

MILLER
ECONOMICS TODAY
THE MICRO VIEW

SIXTH EDITION

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The Micro View

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Center for Policy Studies
Clemson University

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*Dedicated to: Lorraine and Richard
Stacey and Josh
With love*

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PREFACE

TO THE INSTRUCTOR

Economics is always in the news. Inflation may have slowed down in the late 1980s, so that rising prices aren't the "hot" topic they used to be. But in their place are seen, heard, and read numerous discussions about America's apparent inability to compete in international trade markets, the strengthening and then the weakening dollar, hostile takeovers and scandals on Wall Street, falling world oil prices and then rising world oil prices, as well as the effects of recent tax changes. In other words, pick a year, any year, and economics is in the news. That means that it is not difficult for the instructor to find some way to demonstrate a tried-and-true economic principle using current problems of which students have at least some passing understanding and interest. In writing *Economics Today*, my goal has been to provide a strong, basic foundation of economic principles to allow the student reader to understand the social issues around him or her. This book, therefore, contains **theory** and **issues and applications** of theory throughout.

SIGNIFICANT CHANGES IN THE SIXTH EDITION

The format of this book remains the same as it has for the previous five editions—the bulk of theoretical concepts is presented in the main body of each chapter, followed by one or more *Issues and Applications* used to demonstrate the application of the concepts already presented. Virtually every page in this edition has some change in presentation, technique, theoretical depth, or readability. Most pedagogical aids have been retained with some important additions that are discussed below.

A New Chapter on the Theory of Public Choice

Because of continuing and growing interest in the **theory of public choice**, Chapter 20 has been added. It includes a discussion of *rational ignorance*, the *theory of bureaucracy*, the *Arrow Impossibility Theorem*, *logrolling*, and *distributional coalitions*.

Improvements in Theoretical Presentations

All theoretical presentations have been revised to improve clarity and understanding. Listed below are the significant changes:

- Chapter 2, "Demand and Supply," now includes the derivation of market demand and market supply schedules from individual demand and supply schedules now included, as well as an expanded explanation of the rationing function of prices.
- Chapter 4, "Capitalism and the American Economy," has a greater stress on opportunity cost and has a discussion of **high-flex theory**.
- Chapter 6, "Government Spending and Taxing," includes **The Tax Reform Act of 1986** and compares it with pre-1986 tax law.
- Chapter 8, "Consumer Choice," has a new discussion on the **economics of time**.
- Chapter 9, "Businesses and Their Costs," contains **theories of managerial discretion**.
- Chapter 10, "Pricing and Output Under Perfect Competition," includes new material on **contestable markets**.

- Chapter 12, “Pricing and Output Decisions Under Monopoly,” now has a discussion on **monopoly rent seeking**.
- Chapter 13, “In Between Monopoly and Competition,” examines the distinction between **search goods** and **experience goods** in the **theory of advertising**.
- Chapter 14, “Natural Monopolies, Regulation, and Antitrust Policy,” has explanations of **hostile corporate take-overs**, **tender offers**, **golden parachutes**, and **greenmail**.
- Chapter 15, “Resource Demand and Supply: The Case of Labor,” presents information on the **theory of labor market signaling**.
- Chapter 16, “Labor: Monopoly Supply, Monopoly Demand,” presents Freeman and Medoff’s work toward a **new theory of labor unions**.
- Chapter 18, “The Distribution of Income and Wealth,” presents the **theory of the poverty-welfare curve**, John Rawls’s discussion of his **theory of the original position**, and there is a discussion of **workfare**.
- Chapter 19, “Ecology, Externalities, and Energy,” discusses the marketing of rights to pollute and **offset policy**, as well as a **rights-based policy**.
- Chapter 22, “Exchange Rates and the Balance of Payments,” includes a discussion of the determinants of changes in the balance of payments, including differential rates of inflation and interest rates, as well as relative political stability. There is also an explanation of the “**dirty float**.”
- Chapter 24, “Economics of Developing Countries,” gives new data on the **third-world debt crisis** and the **Baker Plan**. There is also a discussion of Europe’s **depopulation problem**.

Expanded and New Appendixes

- Appendix A, “Reading and Working with Graphs,” has been expanded to include a point-by-point summary, references, and problems with the answers at the back of the text.
- Appendix B, “More Advanced Consumer Choice Theory,” has been expanded to include a section on applying indifference curve analysis to the topic of “paying for the good life—sunshine isn’t free.” Additionally, there is now a point-by-point appendix summary and problems with the answers at the back of the text.
- Appendix D on “Monopolistic and Monopsonistic Exploitation” is new.
- Appendix E now includes materials on present value and discounting.

ISSUES AND APPLICATIONS

In keeping with the flavor of the first five editions, this edition contains extensive applications of economic theory to real-world problems. There are 17 new **Issues and Applications** in this edition. Current topics are covered in a manner that reveals how economic theory can be used to analyze what is happening around us. Each *Issue and Application* is self-contained with two useful pedagogical aids that show the student the link with the preceding theoretical materials. Each is introduced by a listing titled **Concepts Applied**, which tells the student which theoretical concepts will be used. At the end of each *Issue and Application*, there are two or three **Questions** to guide the student in applying theory to what he or she has just read. To show the link between the *Issues and Applications* and the chapter materials, all *Issues and Applications* are contained within each chapter. Further, to avoid confusion in assignments and in reading graphs and tables, a sequential numbering system is used for all exhibits within a chapter.

Some New Issues and Applications

We list below the new *Issues and Applications* in the Sixth Edition:

Chapter 1 The Opportunity Cost of Staying Alive at 55 MPH

Chapter 2	Ticket Scalping The Economics of Housing Prices and Controlling Growth
Chapter 5	Paying Dairy Farmers to Go Out of Business
Chapter 6	Beyond the Tax Reform Act of 1986: A Consumption Tax?
Chapter 7	Do Police Deter Crime? The Case of Basketball
Chapter 9	When Do Diseconomies of Scale Set In?
Chapter 10	The New Theory of Contestable Markets
Chapter 11	Sugar Import Prices and the War On Durgs
Chapter 13	How Much Information Can There Be in Another Ad About Coca-Cola?
Chapter 14	The Regulation of Financial Markets and Corporate Takeovers The Profitability of Regulated Firms
Chapter 15	The Economics Of Comparable Worth Labor Market Signaling
Chapter 16	On Keeping Wages High Can Paraprofessionals Replace Professionals?
Chapter 18	Why Has There Been An Increase in Officially Reported Poverty? Is There an Optimal Amount of Inequality?
Chapter 19	What Happened to the Energy Crisis?
Chapter 21	Saving American Jobs—At What Price?
Chapter 25	Capitalism and China

THE SIXTH EDITION IS AGAIN A TOTAL LEARNING SYSTEM


All of the significant pedagogical improvements in the Fifth Edition have been kept, with some refinements and additions. As before, there are no empty questions without answers and no pedagogical aids that stand alone without being linked to the rest of the system. The elements of the total system are as follows:

1. **Chapter Outline.** Each chapter begins with a **Chapter Outline** that previews for the students the major topics that will follow, as well as the title of the *Issues and Applications*.
2. **For Preview and Study.** Each chapter has five *For Preview and Study* questions. These questions are unique in that they are repeated at the end of the chapter *with the answers*. The student is given total reinforcement.
3. **Concepts in Brief.** After each major section within the chapter is a set of brief summary statements that are numbered sequentially for easy review.
4. **Issues and Applications.** As pointed out above, each *Issue and Application* is linked to the chapter concepts. Each is introduced by a list of *Concepts Applied* telling the student which theoretical concepts will be used. At the end of each *Issue and Application*, questions are asked to relate the material to these concepts. Finally, answers to the two or three questions are presented in the *Instructor's Manual* so that the instructor can use them as quiz items or class discussion items.
5. **A New Glossary of Terms.** All important terms appear in boldface in the text with the definitions given in the margin. To simplify search for glossary terms, a new glossary has been added to the back of the book as an additional appendix. All words defined in the margins of the text are now found in alphabetical order in this glossary.
6. **Chapter Summary.** For ease of review and for testing of knowledge, a chapter summary is given in point-by-point format.

7. **Answers to Preview and Study Questions.** As mentioned above, the preview and study questions are repeated and the answers are given at the end of each chapter for reinforcement.
8. **Problems.** As with the several previous editions, there are problems at the end of every chapter, many of which require graphic or arithmetic manipulations. These problems are self-teaching devices, for answers are included at the back of the text. *In this edition, there are many new problems with answers.*
9. **New and Annotated Selected References.** Virtually all of the selected references have been revised and updated. They are now annotated to give students an indication of what is in store should they choose to read one or more of them.

TEACHING AIDS AND SUPPLEMENTS

Economics Today is part of an entire teaching package, which includes the following items:

1. **Student Learning Guide.** A revised Student Learning Guide has been written by Professor Robert Pulsinelli of Western Kentucky University. It contains chapter overviews; learning objectives; sentence outlines; lists of key terms; completion, true-false, and multiple-choice questions; short problems; and a glossary of terms.
2. **Computerized Problems.** Robert Pulsinelli has also developed computerized problems for the first time for the Sixth Edition. This computer-assisted instruction is in the form of approximately one problem per chapter and is signified in the text by a diskette symbol . This is an interactive learning device available on disks in both Apple and IBM versions.
3. **Instructor's Manual.** The *Instructor's Manual* continues to be prepared by Robert Pulsinelli. For each chapter, the instructor is provided with a chapter overview; lecture notes; sections entitled "For Those Who Wish to Stress Theory"; answers to the questions that appear at the end of each Issue and Application; further questions for class discussion or essay tests; and a list of selected references and films.
4. **Two Different Test Banks.** *Test Bank A* has been developed by Michael Morgan of the College of Charleston and William Davis of Western Kentucky University; and *Test Bank B* has been developed by Peter N. Hess of Davidson College specifically for the Sixth Edition, and each contains approximately 50 questions per chapter. Each item is graded according to difficulty level and whether it tests knowledge of facts, application of concepts, or interpretation of the concepts.
5. **Computerized Test Bank.** The two Test Banks are also available on microcomputer disks for IBM and Apple. This program permits the flexibility of using the entire bank, selecting certain questions, and/or adding your own questions.
6. **Color Transparencies.** New to this edition is a set of 50 two-color acetate transparencies of the most important graphs and charts in the text. These are free to adopters.

TO THE STUDENT

For many beginning economics students, fear can best describe their feelings prior to taking the course. Economics has often been labeled a "hard" subject to master. But it need not be. In the next few paragraphs, a plan of study is presented that will allow you to learn the course material, be able to apply economics to the world around you, and dispel the myth that economics is a more difficult topic to understand than others.

HOW TO LEARN ECONOMICS USING *ECONOMICS TODAY*

1. Read the *Chapter Outline* at the beginning of each chapter.
2. Read the *For Preview and Study* questions. Can you think of any answers to them? Do you have any preconceived notions about the topics to be discussed in each chapter?
3. Read the assigned chapter relatively rapidly without attempting to understand portions of it that you find difficult. Put it away for a few hours or even a day.
4. Reread the chapter, stopping at each point where you have difficulty and noting such difficulties on a separate sheet of paper. Look at the *Concepts in Brief* when you first encounter them. Do they make sense? If they don't, it means that you missed an important theoretical concept or its application. Go back and reread the appropriate sections.
5. Draw the graphs yourself, reading their legends in the book as you do so. Do they make sense? How do they apply to the chapter materials.
6. Read each assigned *Issue and Application*, first looking at the *Concepts Applied*. Do the concepts mean anything to you? If they do, try to see where they fit into the analysis in the materials that follow. Try to answer the two or three *Questions* that appear at the end of each issue and application. How do the *Questions* relate to the *Concepts Applied* that started the issue and application? You should be able, in most cases, to see a link.
7. Read through the glossary items in the margins. By now they should all be familiar.
8. Read the point-by-point *Chapter Summary*. Do all the points make sense? If not, go back to the appropriate sections.
9. Go back to the *For Preview and Study* questions. Try to write down some ideas on your answers. Now refer to the answers given at the end of the chapter after the *Chapter Summary*.
10. Work through each available *Problem*. Do not look at the answers in the back of the book until you have worked the problem through to the best of your ability. It is essentially a self-test system that shows you whether you have mastered one or more of the theoretical points in the chapter.
11. Use the *Student Learning Guide*. This may be particularly appropriate just prior to examinations. If you have mastered the chapter materials, the *Student Learning Guide* will reinforce your mastery of them and also improve your ability to do well on exams. You may wish to write your answers to the *Student Learning Guide* questions on a separate piece of paper the first time you do them, then use the *Guide* as a refresher for the final examination, marking your answers one final time in the book and checking them with the correct answers.
12. Additionally, in your preparation for midterm and final exams, you should reread the chapter once again, then go back and look at the *Preview* questions, answering them with ease this time. Look at the *Concepts in Brief* highlighted throughout each chapter. Then go to the point-by-point *Chapter Summary*. All the concepts covered should be well understood by now.
13. After midterm examinations, find out which questions you did not answer correctly. Go back to the appropriate sections in the text and the *Student Learning Guide*. Remember, use the midterm exams as a learning device rather than as a pure testing device.

The above study program is not necessarily rigid and can be done in a different order. Depending on your ability to understand the material, you can skip various steps. The program outlined is basically for a student who wishes to *fully* master all the materials assigned by the instructor.

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THE SIXTH EDITION

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RLM

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