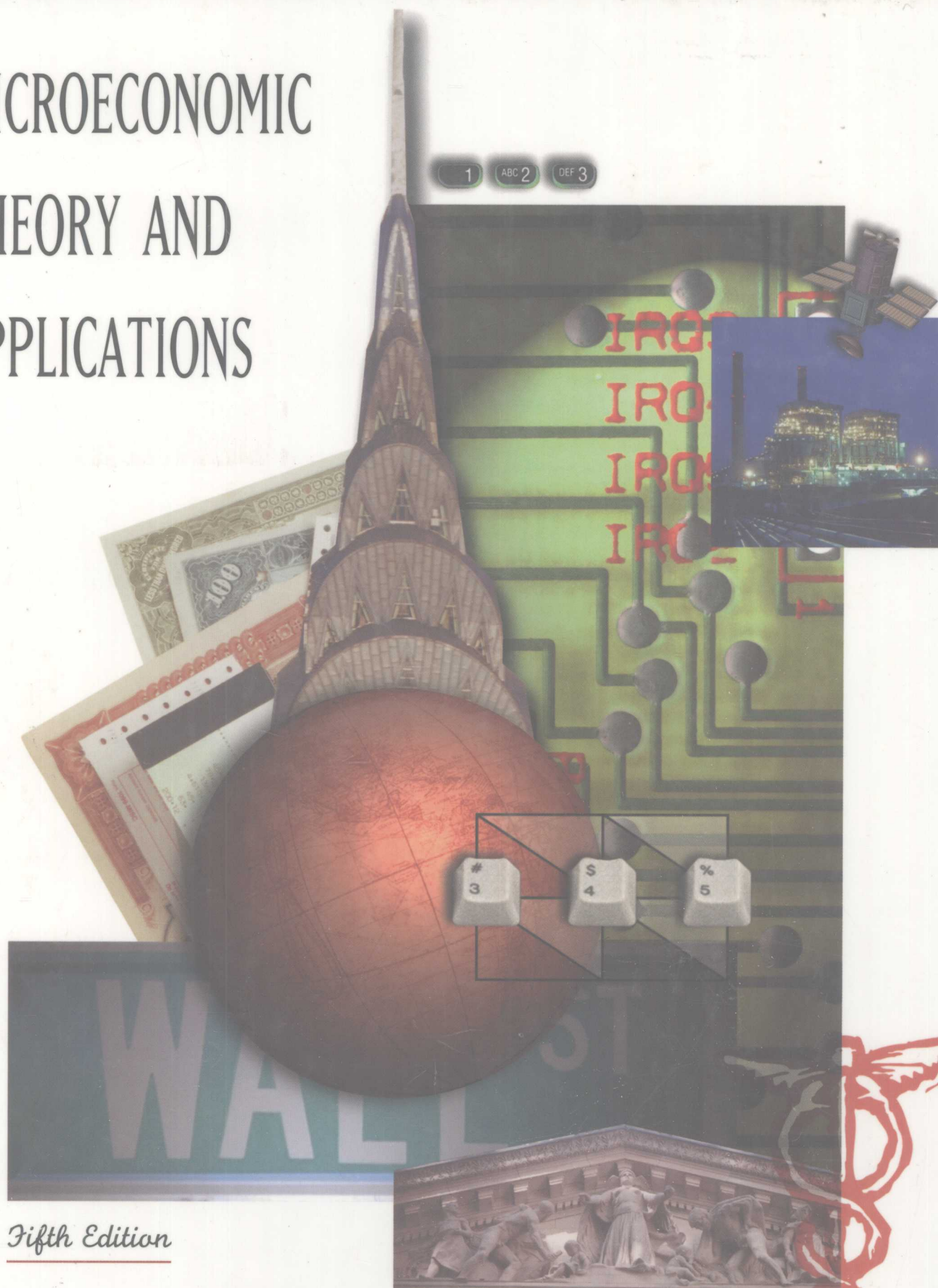


MICROECONOMIC THEORY AND APPLICATIONS



Fifth Edition

EDGAR K. BROWNING • MARK A. ZUPAN

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The study of how markets operate is the cornerstone of microeconomic theory, and understanding how markets operate is essential to understanding how our economic system functions. Beyond developing a coherent view of economic reality, microeconomics provides techniques that increasingly play roles in both public policy formulation and private decision making. Although macroeconomic issues frequently receive more visible media attention, the ways in which innumerable microeconomic issues are resolved have a far greater and more enduring impact in shaping our economic environment.

We believe that microeconomics is the most important course in the undergraduate economics curriculum. We also believe that understanding microeconomics provides an essential foundation to any bachelor's or master's degree business student. Our intention in writing *Microeconomic Theory and Applications* was to develop a text for economics and business students that will teach them the theory and how to use it correctly. To this end, we have presented basic microeconomic principles in a clear, thorough way, using numerous applications to illustrate the use of theory and to reinforce students' understanding of it. This approach gives students the fundamental tools of analysis and teaches them how to think about problems using the analytical framework that economists have found so useful.

ORGANIZATION AND CONTENT

The fifth edition of *Microeconomic Theory and Applications* continues to reflect the belief that it is better for students to be exposed to thorough coverage of fundamental microeconomic concepts and techniques than to superficial treatment of a great number of topics, many of which will never be encountered again. The enthusiastic reception given the first four editions suggests that a large number of instructors also share this view. Apart from this emphasis on the core principles of microeconomics and how to use them, the text is by and large conventional in structure and organization except for one feature: There are five chapters devoted exclusively to applications. These are Chapter 3, "Using the Supply-Demand Model"; Chapter 6, "Using Consumer Choice Theory"; Chapter 11, "Using the Competitive Model"; Chapter 16, "Using Noncompetitive Market Models"; and Chapter 19, "Using Input Market Analysis."

A further feature of the text that deserves mention is the attention given to input market analysis. Traditionally, this has been a weak area in most microeconomics texts, seldom with more than two, and frequently only one, chapter(s) on the subject. Yet in a fundamental quantitative sense, input markets and product markets are of equal importance because the sum of incomes generated in input markets (national income) equals total outlays on goods and services (national product). Moreover, public policy issues relating to input markets have become increasingly important, as suggested by recent attention given to managerial compensation, income distribution, welfare programs, discrimination, comparable worth, interest rates and investment, and minimum wage legislation. Consequently, we devote three chapters to the subject of input market analysis (Chapters 17 through 19).

Because all microeconomics courses are not taught the same way, the text is designed to give instructors great flexibility in adapting the book to their requirements. For example, in a short course emphasizing the theoretical underpinnings of partial equilibrium

analysis, the instructor might cover only Chapters 1 through 5, 8 through 12, 17, and 18. A longer, more theoretically oriented course could include all chapters except the applications chapters. Generally, however, we expect that most instructors will steer a middle course and select three or four applications from each of these chapters (the way we normally use the material). In addition, instructors can either assign the applications as they appear in the text—following the development of the theory—or integrate them into their presentations of the theory chapters.

APPLICATIONS

As the space devoted to them suggests, we believe that a large dose of applications is an essential ingredient in any microeconomics course. Although economists know that microeconomics is important and often exciting, students need to be convinced that this is so. Applications serve this purpose. In addition, they enliven the subject for students and help them better appreciate the theory. Time permitting, the more applications covered, the better prepared students will be to use the theory on their own.

Each of the five applications chapters (Chapters 3, 6, 11, 16, and 19) contains four to six longer applications that use and reinforce the graphical and logical techniques developed in the theory chapters. In Chapter 3, for example, the basic supply and demand framework developed in Chapters 1 and 2 is used to examine, among other topics, international trade, an import quota on sugar, rent control, the incidence of gasoline taxes, and the pricing of cable television service. Chapter 11, “Using the Competitive Model,” includes analyses of local taxi cab markets, the market for Los Angeles smog, and airline deregulation. In Chapter 19, “Using Input Market Analysis,” the theory is applied to discrimination, the incidence of the Social Security payroll tax, the government budget deficit, and the effects of the National Collegiate Athletic Association on college football players.

Applications are not relegated exclusively to the five applications chapters; all other chapters contain several shorter applications. We feel, however, that it is appropriate to use more applications in some areas than in others. For example, it seems a misallocation of limited textbook space to include as many applications for general equilibrium theory as for the competitive and monopoly models. Not only are the applications in the latter two areas likely to be more interesting to students, they are also likely to provide more useful background for students’ later work.

CHANGES IN THE FIFTH EDITION

There are more changes in this edition than in any edition since the book was first written. The changes, made in response to reviewer and user comments as well as to new developments in the field, occur in four principal areas.

More Than 100 New Applications

More than 100 applications, some short, others of greater length, have been added to the text. For example, Chapter 6, “Using Consumer Choice Theory,” now includes an explanation of why company health benefits are tax exempt; an overview of the economics and politics of school vouchers; the pricing of trash collection and its effect on

recycling; an analysis of the difference between law and doctoral student parking lots; an investor-choice model and how it can be employed to explain the risk-return preferences of professors; and a description of the deadweight loss associated with Christmas gift-giving. Chapter 7, “The Cost of Production,” includes a description of cost minimization at American Airlines; a comment on public versus private provision of schooling and postal services; an explanation for changes over time in the minimum efficient scale of producing beer, lawsuits, and soft drinks; an analysis of input substitution in the raising and razing of buildings; an examination of why the Yale hockey team typically features players who are slower but brawnier than does the Harvard hockey team; and an overview of economies of scope and the role this concept plays in explaining oil company diversification and full-service banking. The other chapters feature similar additions. The applications have been added to enhance what we believe has always been the hallmark of the text and what we want to remain its most important competitive advantage: the emphasis on illuminating microeconomic theory through telling, real-world examples.

Greater Relevance for Business Students

In revising the text, we also have sought to make the material more useful to business students. Nationwide, business schools account for roughly 25 percent of all the undergraduate and master's degrees granted by universities. Since business school curricula typically include a healthy dose of microeconomics, making our text relevant for the students in these programs has been a key objective. The added material includes sections on the estimation of demand and cost (Chapters 5 and 9, respectively); the economics of risk, uncertainty, and investor choice (Chapter 6); pricing strategies in monopoly markets (Chapter 13); and numerous new examples from the business world. These changes have been made without compromising the value of the text for a liberal arts economics major or a more theoretically oriented professor.

More on the Basics of Supply and Demand

The third significant change in this edition is that more of the text has been devoted to the basics of supply and demand, notably Chapters 1 through 3. Material on opportunity cost, elasticities, consumer and producer surplus, and international trade has been shifted to the front of the text and expanded in response to feedback from instructors that they typically spend more time reviewing this foundation-building material at the beginning of their courses. We have taken their input to heart in the revision and have created space for the expanded coverage by trimming some of the material in the last few chapters of the book.

Enhanced Coverage of International and Public Policy Considerations

Finally, given the increasing internationalization of today's business world and the ever-growing role played by government in our society, we have devoted more attention to the consequences as well as the causes of these two important topics. For example, Chapter 11 includes an analysis of foreign exchange markets and the European currency crisis of 1992. An application in Chapter 7 investigates the manner in which government policymakers regulate water markets in California.

PEDAGOGICAL AIDS

In addition to the use of applications, several other in-text pedagogical aids should be mentioned.

Graphs

We have paid careful attention to the graphs used in the text. Unusually thorough explanations of graphs are given. Furthermore, the explanatory captions and the liberal use of color will help students follow the text discussion and understand graphical analysis.

End-of-Chapter Aids

At the end of each theory chapter is a Summary that highlights the important points of the chapter and a list of Key Concepts and Terms to help students test their knowledge of the basic material. Nearly 400 Review Questions and Problems help students review chapter material and require them to solve analytical exercises. Answers to some of these questions and problems are provided at the end of the book.

Ancillaries

A *Study Guide* prepared by John Lunn, Hope College, is available to give students further review and practice in the use of microeconomic theory. An *Instructor's Manual*, written by the text authors, accompanies the text. Each chapter in the manual features a chapter outline, general comments on the chapter, specific section-by-section comments, and suggestions that may help in developing lectures and class discussion topics. The *Test Bank*, by Clark G. Ross and Vikram Kumar, both of Davidson College, contains 1,400 multiple-choice questions with answers, along with review questions and problems. This test bank is available on Testmaster, a computerized testing system available to adopters, which allows users to create and customize tests and solution keys.

Six software modules are available for the IBM PC, covering elasticity, consumer choice, competition, monopoly, input markets, and game theory. Written by Richard Alston and Wan Fu Chi of Weber State College, the modules encourage students to explore the graphical and analytical relationships described in the text. Numerous problem-solving exercises using the software modules are provided in an accompanying booklet prepared by Sarah L. Glavin of Boston College.

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Edgar K. Browning
Mark A. Zupan

Preface xxi

Chapter 1 An Introduction to Microeconomics 1

1.1 The Scope of Microeconomic Theory	1
1.2 The Nature and Role of Theory	2
1.3 Positive Versus Normative Analysis	3
1.4 Market Analysis and Relative Prices	4
1.5 Basic Assumptions about Market Participants	5
1.6 Opportunity Cost	5
Economic Versus Accounting Costs	7
Sunk Costs	9
1.7 Production Possibility Frontier	9
Summary	11
Key Concepts and Terms	12
Review Questions and Problems	12

Chapter 2 Supply and Demand 15

2.1 Demand and Supply Curves	15
The Demand Curve	15
Shifts in the Demand Curve	17
The Supply Curve	20
Shifts in the Supply Curve	21
2.2 Determination of Equilibrium Price and Quantity	22
2.3 Adjustment to Changes in Demand or Supply	24
Using the Supply-Demand Model to Explain Market Outcomes	25
2.4 Elasticities	28
Price Elasticity of Demand	28
Calculating Price Elasticity of Demand	30
Graphical Treatment of Elasticity of Demand	32
Demand Elasticities Vary Among Goods	33
The Estimation of Demand Elasticities	34
Three Other Elasticities	36
Income Elasticity	36
Cross-Price Elasticity of Demand	36
Elasticity of Supply	37
Summary	38
Key Concepts and Terms	38
Review Questions and Problems	38

Chapter 3 Using the Supply-Demand Model 41

3.1 Markets and Their Effect on Consumer and Producer Welfare	41
Consumer Surplus	42
Producer Surplus	46
3.2 Consumer and Producer Surplus, and the Net Gains from Trade	48
The Gains from International Trade	50
The Link Between Imports and Exports	52
3.3 Government Intervention in Markets: Price Controls	53
Rent Control	53
Who Loses, Who Benefits?	55
3.4 Government Intervention in Markets: Quantity Controls	57
Sugar Policy: A Sweet Deal	58
3.5 Demand Elasticity and Cable Television Pricing	61
3.6 Supply and Demand Elasticities, and Bearing Tax Burdens	63
Key Concepts and Terms	66
Review Questions and Problems	66

Chapter 4 The Theory of Consumer Choice 69

4.1 The Budget Line	69
The Geometry of the Budget Line	71
Shifts in Budget Lines	72
4.2 Preferences of the Consumer	75
Consumer Preferences Graphed as Indifference Curves	76
Curvature of Indifference Curves	78
Individuals Have Different Preferences	81
Graphing Economic Bads and Economic Neuters	81
Perfect Substitutes and Complements	83
4.3 The Consumer's Choice	84
A Corner Solution	86
4.4 The Composite Good Convention	87
4.5 Changes in Income and Consumption Choices	88
Normal Goods	90
Inferior Goods	90
The Food Stamp Program	93
4.6 The Utility Approach to Consumer Choice	96
The Consumer's Optimal Choice	97
Relationship to Indifference Curves	98
Summary	100
Key Concepts and Terms	100
Review Questions and Problems	100

Chapter 5 Individual and Market Demand 103

5.1 Price Changes and Consumption Choices	103
The Consumer's Demand Curve	104
Some Remarks About the Demand Curve	105
Do Demand Curves Always Slope Downward?	107
5.2 Income and Substitution Effects of a Price Change	107
Income and Substitution Effects Illustrated: The Normal-Good Case	108
5.3 Income and Substitution Effects: Inferior Goods	110
The Giffen Good Case: How Likely?	111
5.4 From Individual to Market Demand	115
5.5 Price Elasticity and the Price-Consumption Curve	118
5.6 The Basics of Demand Estimation	120
Experimentation	121
Surveys	121
Regression Analysis	122
Summary	127
Key Concepts and Terms	127
Review Questions and Problems	127
Appendix: Some Statistical Background for Regression Analysis	129
Statistical Assumptions Behind OLS	129
Model Reliability	129

Chapter 6 Using Consumer Choice Theory 131

6.1 Excise Subsidy	131
Using the Consumer Surplus Approach	134
6.2 Public Schools and the Voucher Proposal	136
6.3 Paying for Garbage	140
Does Everyone Benefit?	142
6.4 Gasoline Taxes and Tax Rebates	144
Using the Consumer Surplus Approach	146
6.5 The Consumer's Choice to Save or Borrow	146
A Change in Endowment	149
Changes in the Interest Rate	150
6.6 Investor Choice	152
Investor Preferences Toward Risk	155
Minimizing Exposure to Risk	159
Key Concepts and Terms	162
Review Questions and Problems	162

Chapter 7 Exchange, Efficiency, and Prices 165

7.1 Two-Person Exchange	165
The Edgeworth Exchange Box Diagram	167
The Edgeworth Box Diagram with Indifference Curves	168
7.2 Efficiency in the Distribution of Goods	171
Efficiency and Equity	173
7.3 Competitive Equilibrium and Efficient Distribution	174
7.4 Price and Nonprice Rationing and Efficiency	179
Summary	183
Key Concepts and Terms	183
Review Questions and Problems	183

Chapter 8 Production 185

8.1 Relating Output to Inputs	185
8.2 Production When Only One Input is Variable	186
Total, Average, and Marginal Product Curves	188
The Relationship Between Average and Marginal Product Curves	188
The Geometry of Product Curves	189
The Law of Diminishing Marginal Returns	191
8.3 Production When All Inputs Are Variable	194
Production Isoquants	194
MRTS and the Marginal Products of Inputs	196
Using MRTS: Speed Limits and Gasoline Consumption	197
Fixed-Proportions Production Functions	199
8.4 Returns to Scale	200
8.5 Empirical Estimation of Production Functions	205
Summary	209
Key Concepts and Terms	209
Review Questions and Problems	209

Chapter 9 The Cost of Production 211

9.1 The Nature of Cost	211
9.2 Short-Run Cost of Production	212
Measures of Short-Run Cost	212
Behind Cost Relationships	214
9.3 Short-Run Cost Curves	216
Marginal Cost	217

Average Cost	218
Marginal-Average Relationships	219
The Geometry of Cost Curves	219
9.4 Long-Run Cost of Production	221
Isocost Lines	221
Least Costly Input Combinations	221
Interpreting the Tangency Points	223
The Expansion Path	224
Is Production Cost Minimized?	224
9.5 Long-Run Cost Curves	227
The Long Run and Short Run Revisited	229
9.6 Importance of Cost Curves to Market Structure	231
9.7 Input Price Changes and Cost Curves	234
9.8 Using Cost Curves: Controlling Pollution	237
9.9 Economies of Scope	240
9.10 Estimating Cost	241
Summary	244
Key Concepts and Terms	244
Review Questions and Problems	244

Chapter 10 Profit Maximization in Perfectly Competitive Markets 247

10.1 The Assumptions of Perfect Competition	247
10.2 Profit Maximization	248
10.3 The Demand Curve Facing the Competitive Firm	251
10.4 Short-Run Profit Maximization	252
Short-Run Profit Maximization Using Per-Unit Curves	254
Operating at a Loss in the Short Run	256
10.5 The Perfectly Competitive Firm's Short-Run Supply Curve	258
Output Response to a Change in Input Prices	260
10.6 The Short-Run Industry Supply Curve	261
Price and Output Determination in the Short Run	262
10.7 Long-Run Competitive Equilibrium	263
Zero Profit When Firms' Cost Curves Differ?	267
10.8 The Long-Run Industry Supply Curve	268
Constant-Cost Industry	268
Increasing-Cost Industry	270
Decreasing-Cost Industry	272
Comments on the Long-Run Supply Curve	275

10.9 When Does the Competitive Model Apply?	276
Summary	278
Key Concepts and Terms	279
Review Questions and Problems	279

Chapter 11 Using the Competitive Model 281

11.1 The Efficiency of Competitive Markets	281
Efficient Production	281
Efficient Level of Output	282
11.2 Excise Taxation	284
The Welfare Cost of Excise Taxation	287
Size of Welfare Cost Due to Inefficient Output	289
11.3 Airline Regulation and Deregulation	293
What Happened to the Profits?	294
After Deregulation	296
The Push for Reregulation	298
11.4 City Taxicab Markets	299
The Illegal Market	301
11.5 Controlling Pollution, Part II	303
The Market for Los Angeles Smog	306
11.6 The Market for Foreign Exchange	308
The Market for British Pounds	308
The Welfare Cost of Fixed Exchange Rates	309
The Defense and Defeat of the Fixed Exchange Rate	311
Key Concepts and Terms	313
Review Questions and Problems	313

Chapter 12 Monopoly 315

12.1 The Monopolist's Demand and Marginal Revenue Curves	315
12.2 Profit-Maximizing Output of a Monopoly	317
Graphical Analysis	318
The Monopoly Price and Its Relationship to Elasticity of Demand	320
12.3 Further Implications of Monopoly Analysis	323
12.4 The Measurement and Sources of Monopoly Power	327
Measuring Monopoly Power	329
The Sources of Monopoly Power	329
Barriers to Entry	330
Strategic Behavior by Firms: Incumbents and Potential Entrants	332
12.5 The Efficiency Effects of Monopoly	334

A Dynamic View of Monopoly and Its Efficiency Implications	336
12.6 Public Policy Toward Monopoly	339
Regulation of Price	341
Summary	343
Key Concepts and Terms	343
Review Questions and Problems	344

Chapter 13 Product Pricing with Monopoly Power 347

13.1 Price Discrimination	347
Other Degrees of Price Discrimination	349
13.2 Three Necessary Conditions for Price Discrimination	352
13.3 Price and Output Determination with Price Discrimination	353
13.4 Two-Part Tariffs	357
Many Consumers, Different Demands	358
13.5 Intertemporal Price Discrimination and Peak-Load Pricing	362
Peak-Load Pricing	365
Summary	367
Key Concepts and Terms	368
Review Questions and Problems	368

Chapter 14 Monopolistic Competition and Oligopoly 371

14.1 Price and Output Under Monopolistic Competition	371
Determination of Market Equilibrium	372
Monopolistic Competition and Efficiency	374
14.2 Oligopoly and the Cournot Model	377
The Cournot Model	378
Evaluation of the Cournot Model	381
14.3 Other Oligopoly Models	382
The Stackelberg Model	383
The Dominant Firm Model	386
14.4 Cartels and Collusion	387
Cartelization of a Competitive Industry	388
Why Cartels Fail	390
Oligopolies and Collusion	393
The Case of OPEC	394
Summary	397
Key Concepts and Terms	398
Review Questions and Problems	398

Chapter 15 Game Theory and the Economics of Information 401

15.1 Game Theory	401
Determination of Equilibrium	402
15.2 The Prisoner's Dilemma Game	405
The Prisoner's Dilemma and Cheating by Cartel Members	407
A Prisoner's Dilemma Game You May Play	409
15.3 Repeated Games	410
Do Oligopolistic Firms Always Collude?	413
Game Theory and Oligopoly: A Summary	414
15.4 Asymmetric Information	415
The "Lemons" Model	415
Market Responses to Asymmetric Information	416
15.5 Adverse Selection and Moral Hazard	419
Adverse Selection	419
Moral Hazard	421
15.6 Limited Price Information	423
15.7 Advertising	425
Advertising as Information	425
Summary	429
Key Concepts and Terms	429
Review Questions and Problems	430

Chapter 16 Using Noncompetitive Market Models 431

16.1 The Size of the Welfare Cost of Monopoly Power	431
Other Welfare Costs of Monopoly	434
16.2 Do Monopolies Suppress Inventions?	435
16.3 Natural Monopoly	437
Regulation of Natural Monopoly	439
Regulation of Natural Monopoly in Practice	440
16.4 Government-Established Cartels: The Case of the British Columbia Egg Marketing Board	443
Estimating the Welfare Cost: The First Round	444
Estimating the Welfare Cost: The Second Round	446
Key Concepts and Terms	448
Review Questions and Problems	449

Chapter 17 Employment and Pricing of Inputs 451

17.1 The Input Demand Curve of a Competitive Firm	451
The Firm's Demand Curve: One Variable Input	452