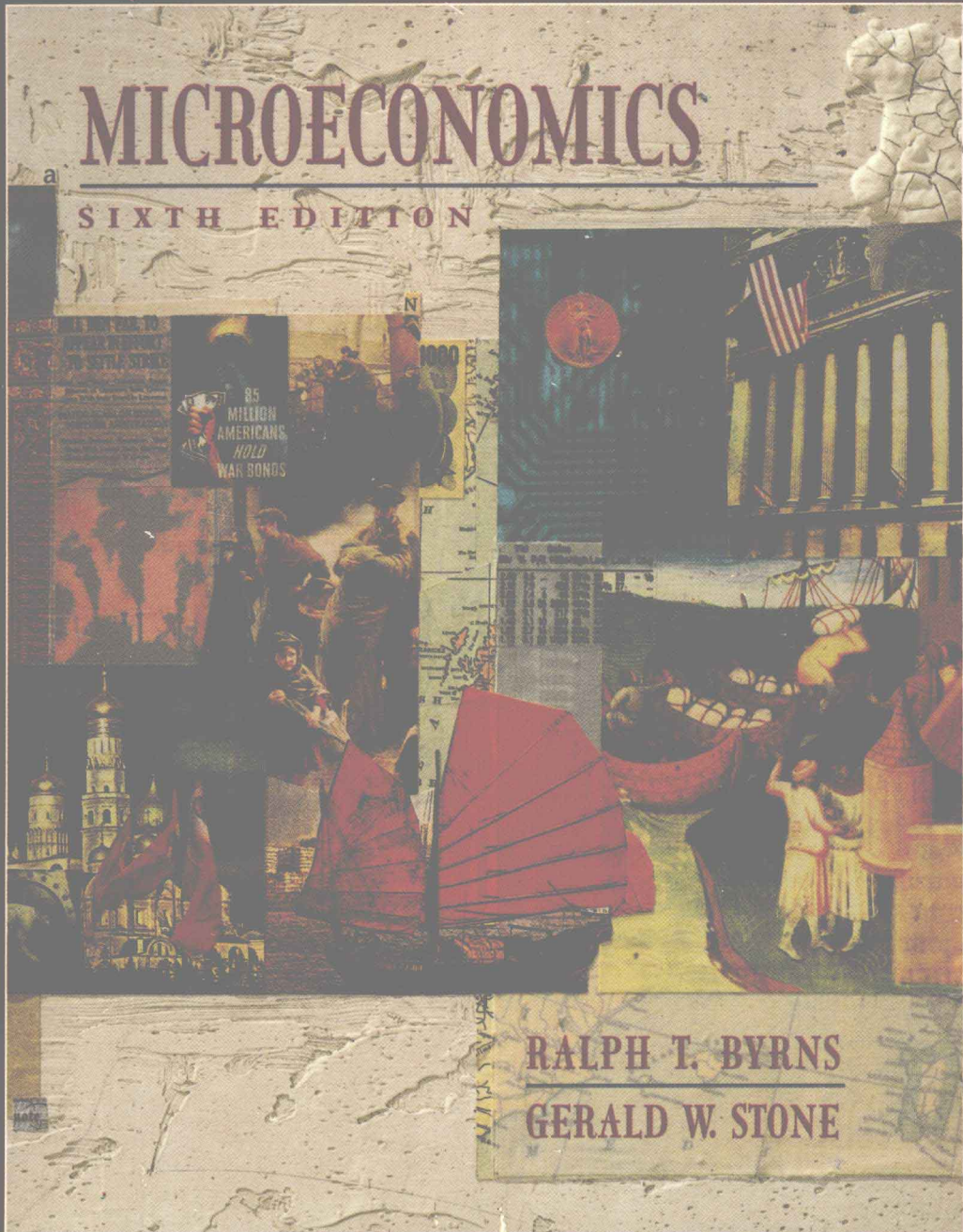


STUDENT GUIDE  
FOR LEARNING  
MICROECONOMICS, 6TH EDITION



*Ralph T. Byrns / Gerald W. Stone*

# **Student Guide for Learning Microeconomics**

to accompany

**Byrns/Stone**  
**MICROECONOMICS**  
*Sixth Edition*

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Student Guide for Learning Microeconomics to accompany Byrns/Stone, MICROECONOMICS, Sixth Edition

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## How to Study Economics

No doubt about it. Economics is among the most challenging topics that many of you will encounter during your college educations. This *Student Guide for Learning Microeconomics* will help focus your study so that the time you devote to this fascinating subject is as productive as possible. Before you work on any chapter in this study guide, you should thoroughly read (and perhaps, reread) the corresponding material in our texts, *Microeconomics* or *Economics*. The "Contents in Brief" for this study guide provides cross-references so that you can discern which chapter here corresponds to a particular chapter from the text you are using.

Conscientious use of this study guide is the single factor that seems to differentiate students who do well in our courses from those who do poorly. This guide, instead of introducing new material, will aid you in learning and retaining the material in your text. You will find that time spent working through this study guide will pay huge dividends when you take examinations that test your mastery of economic concepts. More importantly, we hope that five years from now you remember and are able to apply economic reasoning to everyday problems. If you have any suggestions that you believe would make this guide more useful for other students, please send your comments to us, c/o HarperCollinsPublishers, 10 East 53rd Street, New York, NY 10022-5299.

### **A General Plan for Studying Economics**

Superficial cramming is very unlikely to succeed in an macroeconomics course. Keeping up is crucial. Educational research indicates that learning is most effective when you are exposed to information and concepts in several ways over a period of time. You will learn more economics and retain it longer if you read, see, hear, communicate, and then apply economic concepts and information. This material is much more than a few facts and glib generalizations; understanding economics requires reflection. Here is one systematic study strategy that many students have found successful in economics, and have adapted for other classes.

### **Visual Information**

Don't let the extensive graphs in economics frighten you. There is a brief review of graphical analysis at the end of Chapter 1 of your text. The introductory modules in our *MicroStudy* program and this *Student Guide for Learning Microeconomics* also open with sets of helpful exercises. Avoid the agony of trying to memorize each graph by taking the time to learn how graphs work. Proceed to Chapter 2 of your text only after you quell your anxiety a bit. (Be sure that you also understand simple algebra. The algebra in the text is elementary, and should prove no problem if you have learned the material from a basic course.) As you become familiar with graphs, you may be surprised to find yourself mentally graphing many noneconomic relationships, and even more amazed to find this process enjoyable.

## **Reading**

Schedule ample time to read your assignments, and try to use the same quiet and cool (but not cold) room every day. Avoid drowsiness by sitting in a hard chair in front of a desk or table. Think about the material as you read. Many students spend hours highlighting important points for later study, for which they somehow never find time. Too frequently, busy work substitutes for thinking about economics. Try to skim a chapter; then go back and really focus on five or six pages. Don't touch a pen or pencil except to make margin notes cross-referencing related materials you already know.

## **Writing**

After a healthy dose of serious reading, close your text and outline the important points with a half-page of notes. If you cannot briefly summarize what you just read, put your pen down and re-read the material. You have not yet digested the central ideas. Don't be surprised if some concepts require several readings. Be alert for graphs and tables that recapitulate important areas. When you finish each chapter, read its Chapter Review, work through all Problems, and outline good, but brief, answers to all Questions for Thought and Discussion.

## **Listening**

Most lectures blend your instructor's insights and examples with materials from the text, but few students conscientiously do assignments before lectures. You will have a major advantage over most of your classmates if you do, and will be able to take notes selectively. Focus on topics that your instructor stresses but which are not covered in depth in the text. Notes from lectures should supplement, not duplicate, your text.

## **Teaching**

Your instructors know that they learn their subject in greater depth every time they teach it. Teaching exposes you to previously unfamiliar aspects of a topic because you must conceptualize and verbalize ideas so that other people can understand them. Take turns with a classmate in reading the text's Key Points (in the Chapter Review) to each other. After one person reads a Key Point aloud, the other should explain it in his or her own words. Study groups work well in this way, but you may learn economics even more thoroughly if you simply explain economic concepts to a friend who has never studied it.

## **Applications**

Working through the material from this *Student Guide* that parallels each chapter of the text will make it easier to comprehend the economic events regularly featured in the news. When this happens, you will be among the minority who truly understand economic and financial news. Use economic reasoning to interpret your day-to-day behavior, and that of your friends and relatives. This will provide unique insights into how people function and how the world works.

## **Examinations**

Following the preceding suggestions should prepare you for minor tests and quizzes. To prepare for major exams and finals:

1. Read the Chapter Reviews for all chapters that will be covered on the examination. Keep a record of each Key Point that you could not explain to an intelligent friend who had never taken an economics course.
2. Return to each Key Point that you have not grasped adequately. Read the text material that covers it and rework the parallel parts of the accompanying chapter from your *Student Guide*.
3. Discuss any Key Point is not clear to you with a friend.
4. Skim the Glossary included in your package for a last minute refresher before your final exam.

See if this technique works for you. We know that this is a tall order, but if you conscientiously follow these study tips, we guarantee you an enjoyable and enlightening course.

## **Acknowledgments**

We would like to thank Professor Steve Stageberg of *Mary Washington College* for his diligent and speedy error-checking. His corrections were greatly appreciated.

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# Chapter 1

## Economics: The Study of Scarcity

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### Chapter Objectives

The economic concepts presented in this chapter provide a general framework for understanding the remainder of this book. After you have read and studied this introductory chapter you should be able to explain why scarcity is the basic economic problem; describe various kinds of productive resources and the payments to the owners of these resources; discuss a number of fundamental economic concepts, including the nature of economic prices, opportunity costs, and efficiency; discuss the nature of scientific theory, including its evolution into common sense, and the use of Occam's Razor; and distinguish normative from positive economics, and macroeconomics from microeconomics.

### Chapter Review: Key Points

1. *Economics* is concerned with choices and their consequences, and focuses on ways that individuals and societies allocate their limited resources to try to satisfy relatively unlimited wants.
2. *Scarcity* occurs because our relatively unlimited wants cannot be completely met from the limited resources available. A good is scarce if people cannot freely get all they want, so that the good commands a positive price. Scarcity forces all levels of decision makers from individuals to society at large to resolve three basic economic questions:
  - a. *What* will be produced?
  - b. *How* will production occur?
  - c. *Who* will use the goods produced?
3. *Goods* include anything that adds to human happiness, while *bads* are things that detract from it. *Economic goods* are costly; *free goods* are not.
4. *Production* occurs when knowledge or technology is used to apply energy to materials to make them more valuable.
5. The *opportunity costs* of choices are measured by the subjective values of the best alternative you sacrifice. *Absolute prices* are monetary, and are useful primarily as indicators of *relative prices*, which are the prices of goods or resources in terms of each other, and which provide information and incentives to guide our decisions.

6. *Resources* (factors of production) include:
  - a. *Labor*. Productive efforts made available by human beings. Payments for labor services are called *wages*.
  - b. *Land*. All natural resources. Payments for land are called *rents*.
  - c. *Capital*. Improvements that increase the productive potential of other resources. Payments for the use of capital are called *interest*. When economists refer to capital, they mean physical capital rather than financial capital, which consists of paper claims to goods or resources.
  - d. *Entrepreneurship*. The organizing, innovating, and risk-taking function that combines other factors to produce. Entrepreneurs are rewarded with *profits*.
  
7. *Economic efficiency* occurs when a given amount of resources produces the most valuable combination of outputs possible. In an efficient economy, no transactions are possible from which anyone can gain without someone else losing.
  - a. *Allocative efficiency* requires production of the things people want.
  - b. *Distributive efficiency* requires consumers to adjust their purchasing patterns to maximize their satisfactions from given budgets.
  - c. *Productive (technical) efficiency* is obtained when a given output is produced at the lowest possible cost. Another way of looking at efficiency is that it occurs when the opportunity cost of obtaining some specific amount of a good is at its lowest.
  
8. *Common sense* is theory that has been tested over a long period and found useful. In general, good theory accurately predicts how the real world operates. *Occam's Razor* suggests that the simplest workable theories are the most useful or "best."
  
9. *Positive economics* is scientifically testable and involves value-free descriptions of economic relationships, dealing with "what is." *Normative economics* involves value judgments about economic relationships and addresses "what should be." Normative theory can be neither scientifically verified nor proven false.
  
10. *Macroeconomics* is concerned with aggregate (the total levels of) economic phenomena, including such items as Gross National Product, unemployment, and inflation. *Microeconomics* concentrates on individual decision making, resource allocation, and how prices and output are determined.

## Matching Key Terms And Concepts

### SET I

- |                            |  |
|----------------------------|--|
| ___ 1. microeconomics      | a. The simplest workable theory is the best theory.  |
| ___ 2. Occam's razor       | b. Economic theory that is, at least theoretically, scientifically testable and free of value judgments. |
| ___ 3. positive economics  | c. Securities and other paper claims to goods or resources.  |
| ___ 4. land                | d. The organizing, risk-taking, and innovating resource.   |
| ___ 5. model               | e. Contestable theories rife with value judgments.   |
| ___ 6. normative economics | f. Using technology to apply energy to make materials more valuable.                                     |
| ___ 7. macroeconomics      | g. Nonhuman resources other than capital.  |
| ___ 8. entrepreneurship    | h. The study of individual decisions made by consumers and firms.  |
| ___ 9. financial capital   | i. Focuses on aggregate, or economy-wide, variables.   |
| ___ 10. production         | j. A representation of a theory.   |

### SET II

- |                               |  |
|-------------------------------|--|
| ___ 1. technology             | a. Desired amounts of a good exceed those freely available.          |
| ___ 2. capital                | b. Improvements to natural resources that make them more productive. |
| ___ 3. <i>Homo economicus</i> | c. The view that humans maximize their satisfaction or wealth.       |
| ___ 4. labor                  | d. The hours of human effort available for production.               |
| ___ 5. rent                   | e. Payments for labor services.                                      |
| ___ 6. scarce good            | f. Physical capital accumulation.                                    |
| ___ 7. profits                | g. Decreases in capital because of wear-and-tear.                    |
| ___ 8. investment             | h. Entrepreneur's reward.  |
| ___ 9. depreciation           | i. Payment for the use of land.                                      |
| ___ 10. wages                 | j. The "recipes" used to combine resources for production.           |

### SET III

- |                                |   |
|--------------------------------|---|
| ___ 1. interest                | a. The value foregone whenever people make choices.   |
| ___ 2. free good               | b. Adds to human happiness, but is not scarce.  |
| ___ 3. opportunity cost        | c. Payments to capital owners.  |
| ___ 4. scarcity                | d. When this is reached, further gains in happiness to anyone require losses to someone else. |
| ___ 5. relative prices         | e. Achieving maximum satisfaction from given budgets.   |
| ___ 6. economic efficiency     | f. The basic economic problem.  |
| ___ 7. absolute prices         | g. Prices of goods or resources in terms of each other.                                       |
| ___ 8. production efficiency   | h. Prices of goods or services in terms of some monetary unit.                                |
| ___ 9. equity                  | i. Fairness.  |
| ___ 10. consumption efficiency | j. Getting maximum output from given resources.   |

### True/False

- |  |  |
|--|--|
| ___ 1. Economics resembles accounting or finance in being more relevant for business firms than individuals. | ___ 7. Economic reasoning is involved anytime people choose one thing instead of another.              |
| ___ 2. Complexity is desirable in a scientific theory.   | ___ 8. Models are less complicated and formal than theories.   |
| ___ 3. Unlike theory, common sense emphasizes practicality.  | ___ 9. Positive economic analysis can help in determining how to reach politically-set economic goals. |
| ___ 4. Normative economics is concerned with what should be, rather than what is.                            | ___ 10. Positive economics specifies the value judgments used to draw inferences in economic analysis. |
| ___ 5. Macroeconomics focuses on aggregate variables such as national income, employment, and inflation.     | ___ 11. Successful entrepreneurs combine resources productively.                                       |
| ___ 6. Occam's Razor is more relevant for other sciences than it is for economics.                           | ___ 12. Financial capital refers to all improvements made to land, machinery, and equipment.           |

- \_\_\_ 13. Payments for the use of capital services are called profit.
- \_\_\_ 14. Deciding to take a nap is an economic decision.
- \_\_\_ 15. Self sufficiency is an efficient goal for everyone.
- \_\_\_ 16. A good is scarce if the amounts people desire exceed the amounts freely available.
- \_\_\_ 17. Price are a meaningless concept in economies that do not use money.
- \_\_\_ 18. Economic considerations shape even such decisions as selecting a spouse or determining how many children to have.
- \_\_\_ 19. Opportunity costs are incurred while you study economics.
- \_\_\_ 20. Most of the best things in life are free.

## Standard Multiple Choice

**There Is One Best Answer For Each Question.**

- \_\_\_ 1. Economics involves broadly studying how:
- political power is used unethically to make money.
  - resources are allocated to satisfy human wants.
  - proper nutrition and budgeting benefit your family.
  - to get away with cheating the Internal Revenue Service.
  - different species are environmentally interdependent.
- \_\_\_ 2. Scientific attempts to describe economic relationships are:
- factual and can never be wrong.
  - accurate ways to predict political viewpoints.
  - known as positive economics.
  - directed at the fairness of social programs.
  - intended to boost the egos of entrepreneurs.
- \_\_\_ 3. Disagreements between economists arise most commonly in:
- microeconomic reasoning.
  - normative economics.
  - positive economics.
  - applications of common sense.
  - macroeconomic theories.
- \_\_\_ 4. Economists:
- hardly ever agree on anything.
  - agree on much of economic theory.
  - never make value judgments.
  - accurately predict the effects of all economic policies.
  - disagree most about positive economics.
- \_\_\_ 5. Unnecessary complexity in a theory is a violation of:
- common sense.
  - the principle of nonsatiety.
  - the law of supply and demand.
  - Occam's razor.
  - the anti-parsimony corollary.

- \_\_\_ 6. Which of the following LEAST explains the widespread but erroneous view that economists seldom agree?
- The media focus on controversy, not agreement.
  - Politics shapes policymaking more than economic logic.
  - Economists who are political appointees often feel obligated to support the president even if they disagree privately.
  - Economic policies embody controversial value judgments.
  - Economic policy is more scientific than economic theory.
- \_\_\_ 7. Macroeconomics is primarily concerned with aggregates. Which of the following is not a macroeconomic aggregate?
- Decisionmaking by a household.
  - The unemployment rate, and inflation levels.
  - National income.
  - The supply of money.
  - Fiscal policies of the federal government.
- \_\_\_ 8. Decisions made in households, firms, and government are the focus of:
- positive economics.
  - environmental economics.
  - microeconomics.
  - normative economics.
  - macroeconomics.
- \_\_\_ 9. When less is freely available than people want, a good is:
- in short supply.
  - a free good.
  - a luxury good.
  - scarce.
  - a necessity.
- \_\_\_ 10. Which of the following comes closest to being a free good?
- A wino's lunch, dug from the trash behind a restaurant.
  - Hot lunches provided to needy students at school.
  - Bacon and eggs bought with food stamps.
  - A record you bought from money earned by picking up aluminum cans in your spare time.
  - Free public education.
- \_\_\_ 11. TINSTAAFL is an acronym suggesting that:
- tax inspectors never see the awful affects from levies.
  - tenants in need should take all assets from landlords.
  - there is no such thing as a free lunch.
  - temperance in non-satiety together are adequate for life.
  - tyrants in Nirvana seldom try avoiding acceptably full lunches.
- \_\_\_ 12. Opportunity costs will always exist as long as:
- an economy has money.
  - relative prices are variable.
  - the opportunity to make money exists.
  - something has to be given up to get something else.
  - production is unregulated.
- \_\_\_ 13. Labor, land, capital, and entrepreneurship are all:
- examples of technology.
  - allocative mechanisms.
  - resources, or factors of production.
  - tools of capitalistic exploitation.
  - natural resources.

- \_\_\_ 14. An economy suffers from production inefficiency if:
- water runs off lawns and down big city streets when it is greatly needed by remote drought-stricken farmers.
  - it operates in a region of diminishing returns.
  - costs increase when production is expanded.
  - a consumer could gain by buying different goods.
  - costs could be reduced by using resources differently.
- \_\_\_ 15. Opportunity costs are the values of the:
- monetary costs of goods and services.
  - best alternatives sacrificed when choices are made.
  - minimal budgets of families on welfare.
  - profits gained by successful entrepreneurs.
  - freedom people enjoy in a socialist economy.
- \_\_\_ 16. Economic equity refers to the:
- financial settlements in civil court cases.
  - balance of national trade.
  - fairness of some economic arrangement.
  - hidden costs passed on to consumers.
  - gross value of any stocks or bonds you own.
- \_\_\_ 17. Economic efficiency for the entire economy requires that:
- potential gains to anyone necessitate losses to another.
  - all goods be produced at their lowest possible opportunity costs.
  - maximum-valued output is obtained from given resources.
  - all benefits are obtained at the lowest possible cost.
  - All of the above.
- \_\_\_ 18. Which of the following statements is normative?
- Higher oil prices will increase the inflation rate.
  - A tariff on textiles would tend to increase the wages of domestic textile workers.
  - Tax rates on the working poor should be reduced.
  - Other things equal, if the price of an item is reduced, consumers will buy more of it.
  - If interest rates remain high this quarter, business investment will continue to be weak.
- \_\_\_ 19. Knowledge used to combine resources productively is called:
- entrepreneurship.
  - capitalism.
  - investment.
  - technology.
  - comparative advantage.
- \_\_\_ 20. The process by which capital becomes worn out or obsolete is known as:
- capital attenuation.
  - disinvestment.
  - bankruptcy.
  - disinflation.
  - depreciation.

## Chapter Review (Fill-In Questions)

1. Scarcity is a result of \_\_\_\_\_ resources confronted by \_\_\_\_\_ wants.
2. Three basic economic questions are posed by scarcity and must be resolved by all economic systems: \_\_\_\_\_ economic goods will be produced, \_\_\_\_\_ will resources be utilized in production? \_\_\_\_\_ will get to consume the economic goods produced?
3. \_\_\_\_\_ is the process of using knowledge to apply energy to materials so that they are more valuable. The knowledge used to combine resources for production is referred to as \_\_\_\_\_.
4. \_\_\_\_\_ is the residual after all economic costs are paid out of a firm's revenues, and is received by \_\_\_\_\_, who organize the firm's activities, innovate new products and technologies, and take business risks.
5. People act rationally and purposefully to \_\_\_\_\_ their \_\_\_\_\_.
6. When economists say price or cost, they typically mean the value of the best \_\_\_\_\_ forgone when choices are made, rather than monetary prices. This is known as \_\_\_\_\_, or alternative cost. These costs are implicit in all choices, even when it is not obvious that conventional "economics" is involved.
7. Theory is judged by how well it \_\_\_\_\_ how the world works. \_\_\_\_\_ expresses a common preference among scientists for simple, rather than complex, workable theories.
8. \_\_\_\_\_ is the study of employment, inflation, money, the level of taxation, the relative prices of two or more countries' currencies, unemployment, national income, economic growth, and similarly aggregated variables. \_\_\_\_\_ is a more localized study of the consequences of interactive decisionmaking by individual consumers and firms.
9. \_\_\_\_\_ occurs when the opportunity cost of producing a given amount of goods is \_\_\_\_\_.
10. There is \_\_\_\_\_ efficiency if a consumer experiences maximum satisfaction from a given \_\_\_\_\_.



## Unlimited Multiple Choice

**Warning: Each Question Has From Zero To Four Correct Answers.**

- \_\_\_ 1. Economics is a(n):
- study of decisionmaking and its consequences.
  - mathematical and physical science, like chemistry.
  - concern only for people who are miserly.
  - "apparatus of the mind."
- \_\_\_ 2. A positive economic statement can be scientifically tested to see if it is false. Which of the following are positive economic statements?
- The economy will grow faster if tax rates are cut.
  - A high tax on tobacco will severely cut cigarette smoking.
  - People would have fewer children if their tax deductions for having them were increased.
  - The federal budget should be balanced annually.
- \_\_\_ 3. Theories are:
- much more complicated than common sense.
  - scientific only if based on normative value judgments.
  - proven if only a few unimportant exceptions exist.
  - developed when we collect data, try to explain how things work, and then test for validity.
- \_\_\_ 4. According to the characterization of humans as *Homo economicus*, all human behavior is:
- assumed to be self-interested, including charitable acts.
  - intended to generate monetary profits.
  - aimed at maximizing pleasure and minimizing pain.
  - guided by an instinct to perpetuate the species.
- \_\_\_ 5. The basic economic questions scarcity poses for every society, and which must somehow be resolved, include:
- what* quantities of which goods should be produced?
  - how* will the chosen goods be produced?
  - who* will use the goods that are produced?
  - which* system most efficiently distributes free goods to the needy?