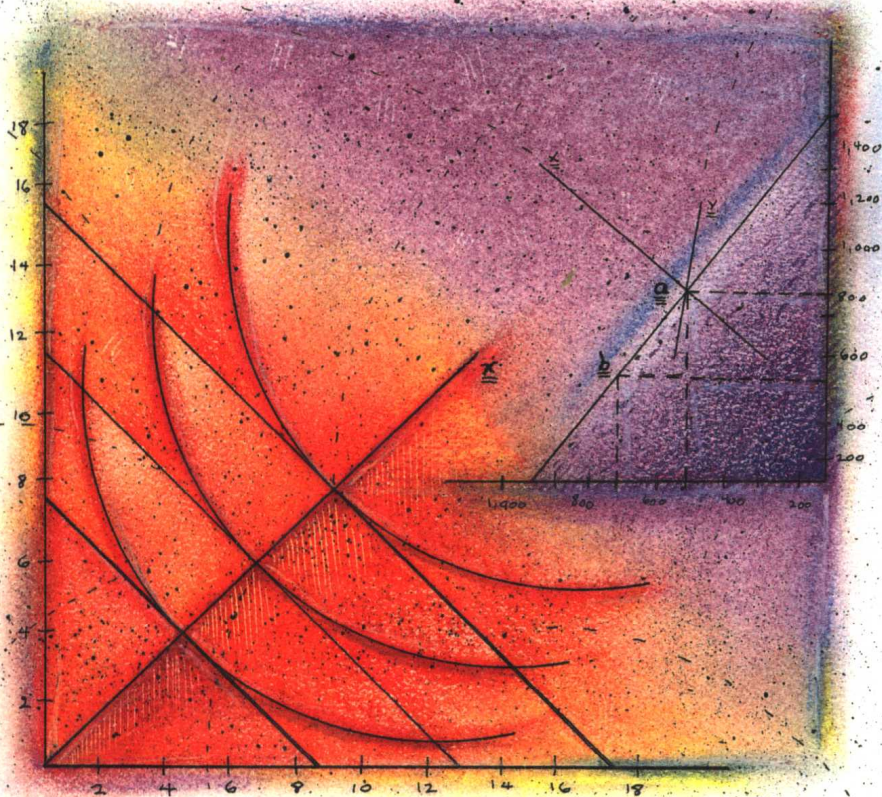


JONAS PRAGER

# APPLIED MICROECONOMICS

An Intermediate Text



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AN INTERMEDIATE TEXT

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Senior sponsoring editor: *Gary Nelson*  
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Designer: *Mercedes Santos*  
Cover designer: *Janet Cunniffe*  
Cover illustration: *Nancy Serensky*  
Art manager: *Kim Meriwether*  
Compositor: *BiComp, Inc.*  
Typeface: *10/12 Times Roman*  
Printer: *R. R. Donnelley & Sons Company*

#### **Library of Congress Cataloging-in-Publication Data**

Prager, Jonas.

Applied microeconomics : an intermediate text / Jonas Prager.

p. cm.

Includes index.

ISBN 0-256-05780-X

1. Microeconomics. I. Title

HB172.P68 1993

338.5—dc20

92-25194

*Printed in the United States of America*

1 2 3 4 5 6 7 8 9 0 DOC 9 8 7 6 5 4 3 2

# PREFACE

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## ***A Marketing Problem***

As the manager charged with marketing a new textbook, you are aware of stiff competition from existing texts. You're convinced that you have an excellent text that, if given the opportunity, will be a best-seller. Your challenge: sell this obviously superior product!

## ***Analysis***

Your challenge is compounded by the odd nature of the college textbook market. First, the market is very fragmented. You must reach individual faculty members, who rightly cherish their independence in textbook selection. Mass sales by appealing to a few key players in the market is not in the cards. Second, students who shell out the bucks and who benefit most from a suitable choice and suffer the most harm from an ill-fated one have no direct impact on the purchasing decision. Thus, third, price is not a strategic variable. It's highly unlikely that undercutting the competition will attract much faculty interest, although a price that's very much above the competition will turn potential adopters off. Fourth, professors are no different than most of us as creatures of habit. Changing texts, while hardly as traumatic as divorce and remarriage, requires overcoming inertia. Fifth, convention precludes using common merchandizing incentives. The marketing department can't employ price inducements or prizes. It cannot violate the integrity of faculty by offering monetary payments for ordering the text, nor can it place the faculty member's name in a contest limited to those who have adopted it. Sure, the marketing staff will advertise, offer free sample texts, visit the professors, and make available a variety of ancillaries such as test banks and teaching aids. But the competitors are doing the same, and so that offers no competitive edge.

How can you, the marketing manager, convince faculty members teaching the course that the swap is in both their best interest and that of their students?

### ***The Response***

Persuade the author to write a preface that so clearly points out the virtues of the text that it simultaneously entices professors to give the text serious consideration and encourages students to urge faculty to adopt it.

So that's why I'm writing this preface. I believe this microeconomics text is unique and better serves a broad audience than do its competitors. I'll try to tell you why without exaggerating its qualities but also avoiding the sin—in this particular instance—of immodesty.

---

## **To the Student**

### ***1. The Audience***

You, the reader, like most of your classmates enrolled in the intermediate microeconomics course, will not make economics your career. Even if you're an economics major, you're likely to seek opportunities among the broad range of occupations open to college graduates, although you'll probably be looking for a job related to economics in one way or another. This text recognizes students' pragmatic approach to microeconomic theory and tries to answer in a straightforward manner: What practical knowledge can I take away with me? What will prove useful for me later? This approach implies . . .

### ***2. Stress on Principles, Not Techniques***

No microeconomic theory text can avoid technical detail. Nevertheless, I view technique as a means to an end, not an end in itself. I am convinced that most students can be taught the methods of microeconomic analysis even at a sophisticated level without getting so bogged down in the technique that they lose sight of its applicability to real issues that they'll face over their lifetimes. Moreover, students' basic intuition about economic problems is an asset that needs to be nurtured, not repressed. That, in turn, leads to . . .

### ***3. An Applications-Centered Approach***

You've just been exposed to a sample in this preface. A practical case is outlined, analyzed, and then applied. Each chapter opens with one or two

issues—from stratospheric pricing of an AIDS drug to competition between Pepsi and Coke. Each chapter explores the analytic techniques appropriate to the issue and then reexamines the case in light of the analysis. I have found that students become more enthusiastic and are more likely to retain the fundamental principles when they clearly see them in the context of an issue. Focusing on some real issues implies coping with . . .

#### ***4. Uncertainty***

Economics courses often leave students puzzled. Textbooks frequently resolve real-life economic problems with precise answers that students intuitively feel are oversimplified. This confusion stems in part from the certain world inhabited by the economic models characteristic of most intermediate texts in contrast with the uncertain environment beyond the classroom. This quandary is not satisfactorily resolved by a chapter on uncertainty near the end of the text, which is rarely taught and even less frequently internalized by students. The present text introduces uncertainty in almost every chapter, because I am convinced that you and your classmates need to come to grips with uncertainty and its implications whenever possible. That should help you appreciate the value of economic analysis long after this text has gathered dust. The real world is also driven home by paying attention to . . .

#### ***5. The Quantitative Dimension***

Economics prides itself on dressing qualitative relationships in quantitative clothes. Quantitative estimation plays a role in this theory text because of my belief that students of intermediate microeconomic theory need to be shown in as many ways as possible the practical face of microeconomics. So, wherever it has been possible to do so, the text reports econometric estimates. Another way to demonstrate the usefulness of microeconomics is by . . .

#### ***6. Straying from the Narrow Path***

For instance, most theory texts give short shrift to problems of industrial structure. This text differs, because students interested in reality should be exposed to the competitive posture of modern industry. Thus, Chapter 12 on monopoly and especially Chapter 14 on oligopoly examine public policy issues well beyond the superficial treatment found in most intermediate microeconomics texts. (These chapters may prove especially appealing to business majors but should not be ignored by those interested in applied microeconomics in general.) Similarly, Chapter 10, which deals with environmental and public goods issues where market solutions are

not optimal, follows the discussion of perfect competition. That's because the analysis of market failure is needed to counterbalance the tangible achievements of the market economy. The last chapter is entirely a problems chapter, asking you to act as an economist. Aside from being unusual in a micro text, it also furthers another objective of this book . . .

### ***7. Learning by Doing***

Students rightly view intermediate microeconomics as among the toughest courses in college. The abstract, often subtle ideas combined with technical analysis—mathematical or geometrical—require both comprehension and discipline. You may discover that the better the teacher, the more difficult the course. That's because as you follow your professor's lecture attentively, you'll be convinced that you understand it. And well you may. But you, like many students, will all too frequently discover that the ingenious construction turns into a nightmare when you're asked to replicate its complexity on an exam or apply it in a different context.

Most texts don't address this problem at all. They rely instead on questions at the end of the chapter or workbook problems. While you'll find these features in this text as well, it differs in one important aspect. You are frequently challenged to test your understanding right then and there. This might involve filling in a blank, completing a table, drawing a diagram, or shifting a curve on an existing diagram. If you're conscientious, you'll work it out and then check your response with the correct answer found at the end of the chapter. Perhaps that's one reason that a student of mine called this text . . .

### ***8. User-Friendly***

He may also have been referring to the conversational style of the writing, the relief offered by an informative box or a cartoon, or the orientation toward relevance. This version is even more user friendly because each diagram appears with a grid in the background, so that you can trace points to the relevant axes. More crucial, each figure uses numbers (not letter references) to facilitate your understanding. No "area *ABCD*"; instead, it's  $(40 \times 10) = 400$ . That's clearly important in a text relying heavily on a diagrammatic rather than mathematical approach, which suggests that . . .

### ***9. This Text Is Not For Everyone***

True, both economics and business students should embrace the text's emphasis on application and its target audience of students who do not intend to become professional economists. But there's a flip side. The text is highly inappropriate for those who intend to pursue graduate-level de-

grees in economics. Such students need a technical, mathematical approach that will teach them first and foremost the tools and techniques of the profession. For them at this stage of their education, applications are of secondary importance. Moreover, they will find the text too intuitive and less rigorous than a more technical approach would take. But, . . .

### **10. It May Just Be For You**

If you want to apply basic microeconomic principles, are concerned with using economics as a tool that enables you to draw qualitative and quantitative conclusions about practical issues, learn best by actually testing your understanding along the way, and are helped by such features as learning objectives at the start of each chapter and questions testing both your understanding and your ability to apply the lessons, all wrapped in a tasteful literary and diagrammatic package, then you've found the right book.

By the way, you'll find suggested answers to even-numbered questions at the end of the book. If you want the answers to odd-numbered questions, you'll have to get your hands on the *Instructor's Manual* that is sent to faculty members who adopt this text. While it would be counterproductive to provide you with these answers, you're urged to acquire the accompanying *Study Guide* for a very elementary reason: The more exercises you do, the better you'll understand the material.

That's the sales pitch. A final comment, however, is in order. This text seems to have found an appreciative if captive audience in successive intermediate microeconomics classes at New York University. I owe these men and women a special debt of gratitude for their comments and tolerance.

---

## **To the Instructor**

Since the fundamental objectives, target audience, and characteristics of this text have been outlined in the previous pages, my comments here relate to a few teaching aspects that you may wish to consider. First, the scope of the course. I have learned that I cannot do justice to all the topics covered in contemporary intermediate micro texts, this one included. I must either omit some topics (my practice) or treat some very superficially. If you elect not to follow the sequence of the text and stop at whatever point you've reached by the semester's end, you might want to adapt by:

1. Leaving Chapter 10 on externalities and public goods for the end. This option will be more to the liking of faculty who adhere to a more traditional micro course sequencing. Nevertheless,

you might like to try the text's sequence in light of current concerns and misconceptions about environmental issues.

2. Omitting the parts of Chapters 12 and 14 that deal with industry structure.
3. Omitting the relationship between the short- and long-run cost curves (pp. 234–237). While this analysis is both interesting and fruitful, the opportunity cost of the time spent on this brief section may be too expensive.

Second, challenge your students. Insist that they write in the text where responses are called for or diagrams need to be drawn or curves shifted. And urge them to go beyond the Review Questions at the chapters' end and digest some of the Food for Thought. As you know, the more involved they are, the better they'll understand the material and the greater will be your teaching pleasure. Chapter 20's problems could either be reserved for the end of the course or used where appropriate. For the same reason, you might want to consider using the *Study Guide*, thoughtfully written by Errol Glustoff of the University of Tennessee.

Third, as has become traditional, Irwin has supplied a test bank both in hard copy and on disk to those who adopt the text. These come in addition to the *Instructors' Manual*, which contains additional questions, answers to the odd-numbered questions, and additional hints capably prepared by Elias C. Grivoyannis of Seton Hall University.

## Thanks

Publishing a textbook is a team effort. Once the author has completed the first draft, reviewers scrutinize the content as the publisher's staff deals with form. These professionals share in common anonymity, for it's the author's name that appears on the title page and the royalty check that's sent to his or her address. Their meager recognition comes in the preface, which, unfortunately, is not unlike the trailer of a movie that flashes by on the screen as the audience exits the theater. Nevertheless, since this text would have been a poorer product without their contributions, it is only right that I recognize them by name. My thanks to those who reviewed the prospectus:

Larry Blume  
Faye Duchin  
Edward R. Kittrell  
James C. Loughlin

George Palumbo

University of Michigan  
New York University  
Northern Illinois University  
Central Connecticut State  
University  
Canisius College

And those who reviewed all or portions of the text:

Louis A. Dow	University of Alabama
David Feldman	College of William and Mary
Michael Gurantz	California State University, Northridge
H. Youn Kim	Western Kentucky University
Michael Magura	The University of Toledo
Lawrence Martin	Michigan State University
James Meehan	Colby College
William C. Mitchell	University of Oregon
Jacob Paroush	Bar Ilan University
Joel B. Prager	Debevoise and Plimpton
Joseph Schachter	York College-CUNY
Ken Slaysman	Dickinson College
Bruno Stein	New York University
Bernard Wasow	New York University
Lawrence A. Wohl	Gustavus Adolphus College

There were difficult times when it seemed as if the book would never see the light. Gary Nelson, as a stalwart sponsoring editor and a constant source of encouragement, deserves much of the credit for this text's publication. And I appreciate the commitment of several developmental editors who worked with me through the process. Kris Rabe and Doris Hill were most helpful at the initial stage. Joan Hopkins bore the brunt of the editorial work, so it is to her that my debt is greatest. Joan's cheerful overall supervision has made palatable the distasteful tasks that take up an author's time and try his tolerance. I suspect Joan carried more of the burden than she let on, and she well deserves my warm thanks. My appreciation also to Jess Ann Ramirez, who facilitated and coordinated the production end. Finally, my children surely deserve some credit for tolerance, but let's not go overboard. They've been immunized to me writing textbooks and have learned not to let it disturb their lifestyles. Neither Sharon's marriage to Yudi nor Yossi's decision to work abysmally long hours had anything to do with this text. My wife-helpmate-significant other, Helen, on the other hand, patiently bore the burden of my sour moods when the writing wasn't going well. I know they all share my satisfaction at seeing this book finally out of the way.

In dedicating this book to my late parents, I also wish to express their lifelong gratitude to our great country. They found refuge here from Nazi Germany in 1934, arriving penniless during the Great Depression.

Through determination, hard work, much self-sacrifice, and an abiding faith in God, they set me on the right path. I pray that my children carry on their traditions and commitments, although they could be spared the poverty.

**Jonas Prager**

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