

MANAGERIAL ECONOMICS

Text, Problems, and Short Cases

K. K. SEO

1984

Sixth Edition

Managerial Economics

Text, Problems, and Short Cases

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University of Hawaii, Honolulu*

**1984
Sixth Edition**



RICHARD D. IRWIN, INC.

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*To my family
Kathy, Darius, Margaret, and Judy
and
To William A. Long, pragmatic econ-
omist and a most treasured friend.*

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Preface

We live in an era of rapid technological change in both public and private sectors. More often than ever before, decision makers are called upon to apply economic analysis to challenging problems. It is not enough for a decision maker to have a firm grasp of economic theory; he or she must be able to apply the theory in a practical way to real problems. The objective of this text is not only to provide the theory of the firm but also to bridge the gap between economic theory and practical application. The bridge has been constructed on a solid base of microeconomic theory, using a blend of quantitative methods, other business disciplines, and good illustrative examples.

Like the previous edition, this sixth edition is aimed at intermediate-level undergraduate and first year graduate students in business and economics. However, many changes have been made in the basic framework of the book as well as in its contents. In addition to updating textual materials to reflect the changing environment of business, some topics have been dropped or reorganized and a substantial amount of new material has been added.

After reviewing a number of very helpful critiques by instructors and students of the previous edition, the following basic approach has been achieved in the sixth edition:

1. *Appropriate level of discourse.* The sixth edition presupposes noth-

ing more than a typical introductory course in economics and one in college algebra. The writing style has been changed in favor of simplicity, and explanation of the more difficult concepts and tools has been expanded, even though it makes the book longer.

2. *Flexibility of coverage.* Largely self-contained chapters may be covered in virtually any order, thus permitting considerable teaching flexibility. Further flexibility is provided by appendixes to certain chapters, which contain either a fuller or more rigorous explanation of basic material presented in the chapter. Still more flexibility is provided to accommodate students with differing backgrounds by separating chapters covering fundamentals from chapters containing additional rigorous material. For example, the general topic of demand analysis is now covered by five chapters. For fundamental treatment, there are the specific topics of (1) utility theory and consumer behavior, (2) elasticities of demand, and (3) elementary techniques of demand estimation. For more advanced study, there are the additional topics of (4) multiple regression analysis and (5) forecasting. Detailed suggestions for use of the text in undergraduate and graduate courses are contained in the Instructor's Manual.

3. *Illustrative problems and short cases.* End-of-chapter problems and short cases reinforce the text by further illustration of practical applications of the economic principles discussed in the chapter.

4. *Separate student study guide and workbook.* A study guide and workbook under separate cover is available for the first time. It consists of chapter outlines, true-false and multiple-choice questions and their answers, problems and their solutions, and glossaries of important terminology. The study guide and workbook will:

- a. Emphasize the important concepts that the student must grasp.
- b. Help the student solve the end-of-chapter problems by similar examples.
- c. Provide practice in the application of economic theory to practical problems.
- d. Help the student to prepare for course exams.

Following the approach outlined above has resulted in numerous changes from the previous edition:

1. Of the fifth-edition material that is still appropriate, about 80 percent has been rewritten, in plain English, for a better flow and easier reading.
2. Expanded coverage has been provided for the following subjects:
 - a. The introductory chapter has been expanded to include alternative models of the firm and an explanation of why we use the profit-maximization model.
 - b. Decision analysis has been expanded to two chapters, one enti-

tled "Decision Analysis," the other entitled "Approaches to Decision Making." The first of these two chapters contains expanded material on risk and risk adjustment. The second contains additional material on decision making under conditions of uncertainty and (in an appendix) a discussion of probability distribution of cash flows.

- c. Demand analysis and estimation now is covered by five chapters, as noted above.
 - d. Production is now covered by two chapters, one on analysis and one on empirical measurement.
 - e. Cost is also now covered by two chapters, one on analysis and one on empirical measurement.
 - f. The discussion of pricing is now completely revised, with one chapter on how output and prices are decided in various market structures, and one on actual pricing practices and the modern approach to pricing problems. The second chapter has an appendix on transfer pricing.
 - g. The chapter on government and business has been completely rewritten with a major shift in emphasis from the legal environment of business to the economic role of government and recent developments in antitrust cases.
3. About 80 percent of the end-of-chapter problems are new. The end-of-chapter problems have been coordinated with textual materials to illustrate specific sections of the text and thus reinforce student understanding with current examples.

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Although every effort has been **made** to eliminate errors in the text, some may have slipped through. **If so, I accept** full responsibility for the error. I would appreciate **advice from anyone** who detects an error, as well as suggestions for further **improvement** of this text.

It is my sincere hope that **this text will** meet the requirements of managerial economics curricula **and that** it will help decision makers to make better decisions.

K. K. Seo

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