

Intermediate Microeconomics and Its Application



Walter Nicholson
Ninth Edition

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Intermediate Microeconomics
And Its Application

Walter Nicholson
Amherst College

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To Beth, Sarah, and David—glad you're here.

About the Author

Walter Nicholson is the Ward H. Patton Professor of Economics at Amherst College. He received a B.A. in mathematics from Williams College and a Ph.D. in economics from MIT. Professor Nicholson's primary research interests are in the econometric analyses of labor market policies including job training, unemployment insurance, welfare, and the impact of trade-adjustment assistance. He is also the author of *Microeconomic Theory: Basic Principles and Extensions, 8th Edition* (South-Western/Thomson Learning, 2002). He and his wife Susan live in Amherst, Massachusetts.

Preface

In some respects, this new edition is the same tried and true book. It has always been my hope that *Intermediate Microeconomics and Its Application* will provide for students a clear and concise introduction to the ways in which economists explain the operations of markets. I hope that each successive edition of this book continues to approach this goal ever more closely.

In many other respects, however, this is a new book. I have tried to simplify some of the more opaque sections of prior editions and have worked hard to make certain that the analysis in the book is phrased in ways that make more intuitive sense to students. In addition, this is my first edition with South-Western/Thomson Learning and they have managed to give the book a fresh new look and a clearer presentation. All in all, I think both students and faculty will be happy with this latest incarnation.

NEW TO THE NINTH EDITION

Some of the specific changes and additions I have made to the theoretical material in the ninth edition include:

- A simplified presentation of both demand (consumer surplus) and cost concepts so that much extraneous material can now be avoided
- Some reorientation of the material on the competitive model that especially focuses on providing a more compact coverage of general equilibrium ideas
- Major revisions to the factor market material in the text
- Some extensions of the theory of externalities and public goods to illustrate to students further uses of these important concepts

APPLICATIONS AND INTERNET EXERCISES

This edition again features many new applications on such topics as:

- The California Electricity Crisis
- Internet Auctions
- Casino Gambling
- New Protectionism in Steel
- Derivative Securities and Fannie Mae
- Regulation of HMOs

In addition, I have tried to provide updates to all of the applications that I have retained from the eighth edition, with a special emphasis on such current issues as accounting fraud, stock options, and changes in airlines' operational strategies.

This edition also features a series of Internet Exercises that have been designed by my colleague Lisa Takeyama. The exercises are intended to show students how they can make use of Web resources to study important and timely economic questions.

TEXT FEATURES

I am very proud of the features in this text that are designed to facilitate learning. These include:

- Review Questions in each chapter that are intended to build intuition for students
- InfoTrac margin notes that highlight key words throughout the text for further study of chapter topics through the InfoTrac database of articles on the Internet
- Extensive problems in each chapter that are intended to drive home important analytical points (Solutions to many of these problems are also provided as an aid to independent learning.)
- About five short-answer MicroQuizzes in each chapter that provide a check for students as they read
- Questions associated with each Application that motivate students to put the material presented into a broader perspective
- A detailed Glossary that is available both in the margins of the text and gathered together at the end

All of these aids have been revised and updated for this edition when appropriate.

SUPPLEMENTS TO THE TEXT

A helpful array of supplements are available with this edition to both students and instructors.

- An *Instructor's Manual with Test Bank*, by Walter Nicholson, Amherst College, contains summaries, lecture and discussion suggestions, list of glossary terms, solutions to problems, multiple-choice test bank, and suggested test problems. The *Instructor's Manual with Test Bank* is available on the text Web site to instructors only.
- A *Study Guide and Workbook*, by Brett Katzman, Kennesaw College, includes learning objectives, fill-in summaries, multiple-choice questions, glossary questions, exercises involving quantitative problems, graphs, and answers to all questions and problems.
- *Microsoft PowerPoint Slides*, revised by Mark Karscig, Central Missouri State University, are available on the text Web site for use by students as an aid to note taking and by instructors for enhancing their lectures.
- A text Web site at <http://nicholson.swcollege.com> contains links to the end-of-chapter Internet Exercises, on-line quizzes, InfoTrac, instructor and student resources, economic applications, and more.
- *Economic Applications (e-con @pps)* at <http://econapps.swcollege.com> is the site for South-Western's dynamic Web features: EconNews On-Line, EconDebate On-Line, and EconData On-Line. Organized by pertinent economic topics and searchable by topic or feature, these features are easy to integrate into the classroom. EconNews, EconDebate, and EconData all deepen your understanding of theoretical concepts through hands-on exploration and analysis for the latest economic news stories, policy debates, and data. These features are updated on a regular basis. The Economic Applications Web site is complementary to every new book buyer via an access card that's packaged with the books. Used book buyers can purchase access to the site at <http://econapps.swcollege.com>.
- *InfoTrac College Edition* has passwords packaged with every new copy of the textbook. InfoTrac is a fully searchable on-line university library containing complete articles and their images. Its database allows access to hundreds of scholarly and popular publications—all reliable sources, including magazines, journals, encyclopedias, and newsletters—with the key words provided in the text.

TO THE INSTRUCTOR

Using this new edition should prove easy both for new adopters and for users of the previous edition. New adopters will find that the book proceeds in a very standard way through demand, supply, and market structure. It is possible to

adopt a “bare bones” approach to the subject by covering only this material, or one may add extra topics from the final section of the book that covers factor markets, uncertainty, and externalities.

For previous users of the text, there are virtually no changes here that should affect class scheduling. The most important change is my deletion of the chapter on general equilibrium and inclusion of some of its material in an appendix to the perfect competition chapter. This change was made on the advice of many reviewers who pointed out that the general equilibrium material was somewhat out of keeping with the applied nature of the remainder of the text. I have bowed to their collective judgment.

As always, any comments on the text and its accompanying ancillaries would be most appreciated. Ever since the advent of the Internet, I have accumulated a vast collection of e-mail correspondence. I especially encourage users of the book to contact me in this way (the address is *wenicholson@amherst.edu*).

TO THE STUDENT

This book really is intended to make it easier for you to learn microeconomics. Although the book pulls no punches in terms of insisting you learn “the real thing,” it has been extensively reworked over the years to make that process as clear and streamlined as possible. Of course, there may still be places in the text that you don’t like or find confusing. I would very much like to hear from you about these. I would also be interested in knowing whether you find the applications useful and enjoyable or, if not, how they might be improved. Prior editions of the book owe a great debt to the perceptive comments of students, and I expect that will be the case for this new version as well. If you feel so inclined, drop me an e-mail (*wenicholson@amherst.edu*).

ACKNOWLEDGMENTS

The first debt of gratitude I must acknowledge for this edition is to Jeff Gilbreath of South-Western/Thomson Learning. He introduced me to the company and helped me in planning this edition. His death in the summer of 2002 cut short what I had hoped would turn into a highly productive, long-term working relationship. I am very grateful to Peter Adams who gave me good advice in Jeff’s absence and especially to Susan Smart who, despite being overworked in the extreme, helped to pick up where Jeff had left off and got the text done pretty much on schedule. I hope this book justifies Jeff’s faith in it.

As to the specifics of this new edition, I drew especially on a series of very useful reviews of the eighth edition that were kindly provided by Hassan Y. Aly, Ohio State University; Laurie J. Bates, Bryant College; Tibor Besedes, Rutgers University; Donald R. Booth, Chapman University; Barry Haworth, University of

Louisville; Gerrit Knaap, University of Illinois at Urbana-Champaign; Tim Sass, Florida State University; and Mark Walker, University of Arizona.

The suggestions of these reviewers about what should be covered in the book (and what should be omitted) proved to be good advice that I hope I have followed as faithfully as possible. These reviewers' thoughts on the suitability of various applications in the text were also most helpful.

Amherst students who assisted me with this and previous editions include: Mark Bruni, Stephanie Cogen, Morgan Delano, Adrian Dillon, David Macoy, Katie Merrell, Jeff Rodman, and Sujith Vijayan. To them and to all of their colleagues who used the text, I owe a debt of appreciation for keeping me "on message." I also appreciate all of the useful comments I have received from my Amherst colleagues who use this text, Lisa Takeyama and Frank Westhoff. I am thankful that they appear to use it voluntarily and actually seem none the worse for it.

I have been very impressed by the professional staff at South-Western/Thomson Learning who made this edition happen. In addition to Peter Adams and Susan Smart, I owe special gratitude to Chris Hudson who guided the production of the book. On more than one occasion, he caught my errors and made sure everything was here. C. Jeanne Patterson did an exceptional job in copyediting the text; I believe that the writing style here is much improved and hopefully devoid of the professor-speak that inevitably sneaks into my prose if I am not careful. The attractive and innovative design for this edition is the work of Stacy Shirley. I believe users will appreciate the fine job she did in making the appearance of the book more lively and interesting.

Because all of my children (Kate, David, Tory, and Paul) have now become adults, it is only my wife Susan and our sedate dog Tobler who have to put up with my "new edition" moods. This year was a very difficult one for Susan; we are all grateful that it is ending better than it began. I hope that working on this edition did not take too much of my time away from what is really important.

It is hard to pretend to be young when you have three grandchildren (Beth, Sarah, and David). My dedication of this edition to them is not only a feeble attempt to lure them into reading it someday but also a statement about how happy I am that they are here.

Walter Nicholson
Amherst, Massachusetts
April 2003

Brief Contents

Preface xx

Part 1: Introduction 1

- 1 Economic Models 3
- Appendix to Chapter 1: Mathematics Used in Microeconomics 29*

Part 2: Demand 53

- 2 Utility and Choice 55
- 3 Individual Demand Curves 89
- 4 Market Demand and Elasticity 126

Part 3: Production, Costs, and Supply 155

- 5 Production 157
- 6 Costs 187
- 7 Profit Maximization and Supply 221

Part 4: Models of Market Equilibrium 251

- 8 Perfect Competition 253
- 9 Applying the Competitive Model 284
- Appendix to Chapter 9: General Equilibrium 312*
- 10 Monopoly 329
- 11 Imperfect Competition 362
- 12 Strategy and Game Theory 387

Part 5: Further Topics 417

- 13 Labor Markets 419
- Appendix to Chapter 13: Labor Supply 448*
- 14 Capital Markets 458
- Appendix to Chapter 14: Compound Interest 482*
- 15 Uncertainty and Information 500
- 16 Externalities and Public Goods 530

Solutions to Odd-Numbered Problems 565

Brief Answers to MicroQuizzes 587

Glossary 596

Index 603

Contents

Preface xx

PART 1: INTRODUCTION 1

Chapter 1: Economic Models 3

What Is Microeconomics? 4

A Few Basic Principles 4

Application 1.1: Do Animals Understand Economics? 7

Uses of Microeconomics 8

Application 1.2: Is It Worth Your Time to Be Here? 9

Application 1.3 Saving Blockbuster 11

Application 1.4: Microsoft and Antitrust 12

The Basic Supply-Demand Model 14

Adam Smith and the Invisible Hand 14 • *David Ricardo and Diminishing Returns* 15 • *Marginalism and Marshall's Model of Supply and Demand* 16 • *Market Equilibrium* 17 • *Nonequilibrium Outcomes* 18 • *Change in Market Equilibrium* 18

How Economists Verify Theoretical Models 19

Application 1.5: Economics According to Bono 20

Testing Assumptions 21 • *Testing Predictions* 21 • *The Positive-Normative Distinction* 22

Application 1.6: Do Economists Ever Agree? 23

Summary 24 • Review Questions 25 • Problems 26 • Internet Exercises 28

Appendix to Chapter 1: Mathematics Used in Microeconomics 29

Functions of One Variable 29

Graphing Functions of One Variable 31

Linear Functions: Intercepts and Slopes 31 • *Slope and Units of Measurement* 33 • *Changes in Slope* 33 • *Changes in Intercept* 34
Nonlinear Functions 36 • *The Slope of a Nonlinear Function* 36 • *Marginal and Average Effects* 36

Application 1A.1: Property Tax Assessment 37

Calculus and Marginalism 39

Application 1A.2: Can a “Flat” Tax Be Progressive? 40**Functions of Two or More Variables 41**

A Simple Example 42

Graphing Functions of Two Variables 42**Simultaneous Equations 44**

Changing Solutions for Simultaneous Equations 45 • *Graphing Simultaneous Equations* 45

Empirical Microeconomics and Econometrics 46**Application 1A.3: Can Iraq Affect Oil Prices? 47**

Random Influences 49 • *The Ceteris Paribus Assumption* 50

Summary 51**PART 2: DEMAND 53****Chapter 2: Utility and Choice 55****Utility 55**

Ceteris Paribus Assumption 55 • *Utility from Consuming Two Goods* 56
Measuring Utility 57

Assumptions about Utility 57

Basic Properties of Preferences 57

Application 2.1: Can Money Buy Health and Happiness? 58

More Is Better: Defining an Economic “Good” 59

Voluntary Trades and Indifference Curves 60

Indifference Curves 61 • *Indifference Curves and the Marginal Rate of Substitution* 62 • *Diminishing Marginal Rate of Substitution* 62 • *Balance in Consumption* 63

Indifference Curve Maps 64

Illustrating Particular Preferences 65

Application 2.2: Product Positioning in Marketing 66**Utility Maximization: An Initial Survey 68**

Choices Are Constrained 69 • *A Simple Case* 69

Graphic Analysis of Utility Maximization	70
<i>The Budget Constraint</i>	70 • <i>Budget Constraint Algebra</i> 71 • <i>Utility Maximization</i> 72
Using the Model of Choice	74
Application 2.3: Ticket Scalping	75
Generalizations	78
<i>Many Goods</i>	78
Application 2.4: The Sad Tale of Willie and His Uncle	79
<i>Complicated Budget Constraints</i>	81 • <i>Composite Goods</i> 81
Application 2.5: Quantity Discounts and Frequent-Flier Programs	82
Summary	83 • Review Questions 84 • Problems 85 • Internet Exercises 87
Chapter 3: Individual Demand Curves	89
Demand Functions	89
<i>Homogeneity</i>	90
Changes in Income	90
<i>Normal Goods</i>	91
Application 3.1: Engel's Law	92
<i>Inferior Goods</i>	93
Changes in a Good's Price	94
<i>Substitution and Income Effects from a Fall in Price</i>	94 • <i>Substitution and Income Effects from an Increase in Price</i> 97 • <i>Substitution and Income Effects for a Normal Good: Summary</i> 98 • <i>Substitution and Income Effects for Inferior Goods</i> 98 • <i>Giffen's Paradox</i> 99
Application 3.2: The Consumer Price Index and Its Biases	100
The Lump-Sum Principle	103
<i>A Graphical Approach</i>	103 • <i>Generalizations</i> 104
Application 3.3: Wouldn't Cash Be a Better Way to Help Poor People?	105
Changes in the Price of Another Good	106
<i>Substitutes and Complements</i>	107
Construction of Individual Demand Curves	108
Application 3.4: Why Are So Many "Trucks" on the Road?	109
<i>Shape of the Demand Curve</i>	112
Shifts in an Individual's Demand Curve	112
<i>Be Careful in Using Terminology</i>	114
Consumer Surplus	114
Application 3.5: Fads, Seasons, and Health Scores	115
<i>Demand Curves and Consumer Surplus</i>	116 • <i>Consumer Surplus and Utility</i> 117

Application 3.6: Valuing Clean Air 118

Summary 121 • Review Questions 121 • Problems 122 • Internet Exercises 124

Chapter 4: Market Demand and Elasticity 126

Market Demand Curves 126

Construction of the Market Demand Curve 126 • Shifts in the Market Demand Curve 127 • A Simplified Notation 128

Application 4.1: Why the 2001 Tax Cut Was a Dud 129

Elasticity 130

Price Elasticity of Demand 131

Values of the Price Elasticity of Demand 132 • Price Elasticity and the Shape of the Demand Curve 132 • Price Elasticity and the Substitution Effect 132 • Price Elasticity and Time 133 • Price Elasticity and Total Expenditures 133

Application 4.2: Brand Loyalty 134**Application 4.3: Volatile Farm Prices 136**

Demand Curves and Price Elasticity 137

Linear Demand Curves and Price Elasticity 137 • A Unitary Elastic Curve 140

Income Elasticity of Demand 141

Application 4.4: An Experiment in Health Insurance 142

Cross-Price Elasticity of Demand 144

Empirical Studies of Demand 144

Estimating Demand Curves 145 • Some Elasticity Estimates 145 • Some Cross-Price Elasticity Estimates 147

Application 4.5: Alcohol Taxes as Drunk Driving Policy 148

Summary 149 • Review Questions 150 • Problems 151 • Internet Exercises 154

PART 3: PRODUCTION, COSTS, AND SUPPLY 155**Chapter 5: Production 157**

Production Functions 157

Two-Input Production Function 158

Marginal Product 158

Application 5.1: Everyone Is a Firm 159

*Diminishing Marginal Product 160 • Marginal Product Curve 161
Average Product 162 • Appraising the Marginal Product Concept 162*

Isoquant Maps 163

Application 5.2: Why Do the Japanese Have a Cost Advantage in Making Cars? 164

Rate of Technical Substitution 165 • *The RTS and Marginal Products* 166
Diminishing RTS 166

Returns to Scale 167

Adam Smith on Returns to Scale 167

Application 5.3: Engineering and Economics 168

A Precise Definition 169 • *Graphic Illustrations* 169

Input Substitution 171

Application 5.4: Returns to Scale in Beer Brewing 172

Fixed-Proportions Production Function 173 • *The Relevance of Input Substitutability* 174

Changes in Technology 174

Technical Progress versus Input Substitution 175

A Numerical Example 176

The Production Function 176

Application 5.5: Multifactor Productivity 177

Average and Marginal Productivities 178 • *The Isoquant Map* 179
Technical Progress 180

Summary 181 • Review Questions 182 • Problems 183 • Internet Exercises 185

Chapter 6: Costs 187

Basic Concepts of Costs 187

Labor Costs 188 • *Capital Costs* 188 • *Entrepreneurial Costs* 189 • *The Two-Input Case* 189

Application 6.1: Stranded Costs and Electricity Deregulation 190

Economic Profits and Cost Minimization 191

Cost-Minimizing Input Choice 192

Graphic Presentation 192 • *An Alternative Interpretation* 193 • *The Firm's Expansion Path* 194

Cost Curves 195

Average and Marginal Costs 197 • *Marginal Cost Curves* 198 • *Average Cost Curves* 199

Application 6.2: Findings on Firms' Costs 201

Distinction between the Short Run and the Long Run 202

Application 6.3: Airlines' Costs 203

<i>Holding Capital Input Constant</i>	204	•	<i>Types of Short-Run Costs</i>	205	•	<i>Input Inflexibility and Cost Minimization</i>	205
Per-Unit Short-Run Cost Curves	206						
Application 6.4: Can We Do Anything about Traffic Snarls?	208						
Shifts in Cost Curves	209						
<i>Changes in Input Prices</i>	209	•	<i>Technological Innovation</i>	210	•	<i>Economies of Scope</i>	210
Application 6.5: Economies of Scope in Banks and Hospitals	211						
A Numerical Example	212						
<i>Long-Run Cost Curves</i>	214	•	<i>Short-Run Costs</i>	214			
Summary	216	•	Review Questions	216	•	Problems	218
Internet Exercises	220						
Chapter 7: Profit Maximization and Supply	221						
The Nature of Firms	221						
<i>Firms' Goals</i>	222						
Profit Maximization	222						
<i>Marginalism</i>	222	•	<i>The Output Decision</i>	222			
Application 7.1: Corporate Profits Taxes and the Leveraged Buyout Craze	223						
<i>The Marginal Revenue/Marginal Cost Rule</i>	224	•	<i>Marginalism in Input Choices</i>	226			
Marginal Revenue	226						
<i>Marginal Revenue for a Downward-Sloping Demand Curve</i>	226	•	<i>A Numerical Example</i>	227	•	<i>Marginal Revenue and Price Elasticity</i>	228
Marginal Revenue Curve	231						
<i>Shifts in Demand and Marginal Revenue Curves</i>	231						
Supply Decision of a Price-Taking Firm	232						
Application 7.2: How Did Airlines Respond to Deregulation?	233						
<i>Short-Run Profit Maximization</i>	234	•	<i>Showing Profits</i>	235	•	<i>The Firm's Short-Run Supply Curve</i>	236
<i>The Shutdown Decision</i>	236						
Profit Maximization and Managers' Incentives	237						
Application 7.3: Why Is Drilling for Crude Oil Such a Boom or Bust Business?	238						
<i>Nature of the Principal-Agent Relationship</i>	239	•	<i>Conflicts in the Agent Relationship</i>	240	•	<i>Incentive Contracts</i>	241
Application 7.4: Principals and Agents in Franchising and Medicine	242						
Application 7.5: The Good and Bad Effects of Stock Options	244						
Summary	245	•	Review Questions	245	•	Problems	247
Internet Exercises	249						