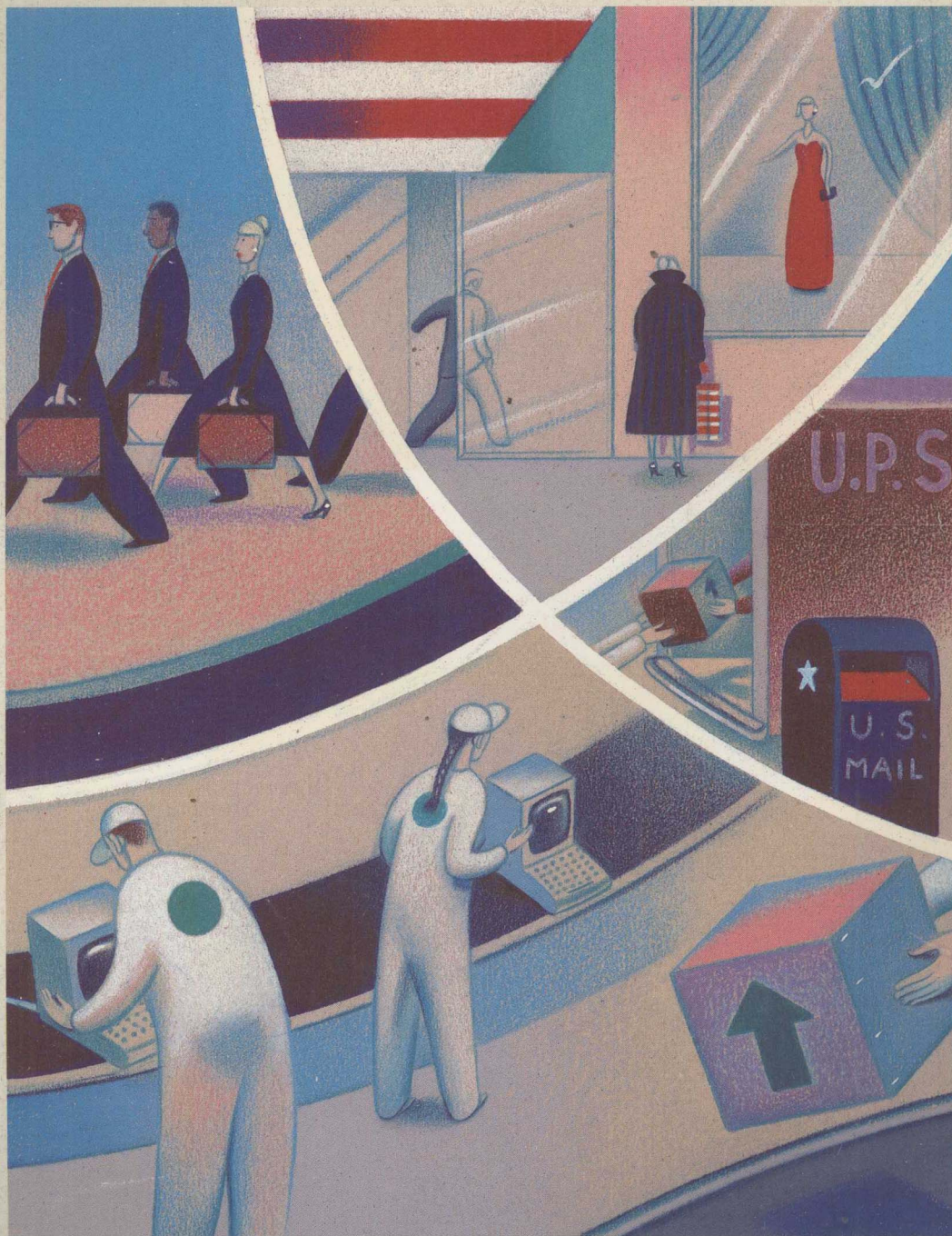


# BASIC MICROECONOMICS



— Paul R. Gregory  
Roy J. Ruffin

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Paul R. Gregory  
University of Houston

Roy J. Ruffin  
University of Houston

Software Prepared by Mark Doyle

Scott, Foresman and Company  
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London



To Elizabeth Gregory and Blanche Ruffin

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This book reflects our collective experience as the authors of several successful college textbooks at the freshman through junior levels. The purpose of *Basic Microeconomics* is to introduce students to the most important principles of microeconomics, and to teach them how to apply these principles to the real world in which we live. This text is nontechnical, fairly modern, and very applications-oriented.

We have tried to make each chapter not only readable, but also stimulating and easy to study. Economics is only boring to beginning students when it is too theoretical. Thus, the presentation of economics here is much more concrete than in most textbooks. Throughout the book, the various economic concepts are illustrated by numerous real-world examples rather than by fanciful or hypothetical ones. Occasional hypothetical cases cannot, of course, be avoided and are used to explain subtle economic relationships. This is one of the first economics texts to identify and display (in the wide text margins) key economics ideas that the student should learn in each chapter.

## ORGANIZATION

This book is organized into four parts. Part One (Chapters 1–4) introduces the building blocks of economics that should be learned before proceeding to the study of microeconomics. These chapters contain the standard topics: scarcity, opportunity costs, the production-possibilities frontier, the law of comparative advantage, the price system, the laws of supply and demand, and the role of government. A special appendix to Chapter 1 explains how to read graphs. In addition, the student is introduced to the concept of relative prices.

Part Two begins with a study of the product markets (Chapters 5–13). Chapter 5 teaches price elasticities of demand and supply as well as income and cross-price elasticities of demand. Chapter 6 presents demand and utility (with an appendix on indifference curves for instructors desiring to give a more rigorous treatment). The business environment is studied in Chapter 7. Chapter 8 explains how costs and productivity are related. The standard market models—perfect competition, monopoly, oligopoly, and monopolist competition are covered in Chapters 9–11. The problems of antitrust and agriculture conclude Part Two.

Factor markets are taught as a five-chapter unit in Part Three (Chapters 14–18). Chapter 14 presents a theoretical overview of the workings of factor markets,

and Chapters 15–17 focus on particular markets. Chapter 18 considers the determinants of income distribution.

Part Four is a two-chapter unit dealing with the broad issues of environmental pollution (Chapter 19) and international trade and protection (Chapter 20).

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## SUGGESTIONS FOR COURSE PLANNING

This book is intended for a one-semester course in microeconomics that is traditionally taught as a first- or second-year college course.

The instructor teaching a quarter course in microeconomics can build a course around the chapters listed below and incorporate the remaining chapters from this book as time and interest allow.

### Introduction

1. What Is Economics?
2. The Price System
3. Supply and Demand
4. Government and the Economy

### Microeconomics

5. Elasticity of Demand and Supply
6. Demand and Utility
8. Costs and Productivity
9. Perfect Competition
10. Monopoly
11. Oligopoly and Monopolistic Competition
12. Regulation, Deregulation, and Antitrust
14. Factor Markets
15. Labor Markets
18. Income Distribution and Poverty
19. Environmental Economics and Market Failure

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## SUPPLEMENTS

This book has a complete package of supplements, which includes an *Instructor's Manual*, *Study Guide*, *Test Bank*, and *Full-Color Transparencies*. Software available includes *Target IIB*, *MicroCore*, *MicroWorld*, *Diploma* and *Microtest*.

The *Instructor's Manual* is a valuable teaching aid because it supplies the instructor with additional examples and real-world illustrations not contained in the text. A chapter outline gives a brief overview of the material and assists the instructor in preparing lecture outlines and in seeing the logical development of the chapter. Each chapter also contains teaching hints, designed to bring economic concepts to the student level; key points; examples; short answer questions and problems; and answers to the questions and problems in the text.

The *Study Guide*, prepared by Jeffrey Parker, Associate Professor at Reed College, contains an extensive review section for each chapter/appendix. The “Key

Graphs” subsection features important in-text graphs, along with a detailed explanation of the meaning of each. “Key Equations” takes important in-text equations and links the symbolic representation to the verbal explanation. “Preparing Yourself for This Chapter” informs students of prior theories or chapters that should be reviewed to better understand the chapter at hand. “Foundations for Future Chapters” indicates what material in the present chapter will be built upon in future chapters. Multiple-choice problems, true/false questions, essay questions, and more advanced challenge problems all teach as well as test. Full solutions to all are provided.

The *Test Bank* contains 2,200 questions, mainly multiple choice, and some short-answer questions.

*Full-Color Transparencies* of 130 key tables and figures are available.

There is an extensive array of software available for both student and instructor. *Target IIB*, tutorial software, accompanies every *Study Guide*. Each disk combines testing, problem solving, and drill practice. A diagnostic feature helps students pinpoint weak areas. *MicroCore*, written by Mark Doyle, an interactive software shrink-wrapped with this text, provides students with an extensive set of problems and lets them manipulate graphs and study core concepts of microeconomics. *MicroCore* contains seven modules: Production-possibility frontiers, supply and demand, elasticity, cost curves, perfect competition, monopoly, and factor markets. *MicroWorld* simulation software is available free to instructors for lab use and is available for purchase by students. *Diploma* is an electronic classroom management system and testing program that operates on IBM, Apple IIc, and compatible microcomputers. *MicroTest* provides a computerized testing system for Macintosh.

Many students find economics a difficult subject because, unlike many other courses a college student takes, economics cannot be mastered through memorization. Economics relies on economic theories to explain real-world occurrences—like why people tend to buy less when prices rise or why increased government spending may reduce unemployment. An economic theory is simply a logical explanation of why the facts fit together in a particular way. If the theory were not logical, or if the theory failed to be confirmed by real-world facts, it would be readily discarded by economists.

The successful student will be the one who learns that economics is built upon a number of fairly simple and easy-to-understand propositions. These propositions and assumptions—that businesses seek to maximize profits or that consumers base their expenditure decisions on disposable income, for example—form the building blocks upon which economics is based. These propositions are typically little more than common sense and should not intimidate a student. If a major building block is missing, however, the whole structure can fall apart. To prevent the student from overlooking or forgetting a critical building block, we frequently engage in pedagogical review. In other words, when a new proposition is added to a theoretical structure, the underlying propositions are briefly reviewed.

Another factor that can make economics difficult for a student is that economics—like other academic disciplines—has its own specific vocabulary. Unlike the physical sciences, however, where the student may be encountering a certain term for the first time, much of the vocabulary of economics—terms like *efficiency*, *capital*, *stock*, *labor*—has a common usage that is already familiar to the student. Economists, however, use the vocabulary of economics in a very exact way, and often the common usage of a term is not the same as the economic usage. In this book, each key term appears in boldface type where it is first discussed in text. Immediately following the paragraph where the term first appears in boldface type, the formal, economic definition of the term is set off in color. At the end of each chapter is a list of all the key terms that have been boldfaced and given formal definitions in that chapter; a glossary at the end of the book contains all the definitions of key terms and gives the chapter number in which the term was defined.

The modern developments in economics are simply new attempts to explain in a logical manner how the facts bind together. Modern developments have occurred because of the realization that established theories were not doing a good job of explaining the world around us. Fortunately, the major building blocks of modern theory—that people attempt to anticipate the future, that rising prices motivate

wealth holders to spend less, that people and businesses gather information and make decisions in a rational manner—rely on common-sense logic.

Economics is valuable only if it explains the real world. Economics should be able to answer very specific questions like: Why are there three major domestic producers of automobiles and hundreds or even thousands of producers of textiles? Why is there a positive association between the growth of the money supply and inflation? Why does the United States export computers and corn to the rest of the world? Why do restaurants rope off space during less busy hours? If Iowa corn land is the best land for growing corn, why is corn also grown in Texas while some land stands idle in Iowa? Why do interest rates rise when people expect the inflation rate to increase? What is the impact of the well-publicized government deficit? The successful student will be able to apply the knowledge he or she gains of real-world economic behavior to explain any number of events that have already occurred or are yet to occur.

In writing this book, we have made a conscious effort to present arguments and evidence on both sides of every economic controversy. We attempt to make a case for each distinct viewpoint, even if it would be more interesting and less complicated to come out strongly in one camp. We believe it is best to allow the student to keep an open mind at this very early stage in the study of economics.

This book contains a number of important learning aids.

1. The *Learning Objectives* that precede each chapter provide a brief overview of the important points to be learned in that chapter.
2. *Definitions* are set off in color following the paragraphs in which key terms are introduced in context.
3. *Key Ideas*—important economic principles or conclusions—appear in the margins.
4. *Boxed Examples* allow the student to appreciate how economic concepts apply in real-world settings without disrupting the flow of the text and supplement the numerous examples already found in the text discussions.
5. A *Chapter Summary* of the main points of each chapter is found at the end of each chapter.
6. *Key Terms* that were defined in color in the chapter are listed at the end of each chapter.
7. *Questions and Problems* that test the reader's understanding of the chapter follow each chapter.
8. A *Glossary*—containing definitions of all key terms defined in color in chapters and listed in chapter "Key Terms" sections—appears at the end of the book. Each entry contains the complete economic definition as well as the number of the chapter where the term was first defined.
9. A thorough *Index* catalogs the names, concepts, terms, and topics covered in the book.

## The Computer Module

In addition to the in-text teaching aids mentioned above, *MicroCore*, a software program designed to reinforce the most important concepts of microeconomics, is also available. Careful study of the module will give you a basic understanding of key concepts and will supplement the material in the text. *MicroCore* will run on IBM PCs with 256K user-available memory with IBM color graphics adaptors or IBM enhanced graphics adaptors or Hercules monochrome graphics cards.



To run the program, load *DOS*. Then insert the *MicroCore* disk into drive A. Enter the following: A > CORE and a menu will be displayed on the screen. This menu will allow you to configure the program. After the menu is displayed, follow the on-screen instructions to select the module that you wish to run. Each exercise will take from ten to twenty minutes and can be repeated as desired, usually with different numerical problems. The disk is designed to be user-friendly. The computer supplies step-by-step instructions on how to proceed. You are encouraged to read the instructions because they will show you how to use the module with greater speed and efficiency.

The microeconomics module teaches you the production-possibility frontier and cost curves and how perfect competition, monopoly, and factor markets work.

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Paul R. Gregory  
Roy J. Ruffin

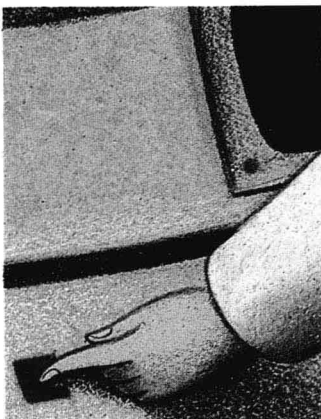
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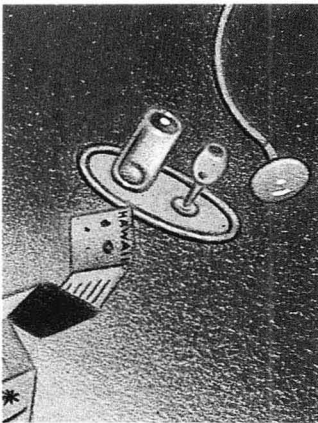
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