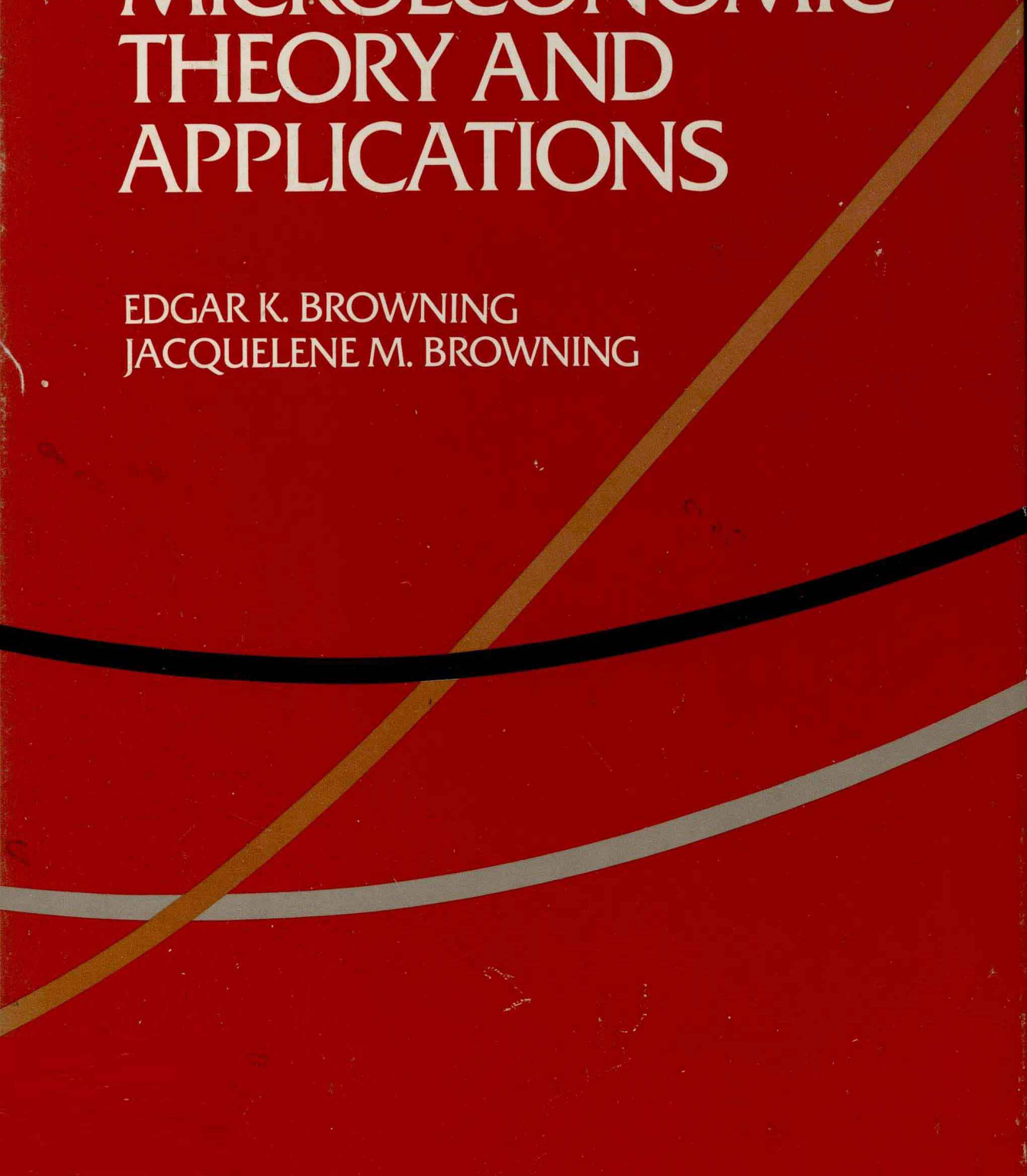


SECOND EDITION
**MICROECONOMIC
THEORY AND
APPLICATIONS**

EDGAR K. BROWNING
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MICROECONOMIC THEORY AND APPLICATIONS SECOND EDITION

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**To James M. Buchanan
and Leland B. Yeager**

PREFACE

Microeconomic theory is basically the study of how markets operate, 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 are playing increasing roles in both public policy formulation and private decision making. Although macroeconomic issues frequently receive more visible media attention, the ways that innumerable microeconomic issues are resolved have a far greater and more enduring impact in shaping our economic environment.

We believe microeconomics is the most important course in the undergraduate economics curriculum, and our intent in writing *Microeconomic Theory and Applications* was to develop a text that will teach students this 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 to be so successful.

Organization and Content

The second edition of *Microeconomic Theory and Applications* continues to reflect the belief that it is better for students to be exposed to a thorough coverage of fundamental microeconomic concepts and tech-

niques than to a superficial treatment of a great number of topics, many of which will never be encountered again. The enthusiastic reception given the first edition 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 conventional in structure and organization except for one feature: we have four chapters devoted exclusively to applications. These are Chapter 4, Using Consumer Choice Theory; Chapter 10, Using the Competitive Model; Chapter 12, Using Monopoly Theory; and Chapter 16, Using Input Market Analysis.

Another 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, with seldom more than two, and frequently only one, chapter on the subject. Yet in a fundamental quantitative sense, input markets and product markets are of equal importance since 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 income distribution, welfare programs, discrimination, interest rates and investment, the effects of taxation on labor supply and saving, and regulation of wages and working conditions. Consequently, we devote three chapters to the subject of input market analysis (Chapters 14–16).

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 1–3, 6–9, 11, 14, and 15. A longer, more theoretically oriented course could include all chapters except the applications chapters. Generally, however, we expect most instructors to 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 presentation of the theory chapters.

Applications

As the space devoted to them suggests, we believe a liberal dose of applications is an essential ingredient in a microeconomics course. Although economists know that microeconomics is important and often exciting, students have to be shown that this is so. Applications serve this purpose. In addition, they enliven the subject for students and help them 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 four applications chapters (Chapters 4, 10, 12, and 16)

contains seven or eight applications that use and reinforce the graphical and logical techniques developed in the theory chapters. In Chapter 10, Using the Competitive Model, for example, competitive market theory is used to examine, among other topics, the supply of exhaustible resources, worker safety regulations, airline regulation and deregulation, and rent controls. In Chapter 16, Using Input Market Analysis, the theory is applied to discrimination, the negative income tax, the government budget deficit, and the incidence of the Social Security payroll tax.

Applications are not relegated exclusively to the four applications chapters; each of the remaining chapters also contains one or two. We feel, however, that it is appropriate to use more applications in some areas than in others. For example, it seems a misallocation of scarce textbook space to include as many applications for production or general equilibrium theory as for the competitive model. Not only are the competitive applications likely to be more interesting to students, they are also likely to provide more useful training for students' later work.

Changes in the Second Edition

Three major changes have been made in the second edition. They are:

APPLICATIONS. Nine new applications are included in the applications chapters. These include the school voucher proposal, peak-load pricing, the federal government's budget deficit, and automobile import quotas. (A similar number of applications in the first edition have been removed. In deciding which applications to change, we were guided by a survey of users.) Overall, the applications chapters now provide an even more varied selection than the first edition. In addition to these changes in the applications chapters, two new shorter applications have been added in Chapters 7 and 17.

COVERAGE OF MONOPOLISTIC COMPETITION AND OLIGOPOLY. Chapter 13 has been thoroughly rewritten. The treatment of monopolistic competition has been shortened and simplified, and new material has been added on game theory, the Cournot model, experimental economics, and contestable market theory.

END-OF-CHAPTER QUESTIONS. More than one hundred new end-of-chapter questions are included. There is now a greater emphasis on analytical questions and problems and less emphasis on review questions than in the first edition. Answers to a larger number of questions are now contained in the Appendix to aid students in their study.

In addition to these major changes, a number of stylistic and expositional improvements will be found throughout the text, factual material

has been updated, and several diagrams have been redrawn for greater clarity.

Pedagogical Aids

In addition to our use of applications, we would like to mention a few other in-text pedagogical aids.

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 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. More than 300 *Review Questions and Problems* help students review chapter material and require them to solve analytical exercises. Answers to about a third of these questions and problems are provided in the *Appendix* at the end of the book. The *Supplementary Readings* offer suggestions for the interested reader or for outside assignments.

Ancillaries

A *Study Guide* prepared by John Lunn (Louisiana State University) is available to give students further review and practice in the use of microeconomic theory. We have written an *Instructor's Manual* to accompany 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 manual also contains additional review questions and problems and multiple-choice questions.

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These reviewers were generous with their time and provided numerous suggestions that helped to improve the book. To them we extend our gratitude and hope the final product meets with their approval.

We would also like to thank several people at Little, Brown who made important contributions to this edition: Will Ethridge, our economics editor; Billie Ingram, our book editor; and Jane Tufts, our developmental editor.

E.K.B.

J.M.B.

College Station, Texas

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