

## Preface to the European Edition

This first European edition of *Microeconomics* builds on the strengths of the well-established international edition by Michael L. Katz and Harvey Rosen. The defining features of the text as outlined by Katz and Rosen and retained in this edition are as follows:

- **Modern Topics:** Economists have studied markets for over 200 years, but several innovations in recent decades have contributed important new insights. For example, traditionally it was assumed that all market participants had perfect certainty about the consequences of their actions. In contrast, modern economics recognizes that the world is pervaded by uncertainty, and this has important consequences for individual behaviour and market outcomes. In this book, uncertainty and other central modern topics, such as game theory and asymmetric information, are given the same careful treatment as traditional issues.
- **Applications:** The text makes clear the links between microeconomics and the real world, integrating these applications into discussions of theory.
- **Modern Organization:** In addition to including new subjects, this book has a somewhat novel organizational scheme. Conventionally, input markets are treated at the end of a microeconomics book, long after the basic theories of consumer and firm behaviour have been covered. In contrast, modern economic theory integrates the treatment of commodity and factor markets. Households' input supplies and commodity demands both derive from the maximization of utility subject to a budget constraint. To drive this point home, both phenomena are discussed in the part of the book devoted to household behaviour. Similarly, business output and input decisions are presented together as joint implications of profit maximization, not as unrelated choices. This treatment provides students with a more coherent view of how the various pieces of a market economy fit together. At the same time, it exhibits the power and versatility of economic tools. The discussion of welfare economics as soon as the competitive model is completely developed sets the stage for subsequent chapters that explain how various market failures arise, what the consequences are, and the implications for public policy. Discussion of the firm is derived from two rules for finding the profit-maximizing output level that are valid for any profit-maximizing firm. This approach is taken for two reasons. One, by first deriving these rules in their general form, students are able to see the power of the economic theory of the firm: it provides a coherent set of basic principles that can be applied in a wide variety of market settings. The unified approach also has the advantage of presenting the student with less to remember—he or she has to learn these concepts only once. The later chapters then serve to reinforce and amplify the basic themes laid out at the beginning. A final innovation is the inclusion of a separate chapter on game theory. While closely tied to the chapter on oligopoly, the game theory chapter discusses the much broader applicability of game theory to a variety of real world problems. Because of the time constraints that many instructors face, this chapter has been written so that it can easily be skipped without loss of continuity.
- **Treatment of Costs:** The subject of costs is another area in which this book departs from tradition. The standard treatment of cost is to begin by defining economic costs as opportunity costs; but then, the typical book goes on to

define the expenditures on factors of production that are fixed in the short run as “fixed costs”—despite the fact that these expenditures are not *economic costs*. The next step in the standard treatment is to tell students that what they really should care about is short-run variable costs, not short-run total cost. This approach is needlessly confusing and complicated. In this text, the definition of economic cost as opportunity cost is consistently applied. In addition to having the virtue of logical consistency, this approach is simpler than the traditional one. The firm is concerned with its short-run economic cost in the short run, and its long-run economic cost in the long run. It is thus a simple matter to state the rules by which a firm finds its profit-maximizing output level, whether we are talking about the short run, or the long run.

- **Pedagogical features:** The chapters are broken up into several numbered sections, each of which develops a major theme and provides instructors an easy way to pick and choose topics for assigning. However, it has long been understood that no matter how clear a book’s exposition and organization, passive reading of new material does not lead to its mastery. To facilitate understanding and engagement with the material, “Progress Check” questions are interspersed throughout the chapters. These are straightforward exercises whose answers appear at the end of the book. A student who is unable to answer a Progress Check question correctly should go back and reread the preceding pages before moving forward. More challenging exercises appear at the end of every chapter. These problems encourage students to apply and extend the principles that they have learned. The only mathematics in the text is algebra and geometry. However, for instructors who would like to use this book in a calculus-based course, two appendices are included (after Chapters 3 and 9) that reinterpret certain key results from the theories of the household and the firm using calculus.

As is the case with every academic discipline, the explanation of theory is always made much clearer by the use of relevant and clear examples drawn from the world in which the student is living and is familiar with. Microeconomics is no different to any other subject in this regard. Being able to think like an economist about major global issues such as pollution, climate change and poverty as well as more local issues such as the cost of cell phones, the costs of undertaking university study and the impact of technology on everyday life requires students to apply what they know from the abstract to real world problems. Such application cannot happen simply by presenting theory as it is clear that many of the more abstract elements of theory can appear to be just that to the student – abstract – and thus apparently of little value to them in understanding the world around them. Drawing on real world examples to highlight how theory can help to solve or understand a range of problems is central to a good basis for thinking like an economist.

The earlier editions of *Microeconomics* have always had this as a major strength and students have enjoyed this approach. However, it is important that students can relate directly to the examples used. Thus, this European edition matches the clear and rigorous explanations of theories and ideas in previous editions of the book with new, more European-flavoured examples to provide a more relevant context for European students to understand the abstract concepts. On a few occasions, simply changing a good US example to a less obvious European one was not considered sensible and thus the example has been left untouched. However, where equally effective and newer European illustrations have been found, they have been used. The changes range right from altering a Discussion Question about Boeing in Seattle to Airbus in Toulouse through to switching from Jimmy Carter’s “gasoline” tax to winter payments for pensioners in the UK.

Fundamentally, however, the message outlined in the international edition remains – this book aims to provide the grounding in microeconomics that underpins an understanding of the complexity of problems in the real world; giving you, the student, an even better appreciation of what is going on around you and how you can help to shape its future direction.

### **About the Authors:**

#### **Wyn Morgan**

Wyn Morgan is a senior Lecturer in Economics and a Fellow in the Centre for Economic Development and International Trade (CREDIT) in the School of Economics at the University of Nottingham. He was awarded a Lord Dearing Award for Excellence in Teaching and Learning in 1999. By training, he is an applied microeconomist and specializes in research areas related to the food industry, agricultural policy, commodity markets as well as futures markets. He has published in a number of journals including the *Economic Journal*, *Journal of Development Economics* and *World Development*. He was also a co-editor for the *Journal of Agricultural Economics*.

#### **Michael L. Katz**

Michael L. Katz is the Edward J. and Mollie Arnold Professor of Business Administration at the University of California at Berkeley. In 1989 and 1993, he received the Earl F. Cheit Outstanding Teaching Award. In 1994 and 1995 he served as the Chief Economist of the U.S. Federal Communications Commission. His articles on standardization, cooperative R&D, technology licensing, and agency theory have been published in leading economics journals, including the *American Economic Review*, *Journal of Political Economy*, and *Rand Journal of Economics*. He is currently on the editorial board of the *Journal of Economics & Management Strategy*.

#### **Harvey S. Rosen**

Harvey S. Rosen is the John L. Weinberg Professor of Economics and Business Policy at Princeton University. Professor Rosen, a Fellow of the Econometric Society and a Research Associate of the National Bureau of Economic Research, is well known for his contributions to the fields of Public Finance, Labor Economics, and Applied Microeconomics. From 1989 to 1991, he served as Deputy Assistant Secretary (Tax Analysis) at the U.S. Treasury. His articles have appeared in such journals as *Econometrica*, *American Economic Review*, and *Journal of Political Economy*. He is currently on the editorial boards of the *Journal of Economic Literature*, *Journal of Public Economics*, and *Public Finance Quarterly*.