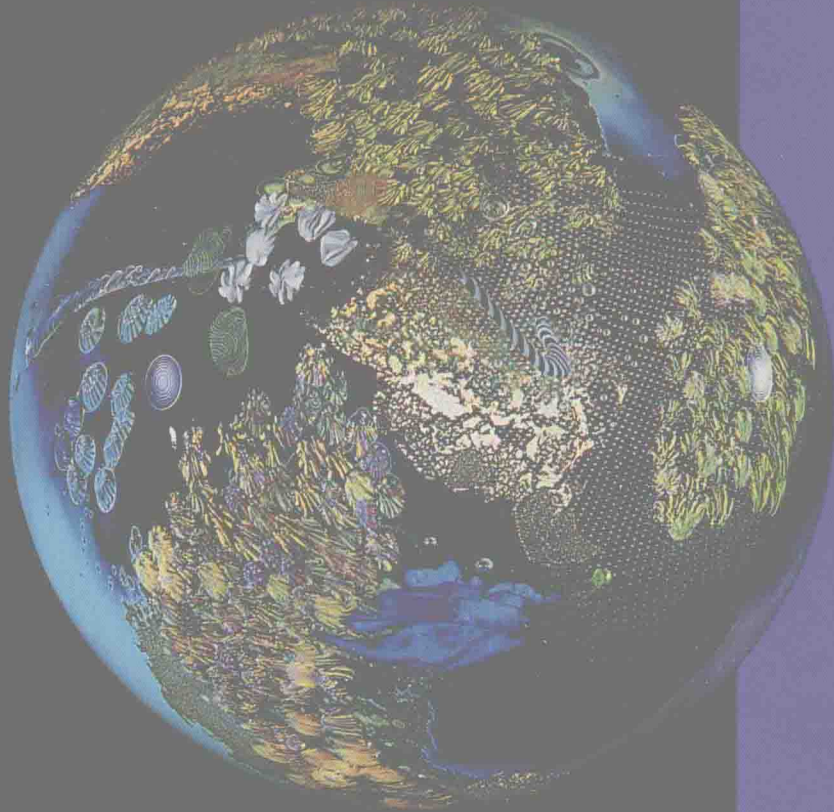


Annotated Instructor's Edition

David N. Hyman

Third Edition



Microeconomics

Annotated Instructor's Edition
Microeconomics

Third Edition

David N. Hyman

North Carolina State University

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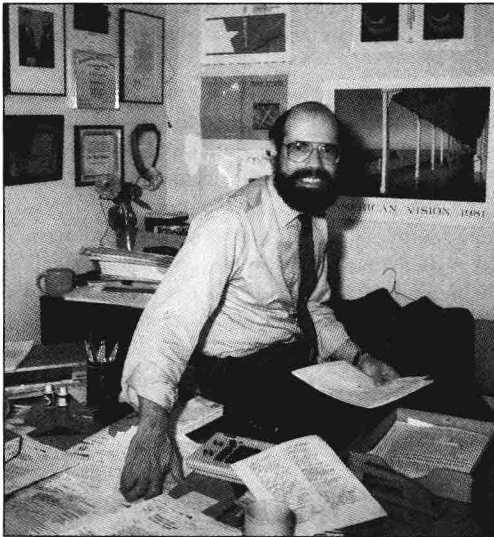
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about the author

David N. Hyman is Professor of Economics at North Carolina State University where he has taught since receiving his Ph.D. in economics from Princeton University in 1969. In addition to being the author of *Economics*, Dr. Hyman is the author of widely used texts in public finance and microeconomics and is one of the most experienced



textbook authors in the field of economics. Professor Hyman has taught principles of economics to large numbers of students over the past 25 years and has been the recipient of several awards for outstanding teaching. His research on economic issues has been published in respected academic journals.

Professor Hyman's broad range of professional experience outside academia gives him the breadth of knowledge required to write a comprehensive and relevant text. He was a Senior Fulbright Research Scholar in Italy in 1980 and held a CNR (National Research Council of Italy) Fellowship from 1976 to 1977 while doing research at the University of Turin in Italy. He has had considerable government experience in Washington, D.C., where he has worked as a budget analyst and has served on the staffs of the Office of the U.S. Comptroller of the Currency of the Treasury Department and the Board of Governors of the Federal Reserve System. In 1988 he was a consultant to President Reagan's Council of Economic Advisers. During this time he authored Chapter 2, "Fiscal Policy and Economic Expansion" of the *Economic Report of the President* (1989). In 1989 he was senior staff economist on President Bush's Council of Economic Advisers.

Professor Hyman is also a professional fine art photographer whose works are in the permanent collection of the Corcoran Gallery of Art in Washington, D.C. His photographs have been exhibited in many galleries and museums and have been published in art photography books and on the covers of several novels. For recreation, he enjoys the flute and working in his garden.

preface

I believe a modern economics textbook must be rich in information and applications. It should function as a resource for both students and teachers, complementing classroom instruction. The text must be written clearly enough to help the average student learn easily but still provide enough material to stimulate the best students. In this third edition, as in the previous ones, I have worked hard to supply users with a book that meets these criteria. The strengths of the other editions are used as the foundation for updated information, inclusion of new topics, revision of discussions to enhance clarity, and a couple of new features.

TEACHING ECONOMICS FROM THIS BOOK: WHAT'S DIFFERENT?

More Extensive Development of Marginal Analysis and Supply and Demand Analysis

Too often, introductory economics textbooks gloss over basic concepts without showing students how they are used. I believe it is important to give students a thorough grounding in the use of such concepts as opportunity cost, the production possibilities curve, and supply and demand analysis. The first five chapters of this text provide a thorough tour of the basics necessary to get students used to the "economic way of thinking." The introductory chapters contain applications dealing with economic policies designed to reduce drunken driving, management techniques, the operation of the stock market, foreign exchange markets, marketing of new products, labor market adjustment, rent controls, entrepreneurship, and issues relating to the transition to free markets from central planning in Russia and other countries to name just a few of the applications.

Coverage of Microeconomics Provides Extensions and Applications that Use the Theory

Basic microeconomic theory is used in the book to help students understand business, social, and policy issues. The themes developed in the early chapters are continued. For example, marginal analysis is used to analyze consumer choices. The basic theories of production, cost, and supply are developed with applications that show how advances in technology improve productivity and how productivity and cost are related. Students will see how changes in input prices and technology can affect profitability, supply, and price in competitive industries and

how limits to entry in the New York City taxi industry have created a valuable asset known as the taxi medallion. They also see how taxes, license fees, and other government-imposed restrictions affect supply and prices.

Analysis of imperfectly competitive product-markets is enlivened with applications showing how a syndicate acts to control the price of diamonds and why power companies encourage consumers to use less electricity. Policy-oriented chapters develop the concepts of market failure and externalities and discuss social regulation, environmental policy, the economics of special-interest groups, health care, the impact of subsidies and tax breaks to agriculture and industry, and the basics of government expenditure and taxation.

The last part of the microeconomics section examines input markets with applications to the issues of wage differentials, comparable worth, signaling, screening, and the principal-agent problem. In discussing imperfectly competitive input markets, I present a balanced analysis of labor unions and animate the theory of monopsony with applications to professional sports. Marginal analysis is used to explain investment decisions, and the concept of present value is carefully developed in a chapter on capital.

International trade issues are discussed throughout the text. There are also two separate chapters on international trade and development at the end of the book that go into greater detail on these topics.

CHANGES IN THE THIRD EDITION

- The text has been redesigned and shortened to provide a more concise book.
- The text has been updated to include the latest information and data available.
- Insights on Issues, a new feature, now supplements the Prologue by highlighting important economic issues. This new feature consists of interviews with distinguished economists (including two Nobel laureates) who are experts on each of the economic issues discussed in the Prologue. These interviews will stimulate thought and discussion about key economic issues and many instructors will want to use them as a basis of class discussion on the topics. The opinions of the experts can be analyzed in class along with opposing views.
- The text now includes more on such important topics and issues in economics as asymmetric information in

markets, provision of health care, total quality management by U.S. businesses, and environmental quality and protection.

- A new appendix to Chapter 13 provides an exposition and application of game theory to oligopolistic competition and business management topics.
- The text has been revised to reflect the end of communism in the Republics of the former Soviet Union and eastern Europe and the transition to free markets from command economies and central planning.
- The Annotated Instructor's Edition continues to provide answers to the end-of-chapter problems on the colored pages at the back of the book. The chapters themselves contain annotations in the text margins (in red) that should be helpful to you. Those labeled "Tip" contain hints for clarifying difficult material or provide alternative examples. The remaining notations integrate the supplementary material—transparency acetates, videos, and software—into the chapter material.

USE OF THIS BOOK

Special Features

In addition to the many relevant real-world examples provided throughout the text, each chapter also contains one or more boxed analyses that enlarge on and illustrate an important concept discussed in the text. Entitled **Principles in Practice**, each of these commentaries offers a close-up view of an economic theory in action, from supply and demand to the pros and cons of trade protectionism. Some of the commentaries have a business focus and are subtitled either **Managerial Methods** or **Business Briefs**. These business-oriented features concentrate on decision making within businesses and on the competitive environment in which business firms operate. Those that carry the subtitle **Policy Perspective** apply economic principles to political issues.

The Global Economy highlights important international trade or global economic issues to help students appreciate the increased international dimensions of the subject of economics. One appears in almost every chapter, allowing students to see how the theory discussed in the chapter can be applied to better understand a key international or global issue.

Inside Information showcases sources and uses of economic information. Students learn about the types of information contained within a specific source, as well as how this information is used by governments and businesses. Operating effectively in the modern world *requires* information.

A series of profiles, entitled **Economics Thinkers**, provides information about leading economists, ranging from Adam Smith to Karl Marx. The profiles discuss the sub-

jects' major contributions to economic thought and also offer some intriguing personal sidelights.

Career Profiles, which draw favorable comments from students and instructors alike, have been updated for this edition. These thumbnail biographies display the wide range of career paths open to majors in economics.

Insights on Issues picks up one of the 10 major economic issues from the Prologue and gives the reader the views of distinguished economists, some of whom have been awarded Nobel prizes, who have studied the issue in-depth. These interviews are integrated into the text at points where students can appreciate the responses. The *Study Guide* includes questions and answers about these interviews to help students think through the issues and responses. You may want to use this feature as the basis of a class discussion.

SUPPLEMENTARY RESOURCES

The text has an array of ancillary materials that have been designed to aid the instructor in teaching and the student in learning.

Teaching Supplements

Annotated Instructor's Edition The AIE includes hints for teaching difficult material and cues for using transparency acetates, videos, and software within each chapter. Answers to end-of-chapter problems are at the end of the book.

Instructor's Course Resource Guide The resource guide complements the AIE by providing conversion notes for instructors who have not used the Hyman text before, as well as a brief section on changes made in this edition. It expands upon the AIE by listing instructional objectives for each chapter, by providing a list of key terms and a chapter outline, and by providing additional teaching hints.

Transparency Acetates The transparency package includes all of the important exhibits from the text.

Videos The Irwin Economics Issues Videos can be used as the basis for small group discussions or as supplements to classroom discussions.

Test Bank The test bank contains over 2,000 multiple-choice questions, many of which require graphical analysis.

Computest 3 (Computerized Test Generator) allows instructors to add and edit questions; save and reload tests; create different versions of each test; attach graphics to questions and/or answers; import and export ASCII files; and select questions based on type, level of difficulty, key word, learning objective, or skill level. Included on the disk is an Online Testing Program that allows the testmaker to

create tests that can be taken by students using a computer. Computest 3 provides password protection of saved tests and the question database, and it can run on a network. Available on 3.5 or 5.25 disks.

Teletest This is Irwin's *free* customized exam preparation service! Simply choose your questions from the Test Bank and call Irwin's Educational Software Services (ESS). Within 24 hours of receiving your order, ESS will send by first-class mail a laser-printed master test with an answer key for you.

Supplements for Students

Study Guide The study guide is designed as a set of interactive modules that cover key concepts in the text and help students understand and apply the concepts. In addition to the exercises and self-tests, the new edition features questions and answers about current events and about the Insight on Issues interviews from the text.

Ready Notes The transparency acetates are replicated in book form so that students may take notes and make sketches easily during lectures.

Principles of Economics Simulation Software This simulation allows students to apply the economic theory they are learning by making decisions in a variety of economic contexts and by seeing the effects of those decisions. A workbook asks students to make observations, answer questions, and complete exercises as they work through the simulations. Available for IBM or IBM-compatible PCs.

Microview This is a tutorial that uses modules, with references to the text, to help students explore key micro-economic concepts. Students are directed to manipulate graphical or other information in a model and then to answer questions about the effects of these actions on various relationships. The software is available for IBM or IBM-compatible PCs.

David N. Hyman

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It is with the utmost appreciation that I thank all those who contributed time and thought to this book. I regard them as partners in the development of this text.

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The planning for the third edition included a questionnaire that was sent to instructors across the United States and in other countries where this text is used. The response rate was remarkable and provided the information I needed

to fine-tune this edition. Although it is impossible to list all of you, I do want to express my appreciation for both your time and your insights.

The staff of Richard D. Irwin were helpful throughout the revision and production process for this book. Gary Nelson, sponsoring editor, provided many useful suggestions for this new edition. The late Joan Hopkins supervised the developmental process of the new edition and worked very closely with me on perfecting the various drafts of the book. Patricia McCabe completed the task for Joan and for me. Susan Trentacosti efficiently managed the editing process and Ann Cassady the production process. Jeanne Rivera provided an eye-pleasing and functional design for the book. I am grateful to all those at Irwin for the many hours of work and thought that they put into the process of producing the polished text.

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D. N. H.

Some of the “Economic Issues for the 21st Century” discussed in this Prologue are covered in the companion volume to this book entitled *Macroeconomics* available from Richard D. Irwin, Inc.

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