL EDITIONS in the classroom, an Instructor's Resource Guide with test questions is available for each volume. GLOBAL STUDIES titles provide comprehensive background information and selected world press articles on the regions and countries of the world.

VOLUMES AVAILABLE

ANNUAL EDITIONS

Abnormal Psychology
Accounting
Adolescent Psychology
Aging
American Foreign Policy
American Government
American History, Pre-Civil War
American History, Post-Civil War
American Public Policy
Anthropology
Archaeology
Astronomy
Biopsychology
Business Ethics
Child Growth and Development
Comparative Politics
Computers in Education
Computers in Society
Criminal Justice
Criminology
Developing World
Deviant Behavior
Drugs, Society, and Behavior
Dying, Death, and Bereavement
Early Childhood Education

Economics
Educating Exceptional Children
Education
Educational Psychology
Environment
Geography
Geology
Global Issues
Health
Human Development
Human Resources
Human Sexuality
International Business
Macroeconomics
Management
Marketing
Marriage and Family
Mass Media
Microeconomics
Multicultural Education
Nutrition
Personal Growth and Behavior
Physical Anthropology
Psychology
Public Administration
Race and Ethnic Relations

Social Problems
Social Psychology
Sociology
State and Local Government
Teaching English as a Second Language
Urban Society
Violence and Terrorism
Western Civilization, Pre-Reformation
Western Civilization, Post-Reformation
Women's Health
World History, Pre-Modern
World History, Modern
World Politics

GLOBAL STUDIES

Africa
China
India and South Asia
Japan and the Pacific Rim
Latin America
Middle East
Russia, the Eurasian Republics, and Central/Eastern Europe
Western Europe



Cataloging in Publication Data

Main entry under title: Annual editions: Microeconomics. 1998/99.

1. Microeconomics—Periodicals. I. Cole, Don, comp. II. Title: Microeconomics.

ISBN 0-697-39300-3

330'.05

© 1998 by Dushkin/McGraw-Hill, Guilford, CT 06437, A Division of The McGraw-Hill Companies.

Copyright law prohibits the reproduction, storage, or transmission in any form by any means of any portion of this publication without the express written permission of Dushkin/McGraw-Hill, and of the copyright holder (if different) of the part of the publication to be reproduced. The Guidelines for Classroom Copying endorsed by Congress explicitly state that unauthorized copying may not be used to create, to replace, or to substitute for anthologies, compilations, or collective works.

Annual Editions® is a Registered Trademark of Dushkin/McGraw-Hill, A Division of The McGraw-Hill Companies.

Fourth Edition

Cover image © 1996 PhotoDisc, Inc.

Printed in the United States of America

Printed on Recycled Paper



Editors/Advisory Board

Members of the Advisory Board are instrumental in the final selection of articles for each edition of ANNUAL EDITIONS. Their review of articles for content, level, currentness, and appropriateness provides critical direction to the editor and staff. We think that you will find their careful consideration well reflected in this volume.

EDITOR

Don Cole
Drew University

ADVISORY BOARD

Sarah J. Bumgarner
University of North Carolina

Eleanor D. Craig
University of Delaware

Fritz W. Efaw
University of Tennessee

Lawrence Frateschi
College of DuPage

Paul F. Haas
Bowling Green State University

Stephen K. Happel
Arizona State University

David R. Kamerschen
University of Georgia

Mehrdad Madresehee
Lycoming College

Matthew R. Marlin
Duquesne University

Joseph W. Meador
Northeastern University

Daniel Mizak
Frostburg State University

Marshall D. Nickles
Pepperdine University

Sandra J. Odorzynski
St. Norbert College

Arthur J. Raymond
Muhlenberg College

Rolando A. Santos
Lakeland Community College

Robert Yentzer
Essex Community College

David B. Yerger
Lycoming College

Staff

Ian A. Nielsen, Publisher

EDITORIAL STAFF

Roberta Monaco, Developmental Editor
Dorothy Fink, Associate Developmental Editor
Addie Raucci, Administrative Editor
Cheryl Greenleaf, Permissions Editor
Deanna Herrschaft, Permissions Assistant
Diane Barker, Proofreader
Lisa Holmes-Doebrick, Program Coordinator

PRODUCTION STAFF

Brenda S. Filley, Production Manager
Charles Vitelli, Designer
Shawn Callahan, Graphics
Lara M. Johnson, Graphics
Laura Levine, Graphics
Mike Campbell, Graphics
Joseph Offredi, Graphics
Juliana Arbo, Typesetting Supervisor
Jane Jaegersen, Typesetter
Marie Lazauskas, Word Processor
Kathleen D'Amico, Word Processor
Larry Killian, Copier Coordinator

To the Reader

In publishing ANNUAL EDITIONS we recognize the enormous role played by the magazines, newspapers, and journals of the *public press* in providing current, first-rate educational information in a broad spectrum of interest areas. Many of these articles are appropriate for students, researchers, and professionals seeking accurate, current material to help bridge the gap between principles and theories and the real world. These articles, however, become more useful for study when those of lasting value are *carefully collected, organized, indexed, and reproduced* in a *low-cost format*, which provides easy and permanent access when the material is needed. That is the role played by ANNUAL EDITIONS. Under the direction of each volume's *academic editor*, who is an expert in the subject area, and with the guidance of an *Advisory Board*, each year we seek to provide in each ANNUAL EDITION a current, well-balanced, carefully selected collection of the best of the public press for your study and enjoyment. We think that you will find this volume useful, and we hope that you will take a moment to let us know what you think.

Annual Editions: *Microeconomics 98/99* is an anthology that provides up-to-date readings in contemporary microeconomic issues. In view of the recent explosion of interest in economics, it is essential that students are given opportunities to observe how economic science can help them to understand major economic events in the real world. *Annual Editions: Microeconomics 98/99* is designed to meet this need.

This anthology is divided into five sections, which generally correspond to the typical sequence of topics in microeconomics textbooks:

Introduction to Microeconomics. Microeconomics studies the way in which market values are established through the interaction of consumers (households) and producers (businesses). As articles in this section indicate, microeconomic reasoning can be applied to a vast assortment of real world problems.

Competition in Product Markets. A firm's decisions about price and output will depend upon the nature of the industry in which it is operating. Economists develop models that demonstrate how markets are structured in a range between *perfect competition* (numerous small, price-taking firms) to *pure monopoly* (a single, price-making seller). As this section indicates, most real world markets lie somewhere between these two extremes, where many pressing issues involving the competitive behavior of firms can be found.

Labor Markets and Unions. This section discusses the ways in which labor markets work and the influence of unionization on them. Among the issues raised are: What do businesses owe their

workers? What do unions do for their members? Is increased worker participation the key to improving American productivity?

Market Failures and Public Microeconomics. Every market economy has certain shortcomings that might necessitate government action to modify its operation. This section deals with such questions as: Has the deregulation of industry gone too far, or not far enough? Should public services be contracted out to private firms? How might market forces be used to protect the environment?

Income Distribution and Economic Justice. Questions raised in this section include: What explains the rise in U.S. income inequality over the past two decades? Why does poverty affect women more than men and children more than adults? Is federal welfare reform working?

Whether you are someone who is currently pursuing studies in economics, or just a casual reader eager to learn more about some of the major economic issues of the day, you will find *Annual Editions: Microeconomics 98/99* to be one of the most useful and up-to-date anthologies available. Your input can be valuable for the next edition. Please offer your opinions by filling out and returning to us the postage-paid article rating form on the last page of this book.



Don Cole
Editor

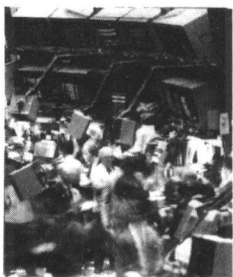
UNIT 1



Introduction to Micro-economics

The five articles in this section examine some of the common economic choices made by individuals and firms as they react to the dynamics of society.

UNIT 2



Competition in Product Markets

The eleven articles in this section discuss the concept of the market in the American economy. Some of the topics include competition, the effects of international markets on our economy, and corporate restructuring.

To the Reader	iv
Topic Guide	2
Selected World Wide Web Sites	4

Overview	6
----------	---

1. **How Much for a Life? Try \$3 Million to \$5 Million**, Peter Passell, *New York Times*, January 29, 1995. 8
A great deal of economic reasoning is based on the *opportunity cost* principle—the idea that any decision involving scarce resources must involve costs in terms of *forgone alternatives* elsewhere. Peter Passell applies this principle to an age-old question: What is the value of human life?
2. **"Does Prison Pay?" Revisited: Returning to the Crime Scene**, Anne Morrison Piehl and John J. Dilulio Jr., *The Brookings Review*, Winter 1995. 11
Economists frequently employ *cost-benefit analysis* for the purpose of assessing the relative merits of public projects. Anne Morrison Piehl and John Dilulio conduct a study of New Jersey correctional institutes in order to determine whether they "cost too much" or "protect too little."
3. **Economics Is Climbing into the Trenches and the Real World**, Peter Passell, *New York Times*, December 26, 1996. 16
Solutions to the pressing economic problems of the present day are hard to come by. *Has the reach of economists exceeded their grasp?* The author shows why economists probably have more useful things to say today about the real world than they have since the early nineteenth century.
4. **The Embarrassment of Economics**, Robert Heilbroner, *Challenge*, November/December 1996. 18
Is a "value-free" economics possible? Robert Heilbroner argues that economics can never be without some expression (however unconscious) of the values that the analyst attaches to the matters that he or she is analyzing.
5. **How to Find It on the Internet**, James Aley, *Fortune*, June 12, 1995. 22
A vast and *growing trove of online information* is available to track the world economy. James Aley shows how the *Internet* can be used to find it.

Overview	24
----------	----

A. GENERAL CONCEPTS

6. **Why You Can't Tell What Things Cost**, David J. Morrow, *New York Times*, March 2, 1997. 26
The traditional *laws of supply and demand* once imposed a semblance of order and clarity on prices. Yet, as David Morrow explains, today they are being so haphazardly amended by technological changes and new marketing techniques that the American marketplace now offers all the certainty of a foreign bazaar.
7. **Two-Tier Marketing**, *Business Week*, March 17, 1997. 28
In recent years a dramatic shift has occurred in the way that consumer goods are designed, advertised, and sold. Although they still account for about 40 percent of the U.S. population, *middle-class households* have declined in importance as the income gap has widened. This report addresses the new strategies businesses use to appeal to both the lower and upper ends of the income spectrum.

8. **Is Big Really Bad?** Alan R. Winger, *Business Economics*, July 1994. 33
The highly visible problems faced by many megacorporations in recent years have led some people to conclude that a radical transformation of the structure of the U.S. economy is under way, dramatically reducing *the role of the big firm*. Alan Winger examines this possibility.
9. **Multinationals: The "Who Is Us" Debate**, Daniel F. Burton Jr., Erich Bloch, and Mark S. Mahaney, *Challenge*, September/October 1994. 38
American corporations have become so globalized in terms of where they manufacture and conduct research that they *are no longer truly American*. At the same time, foreign-owned U.S. subsidiaries are becoming larger and larger contributors to the U.S. economy. The authors consider the implications of these developments for public policy.
10. **Taking the Initiative on Stakeholder Rights**, Richard J. Mahoney, *Business and Society Review*, Number 97, 1996. 43
Should corporations attempt to balance the interests of shareholders against those of employees and communities? Richard Mahoney argues that businesses *should act on behalf of all stakeholders* before the government requires that they do so.

B. CASE STUDIES

11. **As Price Supports Fade, Family Dairy Farms Dwindle**, Kit R. Roane, *New York Times*, March 2, 1997. 48
Federal price support guarantees for butter, powdered milk, and cheese will be phased out by the year 2002. This move, combined with the government's decision to stop stockpiling these items, has led to wild gyrations in milk prices at a time when the cost of producing milk continues to rise. Kit Roane considers the *implications* of these developments *for the dairy industry*.
12. **Regional Differences in the Economic Impact of Wal-Mart**, Nora Ganim Barnes, Allison Connell, Lisa Hermenegildo, and Lucinda Mattson, *Business Horizons*, July/August 1996. 50
The Wal-Mart chain of *discount merchandising* stores has surged past all other competitors to become the largest U.S. retailer in net sales. This report discusses the strategies Wal-Mart used to gain this position and the economic impact of such strategies on different parts of the country.
13. **Record-Store Shakeout Rocks Music Industry**, Jeffrey A. Trachtenberg and Eben Shapiro, *Wall Street Journal*, February 26, 1996. 55
In recent years the music industry has been shaken by *widespread closings of retail music stores*. New ways of buying music have emerged, as customers order music over the phone or browse the Internet. The authors consider implications of these developments for the future of the industry.
14. **The Coming Car Crash: Global Pile-Up**, *The Economist*, May 10, 1997. 57
The automobile industry, source of the world's largest manufacturing activity, presently confronts serious problems of excess capacity. Pressures to bring supply into line with demand could drive one or more firms out of business or produce several capacity-cutting mergers.
15. **From Major to Minor**, *The Economist*, May 18, 1996. 60
The oil industry depends on finding new and profitable reserves for its survival. According to *The Economist*, the world's major petroleum producers are engaged in an increasingly desperate scramble for giant, low-cost oil fields.

UNIT 3



Labor Markets and Unions

Twelve selections in this section examine the current state of labor and unions. Some of the topics include the state of unionism, the impact of technology on labor, and a review of the workforce in other parts of the world.

16. **Electricity Deregulation and the Consumer**, *Resources*, Winter 1997. 62

Traditionally, *electric utilities* have received government protection against competition in exchange for state regulation of their rates and the quality of their service. This essay examines possible consequences of industry deregulation for utility companies, their customers, and the environment.

Overview 66

A. GENERAL CONCEPTS

17. **Does America Still Work? On the Turbulent Energies of the New Capitalism**, Paul Tough et al., *Harper's*, May 1996. 68

What do business corporations owe their workers? Should financial markets adopt a code of ethics? Is it possible to negotiate a merger between the dream of unbridled profit and the hope of a just society? A panel of experts debate the nature of the "*new capitalism*."

18. **Overworked and Underemployed**, Barry Bluestone and Stephen Rose, *The American Prospect*, March/April 1997. 81

At least since the 1980s people have said that they work "too hard"—that they are spending too much time on the job, with too little left for family, chores, or leisure. At the same time there has been a marked increase in part-time work by those who cannot find full-time work. Can Americans simultaneously be "*overworked*" and "*underemployed*"? Barry Bluestone and Stephen Rose investigate this apparent paradox.

19. **Labor Market Models in Europe and America—and Unhappiness with Both**, Roy B. Helfgott, *Business Horizons*, March/April 1996. 92

Recently, a number of the world's leading developed countries have experienced poor rates of economic growth and high levels of unemployment. Roy Helfgott contrasts labor market conditions in Europe and the United States. Improvements in wages and job opportunities will *require different types of reform* in different countries.

20. **Collapsing Wages and Rising Inequality: Has Computerization Shifted the Demand for Skills?** David R. Howell, *Challenge*, January/February 1995. 100

Are falling real wages and sharp increases in earnings inequality the result of a technology-induced "skill-mismatch"? The prevailing view is that *labor demand has shifted away from low-skill workers*—due in large part to computerization. David Howell takes issue with this view.

21. **Unemployment Insurance for a New Age**, Oren Levin-Waldman, *Challenge*, March/April 1997. 109

The proportion of those unemployed longer than 26 weeks has risen rapidly during the 1980s and 1990s. Oren Levin-Waldman suggests that a *two-tiered unemployment insurance system* could reduce short-term unemployment and better match the long-term unemployed to suitable jobs.

22. **Reinventing the Corporation**, Roger E. Alcala, *The New York Review of Books*, April 10, 1997. 115

Roger Alcala demonstrates that employees tend to be happier, more productive, and better paid under collaborative or *participatory work arrangements*. The fact that such arrangements are often difficult to carry out may explain why many firms, contrary to their long-term interests, have relied instead on cost-cutting measures such as downsizing and outsourcing.

UNIT 4



Market Failures and Public Microeconomics

Twelve articles in this section examine the current state of product and market failures. Some of the topics include the impact of deregulation, market forces on the environment, and the effect OSHA has on the workplace.

23. **Toward a More Perfect Union: New Labor's Hard Road,** 123
Richard Rothstein, *The American Prospect*, May/June 1996.
In 1954 *labor unions* represented 39 percent of private-sector workers. By 1973, when wages began to stagnate, union share had fallen to 28 percent. Today it is barely 10 percent. Richard Rothstein examines what labor needs to do in order to reverse this process.
24. **What Do Unions Do for Women?** Heidi Hartmann, Roberta Spalter-Roth, and Nancy Collins, *Challenge*, July/August 1994. 130
This report asserts that *unions need women to be trained in leadership positions*. And women need to be actively involved in determining issues and formulating organizing and bargaining strategies.
25. **The New Economics of Immigration,** George J. Borjas, *The Atlantic Monthly*, November 1996. 138
The United States is on the verge of another *great debate over immigration*. Economic factors by themselves should not and will not decide the outcome of this debate. But, as George Borjas demonstrates, economics helps us to understand who wins and who loses in the immigration process.

B. CASE STUDIES

26. **Overlooking Outsourcing: Union Wage Vulnerability and the UAW-Big Three Contracts,** Jane Slaughter, *Multinational Monitor*, December 1996. 144
Outsourcing—the subcontracting of parts production, usually to lower-wage and nonunion manufacturers—represents a sore spot in relations between the United Auto Workers and the Big Three U.S. automakers. Jane Slaughter investigates how this restrains the union's ability to hold back automaker demands for lower labor costs.
27. **Flying into Trouble,** S.C. Gwynne, *Time*, February 24, 1997. 148
In a widely publicized campaign to cut costs, *U.S. airlines* asked for—and got—huge concessions from their employees to help them through hard times. It appears that cost-cutting efforts have paid off and left the companies *flush with cash*. Tensions are now escalating as employees insist on sharing the airlines' good fortunes.
28. **Workers De-Compensation: Benefits Evaporate for Repetitive Stress Sufferers,** Kimberly Patch, *Dollars and Sense*, January/February 1997. 151
As many as one million American workers are afflicted annually by *repetitive strain injury*. Over the past decade state legislatures have scaled back *workers' compensation benefits*, often at the behest of insurance companies eager to cut costs. Kimberly Patch considers the implications of this for those who suffer from such a condition.

Overview 156

29. **Everything for Sale,** Robert Kuttner, *Business Week*, March 17, 1997. 158
In this excerpt from his new book, *Everything for Sale*, Robert Kuttner argues that market forces by themselves are insufficient. He explains how a *mixed economy*, combining competition with some form of government oversight, works better than a pure market economy.
30. **Staking Out the High Ground on Government Regulation of Business,** Murray Weidenbaum, *Business and Society Review*, Number 96, 1996. 161
The American public has a genuine desire for a cleaner environment, a healthier workplace, and safer products—all of which involve some degree of *government regulation of business*. Murray Weidenbaum asks: What can be done to improve such regulation?

31. **New Antitrust Rules May Ease Path to Mergers**, John R. Wilke, *Wall Street Journal*, April 9, 1997. 165
Recent changes bring U.S. *antitrust guidelines closer to those of Europe and Canada* and should help U.S. companies compete abroad on a more even footing. The rules come in the midst of a huge merger wave, with the number of deals more than doubling in the last 5 years.
32. **The Law as the Free Market's Rogue: Hostage to the Prisoner's Dilemma**, Peter Passell, *New York Times*, March 25, 1994. 167
Competitive markets sometimes fail to produce efficient outcomes. Peter Passell notes that the market for legal services fails in a particularly perverse and fascinating way, known as *the prisoner's dilemma*.
33. **Congested Parks—A Pricing Dilemma**, Dan M. Bechter, *Monthly Review (Federal Reserve Bank of Kansas City)*, June 1971. 170
Overcrowding at public parks creates a *classic microeconomic dilemma*: outdoor recreationists face insufficient parking space, which must be allocated through adjusting park fees. This article investigates possible solutions to this problem.
34. **Drug Legalization? Time for a Real Debate**, Paul B. Stares, *The Brookings Review*, Spring 1996. 176
Concern is mounting that a large wave of teenagers—the group most at risk from using illicit drugs—will crest around the turn of the century, and that this will be accompanied by a new surge in drug use. Paul Stares says the time has come for a real debate over the *pros and cons of drug legalization*.
35. **Reduced H.M.O. Fees Cause Concern about Patient Care**, Elisabeth Rosenthal, *New York Times*, November 25, 1996. 180
Health maintenance organizations are radically changing the way that they pay physicians and have begun to reduce reimbursements. Although patients may be unaware of this development, doctors and medical experts warn that the quality of care will suffer, particularly care provided to the seriously ill.
36. **How Uncle Sam Could Ease the Organ Shortage**, Gary S. Becker, *Business Week*, January 20, 1997. 184
Recent improvements in the safety and effectiveness of liver, heart, and kidney transplants have induced rapid growth in the demand for organs, which now far exceeds the supply. Gary Becker proposes a scheme for reducing such shortages by having the federal government offer *incentives* to induce more people to allow their organs to be used for transplants after they die.
37. **The Free Market for Clean Air**, David B. Webster, *Business and Society Review*, Summer 1994. 186
Recent amendments to the Clean Air Act of 1990 allow companies to buy and sell the right to pollute. *Pollution trading* has the potential to help society decide how much pollution we are willing to live with, and who will pay the cost of reducing it. But, as David Webster demonstrates, it is not a panacea.
38. **Acid-Rain Pollution Credits Are Not Enticing Utilities**, Matthew L. Wald, *New York Times*, June 5, 1995. 190
Matthew Wald traces development in the *market for pollution trading rights* over the past five years. In order for a free-market system for controlling emissions to work, major changes in both standards and attitudes are needed.

UNIT 5



Income Distribution and Economic Justice

The ten selections in this section consider the dynamics of income distribution. Topics include American income inequality, the economic strain on the middle class, and problems with the welfare system.

39. **Evidence for a Modest Impact from Abolishing Rent Controls**, Peter Passell, *New York Times*, May 22, 1997. 192
Rent controls tend to create artificial "shadow markets" for apartments at greatly inflated rents. Peter Passell describes a plan to allow prices to equate supply and demand very quickly, but with minimal disruption to the lives of existing tenants.
40. **The Minimum Wage Is Unfair**, Rob Norton, *Fortune*, May 27, 1996. 193
The debate over the *minimum wage* so far has been about whether or not it destroys jobs and whether or not it helps the poor. Rob Norton suggests that there is another way to think about it.

Overview 194

41. **Inequality in the United States**, Brian Motley, *FRBSF Economic Letter* (Federal Reserve Bank of San Francisco), January 31, 1997. 196
For the better part of three decades, the *gap in earning between rich and poor Americans* has increased steadily. While it is true that many persons move up (and down) the income scale over their lifetimes, there is no clear evidence that mobility has improved as income inequality has increased.
42. **The Inequality Express**, Barry Bluestone, *The American Prospect*, Winter 1995. 200
In recent years the gap in earnings between the well-educated and not-so-well educated has increased steadily, while the real standard of living for a large portion of the workforce has sharply declined. Barry Bluestone surveys *the major reasons for these trends in income distribution*.
43. **The State of the Poor**, *Challenge*, November/December 1996. 208
Some economists maintain that, since poverty is a relative matter, many of the poor are not faring as badly as we might think. Using information on family expenditures, home ownership, and health care, this essay demonstrates *what it really means to be poor in America*.
44. **Reinventing Welfare . . . Again: The Latest Version of Reform Needs a Tune-Up**, Gary Burtless and Kent Weaver, *The Brookings Review*, Winter 1997. 210
According to President Clinton, one goal of the 1996 Personal Responsibility and Work Opportunity Act was to "*end welfare as we know it*." The new law replaces Aid to Families with Dependent Children with federal block grants as an incentive to get state governments to implement new work programs. Gary Burtless and Kent Weaver expose some of the major problems that this approach entails.
45. **Welfare Recipients Taking Jobs Often Held by the Working Poor**, Louis Uchitelle, *New York Times*, April 1, 1997. 214
Across America thousands of people on welfare are going to work, but often not at new jobs created for them, as the new *welfare-to-work* legislation envisioned. Instead, many are taking jobs once held by regular employees. Louis Uchitelle demonstrates how this is happening.
46. **Corporate Welfare Remains Unchecked**, Doug Bandow, *Business and Society Review*, Number 97, 1996. 217
Welfare reform is a term generally applied to changing the system through which poor people receive government aid. While sharp cutbacks are being made in this form of federal assistance, another sort of subsidy (known as *corporate welfare*) is expanding rapidly. Doug Bandow describes the many ways in which businesses benefit from government largesse at public expense.

47. The Myths of Charity , <i>U.S. News & World Report</i> , January 16, 1995.	221
The idea that <i>charities</i> could pick up all or even most of the slack from cuts in federal social programs is rooted in two myths: that charities provide a private social safety net and that a golden age of charity can be rekindled.	
48. Social Security on the Table , Joseph F. Quinn and Olivia S. Mitchell, <i>The American Prospect</i> , May/June 1996.	223
With the <i>U.S. Social Security system</i> under attack from many quarters, Joseph Quinn and Olivia Mitchell ask: What are the goals of this program? How well has it met these goals in the past, and can it do so in the future? And is privatization of the system desirable or necessary?	
49. Are Black Diplomas Worth Less? Martin Carnoy and Richard Rothstein, <i>The American Prospect</i> , January/February 1997.	229
In the last two decades, the <i>educational qualifications gap</i> between white and minority workers has narrowed sharply, while—just as dramatically—the <i>wage gap</i> has grown. Wage disparities between whites and minorities have grown at all levels of educational attainment. The authors consider remedies for these inequities.	
50. Balancing Competition and Cooperation , Lane Kenworthy, <i>Challenge</i> , July/August 1996.	233
Since the days of Adam Smith, it has been widely believed that national economic success is largely a product of <i>market competition</i> . But this is only half the story, according to Lane Kenworthy. Economies succeed when their institutional framework offers incentives for individuals and organizations to engage consistently in productive activity, and this requires <i>cooperation</i> .	
Index	241
Article Review Form	244
Article Rating Form	245

MICROECONOMICS

98/99

Fourth Edition



Editor

Don Cole

Drew University

Don Cole, Professor of Economics at Drew University, received his Ph.D. from Ohio State University. He has served as consultant to a variety of public and private organizations, and is cofounder of the Drew University Semester on the European Union in Brussels, Belgium. An innovator in the use of computer-assisted instruction in economics, Dr. Cole is the author of articles on various subjects, including economic policy, monetary theory, and economic education. He is also the editor of other Dushkin/McGraw-Hill publications, including *The Encyclopedia Dictionary of Economics* and two other Annual Editions anthologies, *Economics* and *Macroeconomics*.

Annual Editions

A Library of Information from the Public Press

Dushkin/McGraw-Hill

Sluice Dock, Guilford, Connecticut 06437

Visit us on the Internet—<http://www.dushkin.com/>

Topic Guide

This topic guide suggests how the selections in this book relate to topics of traditional concern to students and professionals involved in the study of microeconomics. It is useful for locating interrelated articles for reading and research. The guide is arranged alphabetically according to topic. Articles may, of course, treat topics that do not appear in the topic guide. In turn, entries in the topic guide do not necessarily constitute a comprehensive listing of all the contents of each selection.

TOPIC AREA	TREATED IN	TOPIC AREA	TREATED IN
Airline Industry	<ul style="list-style-type: none"> 1. How Much for a Life? 22. Reinventing the Corporation 27. Flying into Trouble 29. Everything for Sale 	Downsizing	<ul style="list-style-type: none"> 17. Does America Still Work? 18. Overworked and Underemployed 22. Reinventing the Corporation 26. Overlooking Outsourcing 27. Flying into Trouble
Antitrust Policy	<ul style="list-style-type: none"> 5. How to Find It on the Internet 31. New Antitrust Rules May Ease Path to Mergers 	Economic Ideology	<ul style="list-style-type: none"> 4. Embarrassment of Economics 50. Balancing Competition and Cooperation
Automobile Industry	<ul style="list-style-type: none"> 7. Two-Tier Marketing 9. Multinationals: The "Who Is Us" Debate 14. Coming Car Crash 22. Reinventing the Corporation 26. Overlooking Outsourcing 	Economies of Scale	<ul style="list-style-type: none"> 8. Is Big Really Bad? 11. As Price Supports Fade 12. Regional Differences in the Economic Impact of Wal-Mart 13. Record-Store Shakeout 14. Coming Car Crash 29. Everything for Sale
Charity	<ul style="list-style-type: none"> 46. Corporate Welfare Remains Unchecked 47. Myths of Charity 	Education	<ul style="list-style-type: none"> 5. How to Find It on the Internet 24. What Do Unions Do for Women? 42. Inequality Express 49. Are Black Diplomas Worth Less?
Common Resource Problem	<ul style="list-style-type: none"> 33. Congested Parks—A Pricing Dilemma 	Elderly	<ul style="list-style-type: none"> 3. Economics Is Climbing into the Trenches 48. Social Security on the Table
Consumers	<ul style="list-style-type: none"> 6. Why You Can't Tell What Things Cost 7. Two-Tier Marketing 16. Electricity Deregulation and the Consumer 29. Everything for Sale 43. State of the Poor 	Electricity Industry	<ul style="list-style-type: none"> 16. Electricity Deregulation and the Consumer 29. Everything for Sale
Contingent Workers	<ul style="list-style-type: none"> 17. Does America Still Work? 18. Overworked and Underemployed 	Environmental Protection	<ul style="list-style-type: none"> 37. Free Market for Clean Air 38. Acid-Rain Pollution Credits
Corporate Nationality	<ul style="list-style-type: none"> 9. Multinationals: The "Who Is Us" Debate 	Game Theory	<ul style="list-style-type: none"> 3. Economics Is Climbing into the Trenches
Cost-Benefit Analysis	<ul style="list-style-type: none"> 1. How Much for a Life? 2. "Does Prison Pay?" Revisited 31. New Antitrust Rules May Ease Path to Mergers 	Gini Index	<ul style="list-style-type: none"> 41. Inequality in the United States
Dairy Industry	<ul style="list-style-type: none"> 11. As Price Supports Fade 	Health Care Industry	<ul style="list-style-type: none"> 35. Reduced H.M.O. Fees Cause Concern 36. Uncle Sam Could Ease the Organ Shortage
Deregulation	<ul style="list-style-type: none"> 3. Economics Is Climbing into the Trenches 11. As Price Supports Fade 16. Electricity Deregulation and the Consumer 27. Flying into Trouble 29. Everything for Sale 30. Staking Out the High Ground 34. Drug Legalization? 	Housing Industry	<ul style="list-style-type: none"> 39. Evidence for a Modest Impact from Abolishing Rent Controls
Discrimination	<ul style="list-style-type: none"> 18. Overworked and Underemployed 49. Are Black Diplomas Worth Less? 	Immigration	<ul style="list-style-type: none"> 25. New Economics of Immigration 42. Inequality Express
		Income Distribution	<ul style="list-style-type: none"> 4. Embarrassment of Economics 7. Two-Tier Marketing 17. Does America Still Work? 20. Collapsing Wages and Rising Inequality 25. New Economics of Immigration 40. Minimum Wage Is Unfair 41. Inequality in the United States 42. Inequality Express 43. State of the Poor 45. Welfare Recipients Taking Jobs

TOPIC AREA	TREATED IN	TOPIC AREA	TREATED IN
Job Creation	8. Is Big Really Bad? 19. Labor Market Models in Europe and America 44. Reinventing Welfare . . . Again 45. Welfare Recipients Taking Jobs	Pollution Trading Rights	37. Free Market for Clean Air 38. Acid-Rain Pollution Credits
Labor Law Reform	23. Toward a More Perfect Union	Prisoner's Dilemma	32. Law as the Free Market's Rogue
Labor-Management Relations	10. Taking the Initiative on Stakeholder Rights 17. Does America Still Work? 18. Overworked and Underemployed 19. Labor Market Models in Europe and America 22. Reinventing the Corporation 23. Toward a More Perfect Union 24. What Do Unions Do for Women? 26. Overlooking Outsourcing 42. Inequality Express 50. Balancing Competition and Cooperation	Privatization	48. Social Security on the Table
Leisure-Work Trade-off	18. Overworked and Underemployed	Public Pricing	16. Electricity Deregulation and the Consumer 33. Congested Parks—A Pricing Dilemma 38. Acid-Rain Pollution Credits
Market Failure	29. Everything for Sale 30. Staking Out the High Ground 32. Law as the Free Market's Rogue 33. Congested Parks—A Pricing Dilemma 34. Drug Legalization? 35. Reduced H.M.O. Fees Cause Concern 36. Uncle Sam Could Ease the Organ Shortage 39. Evidence for a Modest Impact from Abolishing Rent Controls	Rationing	36. Uncle Sam Could Ease the Organ Shortage
Minimum Wage	40. Minimum Wage Is Unfair	Rent Control	39. Evidence for a Modest Impact from Abolishing Rent Controls
Monopolistic Competition	12. Regional Differences in the Economic Impact of Wal-Mart 13. Record-Store Shakeout 14. Coming Car Crash 33. Congested Parks—A Pricing Dilemma	Skill Mismatch	20. Collapsing Wages and Rising Inequality 21. Unemployment Insurance for a New Age 44. Reinventing Welfare . . . Again
Music Industry	13. Record-Store Shakeout	Stakeholder Rights	10. Taking the Initiative on Stakeholder Rights 17. Does America Still Work? 22. Reinventing the Corporation
Occupational Safety and Health Administration (OSHA)	28. Workers De-Compensation	Telecommunications Industry	7. Two-Tier Marketing 9. Multinationals: The "Who Is Us" Debate 29. Everything for Sale
Oligopoly	8. Is Big Really Bad? 9. Multinationals: The "Who Is Us" Debate 15. From Major to Minor 31. New Antitrust Rules May Ease Path to Mergers	Unemployment Insurance	21. Unemployment Insurance for a New Age
Opportunity Costs	1. How Much for a Life? 2. "Does Prison Pay?" Revisited	User Fees	33. Congested Parks—A Pricing Dilemma
Petroleum Industry	15. From Major to Minor	Vertical Integration	8. Is Big Really Bad?
		War on Drugs	34. Drug Legalization?
		Welfare Programs	44. Reinventing Welfare . . . Again 45. Welfare Recipients Taking Jobs 46. Corporate Welfare Remains Unchecked 47. Myths of Charity
		Worker Participation	10. Taking the Initiative on Stakeholder Rights 17. Does America Still Work? 19. Labor Market Models in Europe and America 22. Reinventing the Corporation 27. Flying into Trouble 50. Balancing Competition and Cooperation
		Workers Compensation	28. Workers De-Compensation
		Workfare	44. Reinventing Welfare . . . Again 45. Welfare Recipients Taking Jobs

Selected World Wide Web Sites for Annual Editions: Microeconomics

All of these Web sites are hot-linked through the *Annual Editions* home page:
<http://www.dushkin.com/annualeditions> (just click on a book).

Some Web sites are continually changing their structure and content, so the information listed may not always be available.

General Sites

Economics Statistics Briefing Room—<http://www.whitehouse.gov/fsbr/esbr.html>—Easy access to current federal economic indicators. Provides links to information from a number of federal agencies. Subjects are Output; Income; Employment; Unemployment; Earnings; Production and Business Activity; Prices and Money; Credits and Securities Markets; and International Statistics.

Electronic Policy Network—<http://epn.org/>—Timely information and ideas about national policy on Economics and Politics, Welfare and Families, Education, Civic Participation, and Health Policy in the form of a virtual magazine.

Federal Reserve System Beige Book—<http://www.bog.frb.fed.us/fomc/bb/current>—The Beige Book, a Summary of Commentary on Current Economic Conditions by Federal Reserve Districts, is published eight times a year and can also be read on this Web site. It summarizes anecdotal information on current economic conditions from Bank and Branch directors, key businesspeople, economists, market experts, and other sources, by both District and Sector.

Government Information Sharing Project—<http://govinfo.kerr.orst.edu/>—Site contains regional economic information, 1990 population and housing census, 1992 economic census, agriculture census for 1982, 1987, and 1992, history of U.S. imports/exports 1991–1995, and a 1990 Equal Employment Opportunity file.

GPO Access—http://www.access.gpo.gov/su_docs/—Home page of the Superintendent of Documents contains free access to electronic government information products (for example, Agency for Health Care Policy and Research, U.S. Budget of Fiscal Year 1998), Federal Web Sites, and Locators of Government Information Products.

Intellectual Capital TOC—<http://www.intellectualcapital.com/>—At this site, at any time, you may find interesting information and discussion about major issues of the day, including economic, fiscal, and government policy concerns. Commentary and opinions are by a respected list of contributors.

NBER Home Page—<http://www.nber.org/>—The National Bureau of Economic Research engages in specialized research projects on every aspect of economics. The thirteen programs include asset pricing, economics of aging, labor studies, and productivity. Many links to other Web sites are possible.

Panel Study—<http://www.umich.edu/~psid>—At this easy-to-access data site find the PSID, a longitudinal survey of a representative sample of U.S. individuals and families, which has been collecting data annually since 1968.

Policy.com Home Page—<http://www.policy.com>—Take off from this page in many directions—News and Events, Issues of the Week, Issue Analysis, Interact, and Features Event—that often concern major economic issues. Also connect to Think Tanks, Advocacy Organizations, Branches of Government, and more.

Resources for Economists on the Internet—<http://econwpa.wwstl.edu/EconFAQ/EconFAQ.html>—This resource of the WWW Virtual Li-

brary on Economics is an excellent starting place for any research in economics by academic and practicing economists and anyone interested in economics. It has many Web links.

The Economist—<http://www.economist.com/>—The Web edition of *The Economist* is available free to subscribers of the print edition or for an annual fee to those who wish to subscribe online.

The Federal Web Locator—<http://www.law.vill.edu/Fed-Agency/fedwebloc.html>—This site will put you in contact with almost every sector of the federal government. International links are included as well.

The Public Debt—<http://www.publicdebt.treas.gov/opd/opd.htm>—Here you will find links to The Public Debt of the United States to the Penny, Historical Debt, Interest Expense and the Public Debt, and Frequently Asked Questions.

USIA—<http://www.usia.gov/usa/usa.htm>—Home page of the U. S. Information Service contains Fundamental Documents, History, Politics, Economics, Society, Culture, and States, which all contain useful information that can apply to the study of microeconomics. The 1997 U.S. budget is at this site.

WebEc—WWW Resources in Economics—<http://netec.wustl.edu/WebEc.html>—A most complete virtual library of economics facts, figures, and thoughts can be found here.

Competition in Product Markets

American Stock Exchange—<http://www.amex.com/>—This Web site serves the world's second largest auction-marketplace and provides visibility for over 700 companies.

Bureau of Economic Analysis Home Page—<http://www.bea.doc.gov/>—Part of the Department of Commerce, the BEA is the nation's accountant. It puts out the Survey of Current Business and is a good source for data on economic growth, regional development, and economic position in the world.

Business Cycle Indicators—<http://www.globalexposure.com/bci.html>—This site leads to the 256 data series. Known as the U.S. Business Cycle Indicators, it is used to track and predict business activity. The subjects of the data groups are clearly listed.

Chamber of Commerce World Network—<http://www.worldchambers.org>—International trade at work is viewable at this site. For example, click on Global Business eXchange (GBX) for a list of active business opportunities worldwide or to submit your new business opportunity for validation.

CIA Publications—<http://www.odci.gov/cia/publications/pubs.html>—At this site, in addition to the World Factbook 1996, is the Handbook of International Economic Statistics, 1996, plus other related information and a keyword search mechanism.

Energy Information Administration (DOE)—<http://www.eia.doe.gov/>—Economic information on each of the fuel categories is available here along with a search capability.

FRED Database—<http://www.stls.frb.org/fred/fred.html>—Site of the Federal Reserve Board of St. Louis's FRED database, which provides historical U.S. economic and social financial data that includes U.S. interest rates, monetary and business indicators, exchange rates, and much more.

International Trade Administration—<http://www.ita.doc.gov/>—The U.S. Department of Commerce is dedicated to helping U.S. business compete in the global marketplace, and at this site it offers assistance through many Web links under such headings as Trade Statistics, Cross-Cutting Programs, Regions and Countries, and Import Administration.

Office of the United States Trade Representative—<http://www.ustr.gov/>—The government's position on international trade issues, links to the latest press releases, and other new information are available at this USTR site.

STAT-USA Databases—<http://www.stat-usa.gov/BEN/databases.html>—The National Trade Data Bank is the U.S. government's most comprehensive source of international trade data and export promotion information. This site has reports of demographic, political, and socioeconomic conditions for hundreds of countries.

STAT-USA/ Internet Site Economic, Trade, Business Information—<http://www.stat-usa.gov/stat-usa.html>—This site, a service of the U.S. Department of Commerce, contains Daily Economic News, Frequently Requested Statistical Releases, Information on Export and International Trade, Statistical Series, and Databases.

Statistical Resources on the Web/Economics—<http://www.lib.umich.edu/libhome/Documents.center/stecon.html>—Here is an excellent source of statistics collated from federal bureaus, economic indicators, both historical and current, the Federal Reserve Board, economic sources, federal statistical tables, and a consumer price inflator/deflator, plus many links to other sources.

USDA Economics and Statistics System (Cornell University)—<http://usda.mannlib.cornell.edu/usda>—Data covering U.S. and international agriculture is available here from the economic agencies of the U.S. Department of Agriculture.

World Trade Center Association On Line—<http://www.wtca.org/>—Data on world trade is available at this WTCA Web site that features information, services, a virtual trade fair, an exporter's encyclopedia, trade opportunities, and a resource center.

Labor Markets and Unions

Bureau of Labor Statistics—<http://stats.bls.gov/80/>—The home page of the BLS, an agency of the U.S. Department of Labor, offers Data, Economy at a Glance, Keyword Searches, Surveys and Programs, other statistical sites, and more.

Missouri State Census Data Center—<http://www.oseda.missouri.edu/usinfo.html>—Basic U.S. demographic trend reports for 1980–1990 are available at this site.

U.S. Census Bureau Home Page—<http://www.census.gov/>—Major source of social, demographic, and economic information such as income/employment data and latest indicators, income distribution, and poverty data.

Market Failures and Public Microeconomics

DPLS Archive: Study of American Families, 1994—<http://DPLS.DACC.WISC.EDU/SAF/>—SAF is a telephone survey of respondents to the 1994 General Social Survey (GSS). Data of the two surveys can be combined to study patterns of sibling resemblance in socioeconomics, and other outcomes.

General Social Survey—<http://www.icpsr.umich.edu/GSS/>—The GSS (see DPLS Archive) is an almost annual personal interview survey of U.S. households that began in 1972. More than 35,000 respondents have answered 2,500 different questions. It covers a broad range of variables, many of which relate to microeconomic issues.

Health Economics: Places to Go—<http://www.uni-bayreuth.de/departments/vwliv/hec.html>—Very complete source for information on health economics, health policy, managed care information, public health, and much more can be found on this Web site.

Health-Economics Resource Page—<http://www.exit109.com/~zaWeb/pip/>—A guide to health economics and resources on the Web.

Inter-University Consortium for Political and Social Research Data Archive—<http://www.icpsr.umich.edu/>—This home page accesses the world's largest archive of computerized social science data. Click on Archive to reach a list of subjects or on Table of Contents to see the whole Web site and the search mechanism.

Intergovernmental Health Policy Project—<http://www.ncsl.org/ihpp/intro.htm>—IHPP is dedicated to sustaining and improving the capacity for informed health policy decision making at the state level. This university-based program provides research and information that can be accessed on the Net.

The Health and Retirement Study (HRS) and Asset and Health Dynamics among the Oldest Old (AHEAD)—<http://www.umich.edu/~hrswww/>—The HRS and AHEAD data collection studies began in early 1990. Site contains information on the effects of aging populations on aspects of the U.S. economy.

Income Distribution and Economic Justice

Consumer Information Center Main Page—<http://www.pueblo.gsa.gov/>—From this site access the Consumer Information Catalog with information on Federal Programs, Money, Small Business, Employment, Housing, and other subjects. Links to 1997 Consumers' Resource Handbook, Federal Agencies, Consumer Help, and Interesting Information Sites.

Institute for Research on Poverty—<http://www.ssc.wisc.edu/irp/>—This national, university-based center for research into the causes and consequences of poverty and social inequality in the United States is nonprofit and nonpartisan. What's New on the IRP Web site is full of good current information.

Joint Center for Poverty Research—<http://www.spc.uchicago.edu/PovertyCenter/>—This research examines what it means to be poor and live in America. Issues considered are changing labor markets, the causes of inequality in today's labor market, family functioning and the well-being of children, the impact of concentrated urban poverty, and the effects in these domains of changing policy and new programs.

Social Security Administration—<http://www.ssa.gov/>—The official Web site of the Social Security Administration.

We highly recommend that you review our Web site for expanded information and our other product lines. We are continually updating and adding links to our Web site in order to offer you the most usable and useful information that will support and expand the value of your *Annual Editions*. You can reach us at: <http://www.dushkin.com/annualeditions/>.

Introduction to Microeconomics



Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer.

—Adam Smith, *The Wealth of Nations*

While there are many ways to subdivide the science of economics, the most common one distinguishes between microeconomics and macroeconomics. Microeconomics involves the study of the economy “in the small”; it investigates the economy in terms of its separate components, and it focuses on the individual decision-making

processes of consumers and producers in various market settings.

Macroeconomics, on the other hand, is the study of the economy “in the large”; it concerns such broad issues as how gross domestic product, unemployment, inflation, and economic growth are determined.

The microeconomic decisions of individual consumers and producers always carry a price, known as *opportunity cost*, in terms of alternatives forgone. This reflects an important principle in economics, first articulated more than a half century ago by the British economist Lionel Robbins. He suggested that we are unable to do all the things