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MICROECONOMICS

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Microeconomics

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**To Our Daughters,
Maya, Talia, and Shira ▪ Sarah and Rachel**

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Preface

For students who care about how the world works, microeconomics is one of the most relevant and interesting subjects they study. A good grasp of microeconomics is vital for managerial decision making, for designing and understanding public policy, and more generally for appreciating how a modern economy functions.

We wrote this book, *Microeconomics*, because we believe that students need to be exposed to the new topics that have come to have a central role in microeconomics over the past few years—topics such as game theory and competitive strategy, the roles of uncertainty and information, and the analysis of pricing by firms with market power. We also felt that students need to be shown how microeconomics can be used as a tool for decision making. Microeconomics is an exciting and dynamic subject but students need to be given an appreciation of its relevance and usefulness. They want and need a good understanding of how microeconomics can actually be used outside the classroom.

To respond to these needs our book provides a fresh treatment of microeconomic theory, that stresses its relevance and application to both managerial and public-policy decision making. This applied emphasis is accomplished by including more than eighty extended examples that cover such topics as the analysis of demand, cost, and market efficiency, the design of pricing strategies, investment and production decisions, and public policy analysis. Because of the importance that we attach to these examples, they are included in the flow of the text, rather than being “boxed” or screened. (A list of the examples is included in the table of contents on pages xiv–xvi.)

The coverage in *Microeconomics* incorporates the dramatic changes that have occurred in the field in recent years. There is growing interest in game theory and the strategic interactions of firms (Chapters 12 and 13), in the role and implications of uncertainty and asymmetric information (Chapters 5 and 17), and in the pricing strategies of firms with market power (Chapters 10 and 11). These topics, which are missing or barely covered in most books, receive prominent attention here.

Because the coverage in *Microeconomics* is comprehensive and up-to-date, coverage does not mean that it is “advanced” or difficult. We have worked hard to make the exposition clear and accessible, as well as lively and engaging. We believe that the study of microeconomics should be enjoyable as well as stimulating. We hope that our book reflects this. Except for appendices and footnotes, *Microeconomics* uses no calculus. As a result, it should be suitable for students with a broad range of backgrounds. (Those sections that are more demanding are marked with an asterisk and can be easily omitted.)

Alternative Course Designs

Microeconomics offers instructors substantial flexibility in course design. For a one-quarter or one-semester course stressing the basic “core” material, we would suggest using the following chapters and sections of chapters: 1, 2, 3, 4.1-4.4, 6.1-6.5, 7.1-7.4, 8, 9.1-9.4, 10.1-10.4, 11.1-11.3, 12.1-12.2, 12.5-12.6, 14, 15.1-15.4, 18.1-18.2, and 18.5. A somewhat more ambitious course might also include parts of Chapters 5 and 16, and additional sections in Chapters 6, 7, 9, 10, and 12. To emphasize uncertainty and market failure, an instructor should also include substantial parts of chapters 5 and 17.

Depending on one’s interests and the goals of the course, other sections could be added or used to replace the materials listed above. A course that emphasized modern pricing theory and business strategy would include all of Chapters 10, 11, 12, and 13, and the remaining sections of Chapter 15. A course in managerial economics might also include the Appendices to Chapters 4, 7, and 11, as well as the Appendix on regression analysis at the end of the book. A course that emphasized welfare economics and public policy should include Chapter 16 and additional sections of Chapter 18.

Supplementary Materials

We are fortunate to be able to offer instructional aids of exceptionally high quality. The Instructor’s Manual, written by Geoffrey Rothwell of Stanford University, provides the answers to all of the Questions for Review and the Exercises that appear at the end of the chapters, as well as a summary of the key points in each chapter and a series of teaching suggestions. It is available from the publisher on request, as is a separate Test Bank. The Study Guide, by Richard Eastin of the University of Southern California, provides a wide variety of review materials and exercises for students. The study guide can be purchased separately. Finally, Arthur Lewbel of Brandeis University has developed an innovative software package that extends many of the examples, and reinforces an understanding of the concepts and their application by allowing the student to easily work through a number of simulation exercises. This software is also available for separate purchase.

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Since this text has been the outgrowth of years of experience in the classroom, we owe a debt of gratitude to our students and to the colleagues with whom we often discuss microeconomics and its presentation. We have also had the help of capable research assistants, including Walter Athier, Phillip Gibbs, Kathy O'Regan, Karen Randig, and Subi Rangan. Kathy Hill helped with the art, while Assunta Kent, Mary Knott and Dawn Elliott Linahan provided secretarial assistance.

Writing this book has been a painstaking and enjoyable process. At each stage we received exceptionally fine guidance from teachers of microeconomics throughout the country. A first draft of several chapters and a detailed outline were extensively reviewed and edited. Then, a completed first draft was edited, reviewed, and discussed at a two-day focus group meeting in New York. This provided us with the opportunity to get ideas from instructors from a wide variety of backgrounds and perspectives. We would like to take this opportunity to thank the following members of the focus groups for advice and criticism: Carl Davidson of Michigan State University, Richard Eastin of the University of Southern California, Judith Roberts of California State University, Long Beach, and Charles Strein of the University of Northern Iowa.

The focus group meeting led naturally to a new and improved draft that was further reviewed and edited. We would like to thank all those who reviewed the manuscript at each stage of its evolution:

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