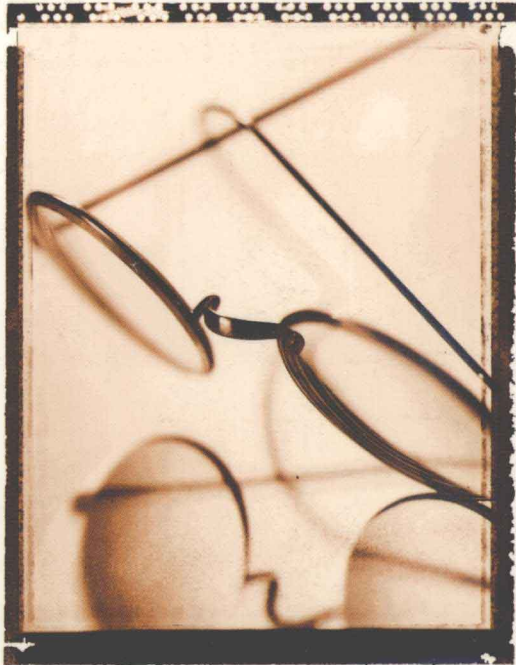
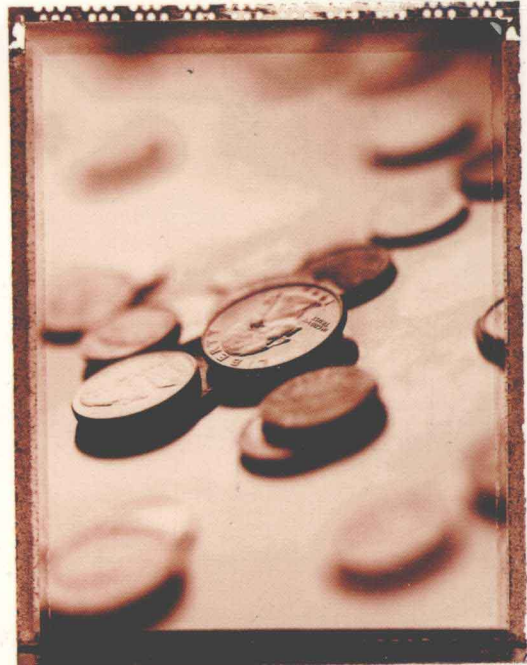
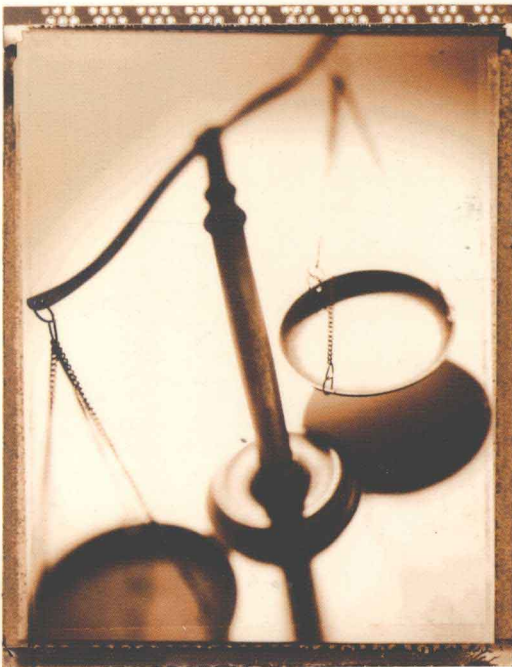




microECONOMICS for Today

Second Edition

Irvin B. Tucker



SECOND EDITION

Microeconomics for Today

Irvin B. Tucker

University of North Carolina at Charlotte



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This book is printed on acid-free paper.

To Sharon Adams-Poore
For her faith in my work

P R E F A C E

Text with a Mission

As with the first edition, the purpose of *Microeconomics for Today*, 2nd Edition, is to teach in an engaging style the basic operations of the U.S. economy to students who will take a two-term economics course. Rather than taking an encyclopedic approach to economic concepts, *Microeconomics for Today* focuses on the most important tool in economics supply and demand analysis and applies it to clearly explain real-world economic issues.

In a nutshell, every effort has been made to make *Microeconomics for Today* the most “student friendly”

text on the market. This text was written to simplify the often confusing array of economic analyses that forces students to simply memorize in order to pass the course. Instead, *Microeconomics for Today* presents a straightforward and unbiased approach that effectively teaches the application of basic economic principles. After reading this text, the student should be able to say “that economics stuff in the news finally makes sense.”

How It Fits Together

The text presents the core principles of microeconomics and inter-

national economics. The first 14 chapters introduce the logic of economic analysis and develop the core of microeconomic analysis. Here students learn the role of demand and supply in determining prices in competitive versus monopolistic markets. This part of the book explores such issues as minimum wage laws, rent control, and pollution. The text concludes with three chapters devoted entirely to international issues. For example, students will learn how the supply of and demand for currencies determine exchange rates and what the complications of a strong or a weak dollar are.

New to the Second Edition

While the basic layout remains the same, the following are key improvements in the second edition:

- New “Online Exercises” at the end of each chapter. These exercises also appear on the *Economics for Today* Web Site at <http://tucker.swcollege.com> with links directly to each address.
- New “Internet Margin Notes” throughout the text provide Internet addresses of sites relevant to the topics being discussed, and encourage students to visit the sites for more information.
- New “International Economics” features highlight global situations that serve as examples of the chapter topics.
- New visual “Summary” at the end of each chapter includes graphs and causation chains to refresh students’ memories of the chapter topics.

INSTRUCTOR RESOURCES

Instructor's Manual

The Instructor's Manual, prepared by Douglas Copeland of Johnson County Community College, provides valuable course assistance to instructors. It includes chapter outlines, instructional objectives, critical thinking/group discussion questions, hints for effective teaching, answers to the Analyze the Issue questions, and summary quizzes with answers. It also features a list of transparency masters for figures and tables from the text, and the solutions to the Homework Sets.

ISBN: 0-324-00780-9

Test Bank

As with the study guide, the test bank was prepared by the author to conform to the text. In addition, it has been reviewed for accuracy and greatly expanded to include nearly 6,000 multiple-choice and true-false questions. Most questions have been thoroughly tested in the classroom by the author and classified by topic and degree of difficulty.

Microeconomics Version ISBN: 0-324-00783-3

Macroeconomics Version ISBN: 0-324-00782-5

Thomson Learning Testing Tools™

The Thomson Learning Testing Tools™ computerized testing program contains all of the questions in the printed test bank. Thomson Learning Testing Tools™ is an easy-to-use test creation software compatible with Microsoft Windows. Instructors can add or edit questions, instructions, and answers, and select questions by previewing them on the screen, select them randomly, or select them by number. Instructors can also create and administer quizzes online, whether over the Internet, a local area network (LAN), or a wide area network (WAN).

Microeconomics Version ISBN: 0-324-00793-0

Macroeconomics Version ISBN: 0-324-00794-9

ITP Call-In Testing

Adopters may take advantage of the ITP Call-In Testing Service. Contact your sales representative or call 1-800-423-0563, or fax 1-606-647-5020, for details.

Color Transparency Acetates

A set of full-color transparency acetates for key figures and tables from the text is available to use in classroom presentation.

ISBN: 0-324-00788-4

Transparency Masters

A set of transparency masters is available for figures in the text that have not been prepared in color acetates.

ISBN: 0-324-00787-6

CNN Economics Video

The CNN Economics video provides a variety of video clips of current events. Thought-provoking real-world current events come to life in your classroom through this exclusive CNN Principles of Economics Update video.

ISBN: 0-538-86839-2

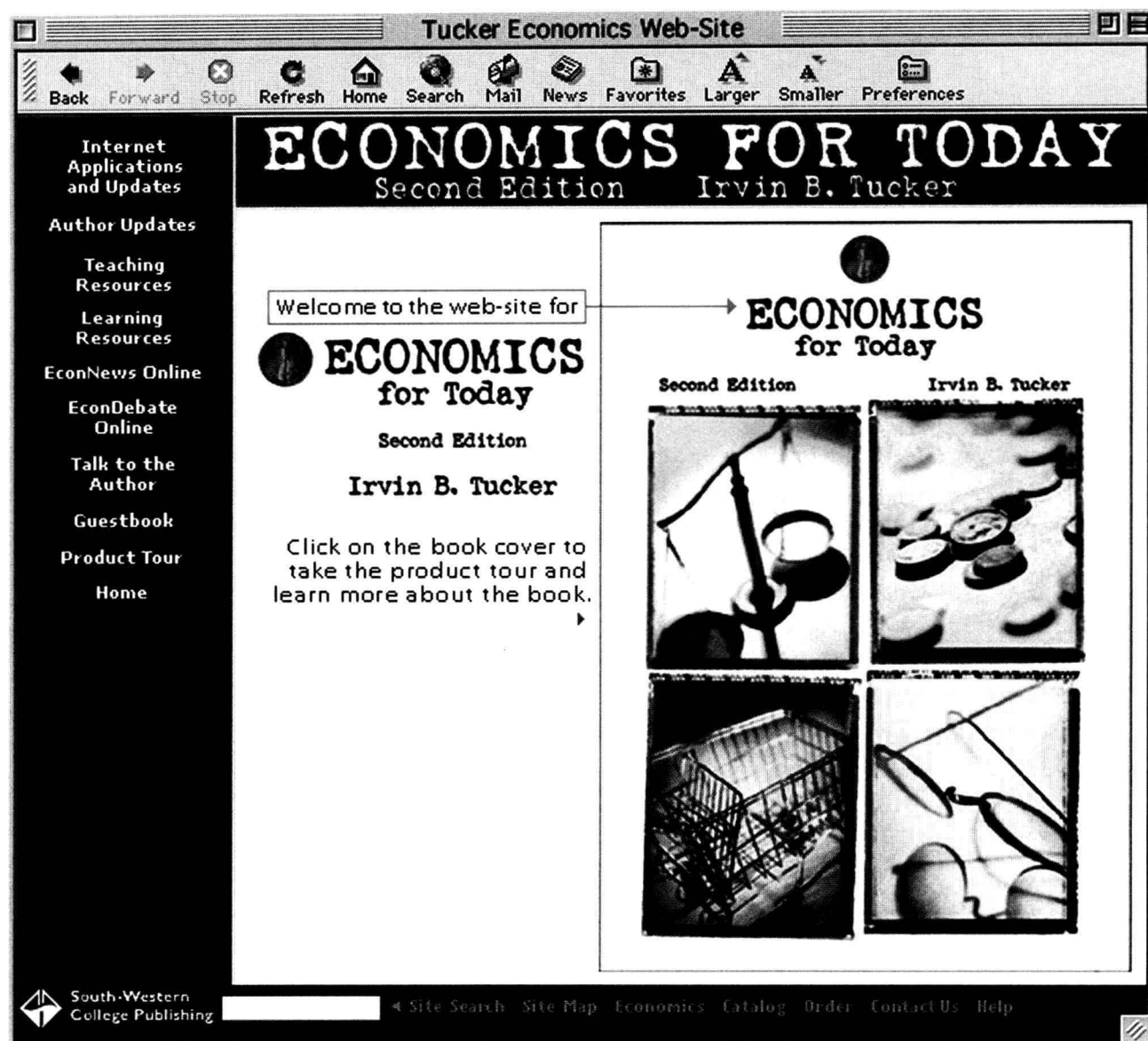
PowerPoint Presentation Package

Developed by Ken Long of New River Community College, this state-of-the-art multimedia presentation software provides instructors with visual support in the classroom. This new package includes vivid and easy-to-read animated graphs, highlights of important concepts, student tutorials with thought-provoking questions, and links to the text Web Site's Online exercises. Instructors can edit the PowerPoint presentations or create their own exciting in-class presentations that include text, graphics, and animation. The PowerPoint package is available on the text Web Site at <http://tucker.swcollege.com>.

Online Course Creation and Delivery Systems

South-Western College Publishing now makes taking your course online as easy as typing. Adopters of *Economics for Today*, 2nd edition, can use Thomson World Class Learning™ to create an online course, or to create a Web Site for a traditional course. Visit the South-Western Economics Resource Center at <http://economics.swcollege.com> or contact your ITP/South-Western sales representative to learn more about these exciting tools.

Tucker Economics for Today Web Site



Go to <http://tucker.swcollege.com> to visit the text Web Site. This one-stop site provides updates to the text, economic debates online, online exercises, a PowerPoint Presentation Package, a PowerPoint Tutorial, links to economics web sites, economic news summaries, a forum to talk to the author, and much more. A link to *Survey of Economics*, 2nd Edition, the one-semester principles text by Irvin Tucker, is also provided.

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Gulf Coast Community College

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STUDENT LEARNING GUIDE

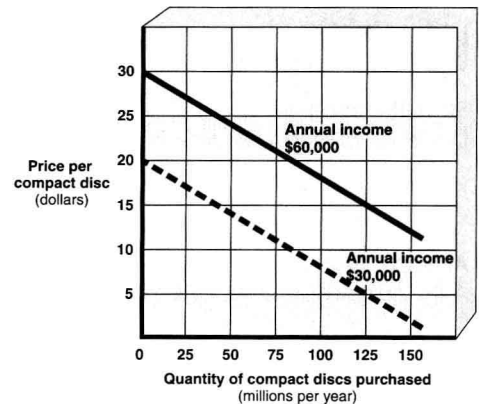
How to Study Economics

28

Part I / Introduction to Economics

EXHIBIT A-6

Changes in Price, Quantity, and Income in Two Dimensions



Economists use a multicurve graph to represent a three-variable relationship in a two-dimensional graph. A decrease in the price per compact disc causes a movement downward along each curve. As the annual income of consumers rises, there is a shift rightward in the position of the demand curve.

To some students, studying economics is a little frightening because many chapters are full of graphs. An often-repeated mistake is for students to prepare for tests by trying to memorize the lines of graphs. When their graded tests are returned, the students using this strategy will probably exclaim, "What happened?" The answer to this query is that the student should have learned the economic concepts first, and then the graphs would be understood as illustrations of these underlying concepts. Stated simply, superficial cramming for economics quizzes does not work.

For students with an anxiety over using graphs, there is a brief review of graphical analysis in the appendix to Chapter 1. In addition, the Graphing Primer and the Study Guide contain step-by-step features on how to interpret graphs.

a curve. Here's how to tell the difference. A change in one of the variables shown on either of the coordinate axes of the graph causes *movement* along a curve. On the other hand, a change in a variable not shown on one of the coordinate axes of the graph causes a *shift* in a curve's position on the graph.

Conclusion A shift in a curve occurs only when the *ceteris paribus* assumption is relaxed and a third variable not on either axis of the graph is allowed to change.

A Helpful Study Hint Using Graphs

Don't be the student who tries to memorize the graphs and then wonders why he or she failed economics. Instead of memorizing graphs, you should use graphs as a valuable aid to learning the economic concepts these graphs

Motivational Pedagogical Features

Microeconomics for Today strives to push out the boundaries of traditional pedagogy with the following features:

Chapter Previews

Each chapter begins with a preview designed to pique the student's interest and reinforce how the chapter fits into the overall scheme of the book. Each preview appeals to one's "Sherlock Holmes" impulses by posing several economics puzzles that can be solved by understanding the material presented in the chapter.

Margin Definitions

Key concepts introduced in the chapter are highlighted in bold and then defined in the text and again in the margins. This feature avoids forcing the student to search through the text in order to locate and comprehend the key concepts. The body of the text and the margin definitions therefore serve as a quick reference.

Model

A simplified description of reality used to understand and predict the relationship between variables.

Internet Margin Notes

This edition contains Internet addresses in the margins that direct students to sites relevant to the topics being discussed. The addresses sometimes send students to sites that will give them additional information about a topic, and sometimes send them to sites that will simply be relevant and interesting. In either case, students will become familiar with using the Internet for economics topics, and will be more prepared for the Internet exercises an instructor may wish to assign.



Visit Hagggle Online, an internet auction site at <http://www.hagggle.com>.

What type of products are being auctioned? Look at the history of the bidding process for a few products. From this information, what can you conclude about the demand for each product?

Conclusion Statements

Throughout the chapters highlighted conclusion statements of key concepts appear at the ends of sections and tie together the material just learned. Students will be able to see quickly if they have understood the main points of the section. These statements are summarized at the end of each chapter as well, and provide a useful study aid.

*that, once
properties:
ely consume
here is no way
do not pay*

sidy amount is payable at any price along the demand curve, the demand curve shifts rightward until the efficient equilibrium price and quantity are reached.

Conclusion *When externalities are present, market failure gives incorrect price and quantity signals, and as a result, resources are misallocated. External costs cause the market to overallocate resources, and external benefits cause the market to underallocate resources.*

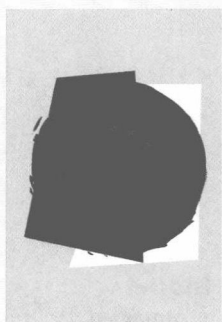
Public Goods

National defense is an example of a public good, a good that the govern-



You're the Economist

Each chapter includes boxed inserts that provide the acid test of “relevance.” This feature gives the student an opportunity to encounter timely real-world extensions of the explanations of economic theory. For example, students read about how Fred Smith wrote an economics term paper explaining his plan to create Federal Express—and find out how well he did! So that the student wastes no time figuring out which economic concepts apply to the article, applicable concepts are listed after each feature’s title. Also, many of these boxed features include information from newspaper articles that may span a period of years. This method is used to demonstrate that economics concepts apply to everyday life and remain relevant over time.



International Economics

Today’s economic environment is a global one. *Microeconomics for Today* carefully integrates international topics throughout the text and presents the material using a highly readable and accessible approach designed for students with no training in international economics. To highlight international economics, all sections of the text that present international economics are identified by a special global icon in the text margin and in “International Economics” boxes. In addition, the final three chapters of the book are devoted entirely to international economics.

Analyze the Issue

losses forces Congress to perform a difficult balancing act by offering voters the reassurance that a minimum-wage increase is not too large, but just large enough to help the working poor.

Some politicians claim that raising the minimum wage is a way to help the working poor without cost to taxpayers. Others believe the cost is hidden in inflation and lost employment opportunities for marginal workers, such as teenagers, the elderly, and minorities.

Another problem with raising the minimum wage to aid the working poor is that studies show that the minimum wage is a blunt weapon to redistribute wealth. Only a small percentage of minimum-wage earners are full-time workers whose family income falls below the poverty line. This means nonpoor workers receive most

this issue in Chapter 4 as an application of supply and demand analysis.

ANALYZE THE ISSUE

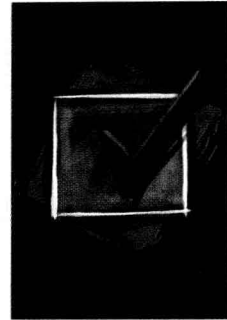
1. Identify two positive and two normative statements given concerning raising the minimum wage. List other minimum-wage arguments not discussed in the You're the Economist, and classify them as either positive or normative economics.
2. Give a positive and a normative argument why a business leader would oppose raising the minimum wage. Give a positive and a normative argument why a

This feature follows each “You're the Economist” and “International Economics” article. *Microeconomics for Today* leaves nothing to chance by merely including newspaper articles and expecting the student to understand the applications. Instead, “Analyze the Issue” asks specific ques-

tions that require students to test their knowledge of how the featured material is relevant to the applicable chapter concept, promoting economic analysis skills and active learning. To allow for these questions to be used in classroom discussions or homework assignments, answers are provided in the Instructor’s Manual rather than in the text.

Checkpoint

Who said learning economics can't be fun? Watch for these features that add a unique approach to generating interest and stimulating critical thinking. These questions spark students to check their progress by presenting challenging economics puzzles in a game-like style. Students enjoy thinking through and answering the questions, and then checking the answers at the end of the chapter. A student who answers correctly earns the satisfaction of knowing he or she has mastered the concepts.

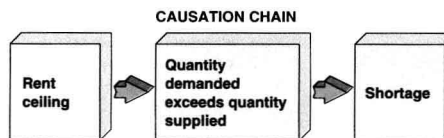
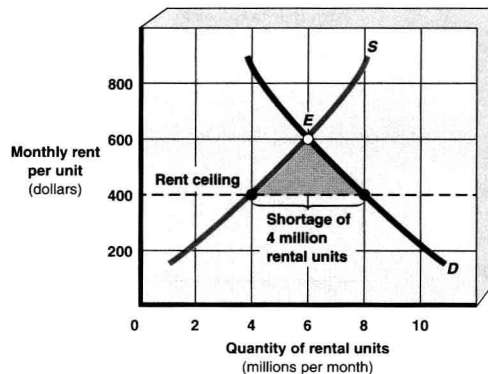


Illustrations

Clarity in graphical presentations is essential for any successful economics textbook. Each exhibit has been carefully analyzed to ensure that the key concepts being represented stand out clearly. Brief descriptions are included with the graphs to provide guidance for the student as he or she studies the graph. When actual data are used, the web site reference is provided so that students can easily locate the data source. Color is an important feature of the graphs. For example, throughout the text Demand lines are in blue, and Supply lines are in red.

EXHIBIT 4

Rent Control Results in a Shortage of Rental Units



If no rent controls exist, the equilibrium rent for a hypothetical apartment is \$600 per month at point E. However, the government imposes a rent ceiling of \$400 per month, and a shortage of 4 million rental units occurs. Because rent cannot rise by law, one outcome is that consumers must

Causation Chains

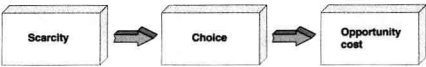
This will be one of your favorite features! The highly successful "Causation Chains" have proven to be invaluable to students as a learning tool and are included under many graphs throughout the text. This pedagogical device helps students visualize complex economic relationships in terms of simple box diagrams that illustrate how one change causes another change, and drives understanding of cause-and-effect analysis.

Visual Summaries

Each chapter ends with a brief point-by-point “Summary” of the key concepts. In this edition, many of these summarized points include miniaturized versions of the important graphs and causation chains that illustrate numerous key concepts. These are intended to serve as visual reminders for students as they finish the chapters, and are also useful in reviewing and studying for quizzes and exams.

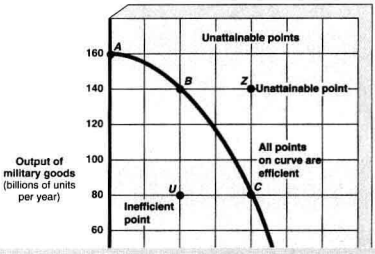
SUMMARY

- Three fundamental economic questions facing any economy are *What*, *How*, and *For Whom* to produce goods. The *What* question asks exactly which goods are to be produced and in what quantities. The *How* question requires society to decide the resource mix used to produce goods. The *For Whom* problem concerns the division of output among society’s citizens.
- Opportunity cost is the best alternative foregone for a chosen option. This means no decision can be made without cost.
- Marginal analysis examines the impact of changes from a current situation and is a technique used extensively in economics. The basic approach is to compare the additional benefits of a change with the additional costs of the change.



fully employed. (2) The resource base is not allowed to vary during the time period. (3) *Technology*, which is the body of knowledge applied to the production of goods, remains constant. **Inefficient** production occurs at any point inside the production possibilities curve. All points along the curve are **efficient** points because each point represents a maximum output possibility.

Production possibilities curve



Summaries of Conclusion Statements

Each chapter also includes a summary of the key conclusion statements introduced throughout the chapter. This approach ensures understanding and aids in review by presenting important conclusions in a clear and concise format.

SUMMARY OF CONCLUSION STATEMENTS

- Under the law of demand, any decrease in price along the vertical axis will cause an increase in quantity demanded, measured along the horizontal axis.
- Changes in nonprice determinants can produce only a shift in the demand curve and not a movement along the demand curve, which is caused by a change in price.
- Under the law of supply, any increase in price along the vertical axis will cause an increase in quantity supplied, measured along the horizontal axis.
- Changes in nonprice determinants can produce only a shift in the supply curve and not a movement along the supply curve.
- Graphically, the intersection of the supply curve and

Study Questions and Problems

The end-of-chapter questions and problems offer a variety of levels ranging from straightforward recall to deeply thought-provoking applications. The answers to odd-numbered questions and problems are in the back of the text. This feature gives students immediate feedback without requiring the instructor to check their work.

STUDY QUESTIONS AND PROBLEMS

1. Market researchers have studied the market for milk, and their estimates for the supply of and the demand for milk per month are as follows:

Price per gallon (millions of gallons)	Quantity demanded (millions of gallons)	Quantity supplied (millions of gallons)
\$2.50	100	500
2.00	200	400
1.50	300	300
1.00	400	200
0.50	500	100

- b. Suppose the government enacts a milk support price of \$2.00 per gallon. Indicate this action on your graph, and explain the effect on the milk market. Why would the government establish such a support price?
 - c. Now assume the government decides to set a price ceiling of \$1.00 per gallon. Show and explain how this legal price affects your graph of the milk market. What objective could the government be trying to achieve by establishing such a price ceiling?
2. Use a graph to show the impact on the price of Japanese cars sold in the United States if the United States enacts import quotas on Japanese cars. Now draw another graph to show the effect of the change in the price of Japanese cars on the price of American-made

Online Exercises

These exercises are designed to spark student excitement about exploring the Internet to access economic data and information, and then answer questions related to the content of the chapter. All Internet exercises are repeated on the *Economics for Today* Web Site with direct links to the addresses so that students will not have the tedious and error-prone task of entering long web site addresses. See <http://tucker.swcollege.com>.



Answers to Checkpoints

Answers to each Checkpoint are found at the end of every chapter so students can check their answers easily. The student who answers correctly earns the satisfaction of knowing he or she has mastered the concepts.



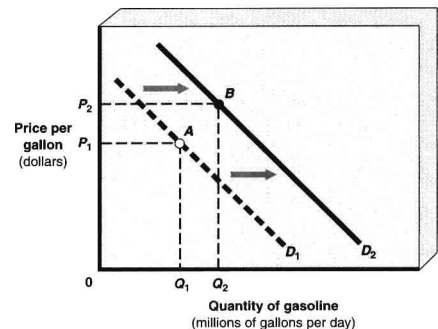
CHECKPOINT ANSWERS

Can Gasoline Become an Exception to the Law of Demand?

As the price of oil began to rise, the expectation of still higher prices caused buyers to buy more now, and, therefore, demand increased. As shown in Exhibit 13, suppose the price per gallon of gasoline was initially at P_1 and the quantity demanded was Q_1 on demand curve D_1 (point A). Then the Iraqi invasion caused the demand curve to shift rightward to D_2 . Along the new demand curve, D_2 , consumers increased their quantity demanded to Q_2 at the higher price of P_2 per gallon of gasoline (point B).

The expectation of rising gasoline prices in the future caused "an increase in demand," rather than "an increase in quantity demanded," in response to a higher price. If you said there are no exceptions to the law of demand, YOU ARE CORRECT.

EXHIBIT 13



Practice Quizzes

A great help before in-class quizzes! Many instructors in principles courses test students using multiple-choice questions. For this reason, the final section of each chapter provides the type of multiple-choice questions given in the instructor's Test Bank.

The answers to all of these questions are given in the back of the text.

In addition, students may utilize the PowerPoint tutorial found at <http://tucker.swcollege.com> to obtain a visual explanation of each correct answer. Here you can actually see the graphs shift and arrows point to key changes in prices, output, and other key variables.

PRACTICE QUIZ

For a visual explanation of the correct answers, visit the tutorial at <http://tucker.swcollege.com>.

1. Suppose prices for new homes have risen, yet sales of new homes have also risen. We can conclude that
 - a. the demand for new homes has risen.
 - b. the law of demand has been violated.
 - c. new firms have entered the construction industry.
 - d. construction firms must be facing higher costs.
5. An increase in the wage paid to grape pickers will cause the
 - a. demand curve for grapes to shift to the right, resulting in higher prices for grapes.
 - b. demand curve for grapes to shift to the left, resulting in lower prices for grapes.
 - c. supply curve for grapes to shift to the left, resulting in lower prices for grapes.
 - d. supply curve for grapes to shift to the left, resulting in higher prices for grapes.