

Welcome to *Microeconomics: Brief Edition*, second edition, the trimmed and edited version of *Economics*, nineteenth edition, the nation's best-selling economics textbook.

Fundamental Objectives

We have three main goals for *Microeconomics: Brief Edition*:

- Help the beginning student master the principles essential for understanding the economizing problem, specific economic issues, and the policy alternatives.
- Help the student understand and apply the economic perspective and reason accurately and objectively about economic matters.
- Promote a lasting student interest in economics and the economy.

Integrated, Distinct Book

Although *Microeconomics: Brief Edition* is a spin-off of *Economics*, nineteenth edition, it is not a cut-and-paste book that simply eliminates several chapters of *Economics* and reorders and renumbers the retained content. We can pre-

pare such books via custom publication. Instead, the *Brief Edition* is a very concise, highly integrated economics textbook that is distinct in purpose, style, and coverage from *Economics* and its Micro and Macro splits.

What's New and Improved?

One of the benefits of writing a successful text is the opportunity to revise—to delete the outdated and install the new, to rewrite misleading or ambiguous statements, to introduce more relevant illustrations, to improve the organizational structure, and to enhance the learning aids.

We trust that you will agree that we have used this opportunity wisely and fully. Some of the more significant changes include the following:

New Public Finance Chapter

This traditional public finance chapter adds considerable new content to existing material that previously appeared in Chapter 5: Market Failures: Public Goods and Externalities. The chapter includes a circular flow diagram with government; an overview of federal, state, and local tax revenues and expenditures; explanations of marginal and average tax rates; discussions of the benefits-received and ability-to-pay principles of taxation; an explanation of progressive, regressive, and proportional taxes; tax incidence and efficiency losses due to taxation; and the redistributive incidence of the overall tax-spending system in the United States.

New and Updated “Illustrating the Idea,” “Applying the Analysis,” and “Photo Op” Pieces

These examples, applications, and illustrations help drive home central economic ideas in a student-oriented, real-world manner. New content includes a discussion of beekeepers to explain the Coase Theorem, analysis of the effects of rising gas prices on companies like FedEx and Symantec, and an illustration of federal versus state and local spending.

Reworked End-of-Chapter Questions and Problems

We have extensively reworked the end-of-chapter questions, and we have added new problems to each chapter. The questions are analytic and often ask for free responses, whereas the problems are mainly quantitative. We have aligned the questions and problems with the learning objectives presented at the beginning of the chapters. All

of the questions and problems are assignable through McGraw Hill's *Connect Economics*, and many contain additional algorithmic variations and can be automatically graded within the system.

Chapter-by-Chapter Changes

In addition to the changes and new features listed above, chapter-specific revisions include:

Chapter 1: Limits, Alternatives, and Choices features updated discussion of the 2007–2009 recession and streamlined coverage of the main concepts.

Chapter 2: The Market System and the Circular Flow includes an improved discussion of the circular flow model, additional coverage of property rights, and updated global data.

Chapter 3: Demand, Supply, and Market Equilibrium begins with a revised introduction to supply and demand and contains additional clarifications of key concepts.

Chapter 4: Elasticity of Demand and Supply provides an updated discussion of elasticity.

Chapter 5: Market Failures: Public Goods and Externalities features improved coverage of market failures and the distinction between demand-side and supply-side market failures, new topics including consumer and producer surplus and efficiency (deadweight) loss, enhanced discussion of public versus private goods, a new “Illustrating the Idea” piece on the Coase Theorem, and a more complete discussion of correcting for externalities. The coverage of financing public goods and taxation has been moved to Chapter 12 on public finance.

Chapter 6: Businesses and Their Costs includes an improved discussion of costs and a new “Applying the Analysis” piece that discusses rising gas prices.

Chapter 7: Pure Competition features revised discussions of pure competition in the long run and efficiency in pure competition, plus an expanded figure illustrating a competitive firm and market in long-run equilibrium.

Chapter 8: Pure Monopoly contains an updated figure showing the inefficiency of pure monopoly relative to a purely competitive industry and a revised discussion of efficiency.

Chapter 9: Monopolistic Competition and Oligopoly includes a revised introduction, an updated figure illustrating the inefficiency of monopolistic competition, and an improved discussion of cartels and collusion.

Chapter 10: Wage Determination features improved discussions to clarify the main concepts.

Chapter 11: Income Inequality and Poverty contains extensive updates to the data on the distribution of income, poverty, and family wealth, plus revised coverage of income-maintenance programs.

Chapter 12: Public Finance: Expenditures and Taxes is a new chapter that incorporates the taxation content from the first-edition chapter “Public Goods and Externalities,” plus an expanded circular flow model; content on government purchases and transfer payments; material on federal, state, and local tax sources; efficiency losses from taxes; and additional discussion of tax incidence.

Chapter 13: International Trade and Exchange Rates includes updated material on recent U.S. trade deficits and a revised discussion related to changes in the relative value of the U.S. dollar.

Distinguishing Features

Microeconomics: Brief Edition includes several features that encourage students to read and retain the content.

Design and Pedagogy

The *Brief Edition* incorporates a single-column design with a host of pedagogical aids, including a strategically placed “To the Student” statement, chapter opening objectives, definitions in the margins, combined tables and graphs, complete chapter summaries, lists of key terms, carefully constructed questions and problems, connections to our website, an appendix on graphs and a web appendix on additional examples of demand and supply, and an extensive glossary.

Focus on Core Models

Microeconomics: Brief Edition shortens and simplifies explanations where appropriate but stresses the importance of the economic perspective, including explaining and applying core economic models. Our strategy is to develop a limited set of essential models, illustrate them with analogies or anecdotes, explain them thoroughly, and apply them to real-world situations. Eliminating unnecessary graphs and elaborations makes perfect sense in a brief edition, but cutting explanations of the truly fundamental graphs does not. In dealing with the basics, brevity at the expense of clarity is false economy.

We created a student-oriented textbook that draws on the methodological strengths of the discipline and helps students improve their analytical reasoning skills. Regardless of students' eventual occupations, they will

discover that such skills are highly valuable in their workplaces.

Illustrating the Idea

Numerous analogies, examples, and anecdotes are included throughout the book to help drive home central economic ideas in a lively, colorful, and easy-to-remember way. For instance, elastic versus inelastic demand is illustrated by comparing the stretch of an Ace bandage and that of a tight rubber tie-down. A piece on Bill Gates, Oprah Winfrey, and Alex Rodriguez illustrates the importance of opportunity costs in decision making. Art in the public square brings clarity to public goods and the free-rider problem. These brief vignettes flow directly from the preceding content and segue to the content that follows, rather than being “boxed off” away from the flow and therefore easily overlooked.

Applying the Analysis

A glance through this book’s pages will demonstrate that this is an application-oriented textbook. *Applying the Analysis* pieces immediately follow the development of economic analysis and are part of the flow of the chapters, rather than segregated from the main body discussion in a traditional boxed format. For example, the basics of the economic perspective are applied to why customers choose the shortest checkout lines. Differences in elasticity of supply are contrasted by the changing prices of antiques versus reproductions. The book describes the principal-agent problem via the problems of corporate accounting and financial fraud. The concept of price discrimination is illustrated by the difference in adult and child pricing for ballgame tickets compared to the pricing at the concession stands. These and many other applications clearly demonstrate the relevance and usefulness of mastering the basic economic principles and models to beginning students.

Photo Ops

Photo sets under the title *Photo Op* are included throughout the book to add visual interest, break up the density, and highlight important distinctions. Just a couple of the many examples are sets of photos on traffic congestion and holiday lighting to contrast negative and positive externalities, and Social Security checks and food stamps to highlight the differences between social insurance and public assistance. Other photo sets illustrate normal versus inferior goods, complements versus substitutes in consumption, homogeneous versus differentiated prod-

ucts, substitute resources versus complementary resources, and more.

Web Buttons

The in-text web buttons (or indicators) merit special mention. Three differing colors of rectangular indicators appear throughout the book, informing readers that complementary content on a subject can be found at our website, www.mcconnellbrief2e.com. Scattered throughout the text you’ll see:

Worked Problems Written by Norris Peterson of Pacific Lutheran University, these pieces consist of side-by-side computational questions and procedures used to derive the answers. From a student perspective, they provide “cook-book” help for problem solving.

WORKED PROBLEMS

W 1.1

Budget Lines

Interactive Graphs These pieces (developed under the supervision of Norris Peterson) depict major graphs and instruct students to shift the curves, observe the outcomes, and derive relevant generalizations. This hands-on graph work will greatly reinforce the main graphs and their meaning.

INTERACTIVE GRAPHS

G 3.1

Supply and Demand

Origin of the Ideas These brief histories, written by Randy Grant of Linfield College (OR), examine the origins of major ideas identified in the book. Students will find it interesting to learn about the economists who first developed such ideas as opportunity costs, equilibrium price, elasticity, creative destruction, and comparative advantage.

ORIGIN OF THE IDEA

O 2.2

Specialization/division of labor


Global Snapshots

Global Snapshot pieces include bar charts and line graphs that compare data for a particular year or other time period among selected nations. Examples of these lists and comparisons include income per capita, the world’s 10 largest corporations, the world’s top brand names, the index of economic freedom, the differing economic status of North Korea and South Korea, and so forth. These *Global Snapshots* join other significant international content to help convey that the United States operates in a global economy.

Digital Solutions

McGraw-Hill's *Connect™ Economics*

Less Managing. More Teaching. Greater Learning. McGraw-Hill's *Connect™ Economics* is a

 web-based assignment and assessment platform that connects students with the tools and resources they'll need to achieve success. *Connect™ Economics* helps prepare students for their future by enabling faster learning, more efficient studying, and higher retention of knowledge. *Connect™ Economics* offers a number of powerful tools and features to make managing assignments easier, so faculty can spend more time teaching. With *Connect™ Economics*, students can engage with their coursework anytime and anywhere, making the learning process more accessible and efficient. *Connect™ Economics* offers the features as described here.

Simple Assignment Management With *Connect™ Economics*, creating assignments is easier than ever, so you can spend more time teaching and less time managing. The assignment management function enables you to

- Create and deliver assignments easily with selectable end-of-chapter questions and test bank items.
- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.
- Go paperless with the e-book and online submission and grading of student assignments.

Smart Grading When it comes to studying, time is precious. *Connect™ Economics* helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. When it comes to teaching, your time also is precious. The grading function enables you to

- Score assignments automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

Instructor Library The *Connect™ Economics* Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture.

Student Study Center The *Connect™ Economics* Student Study Center is the place for students to access additional resources. The Student Study Center

- Offers students quick access to lectures, practice materials, e-book, and more.
- Provides instant practice material and study questions, easily accessible on the go.
- Gives students access to the Self-Quiz and Study described below.

LearnSmart: Diagnostic and Adaptive Learning of Concepts

Students want to make the best use of their study time. The LearnSmart adaptive self-study technology within *Connect™ Economics* provides students with a seamless combination of practice, assessment, and remediation for every concept in the textbook. LearnSmart's intelligent software adapts to every student response and automatically delivers concepts that advance the student's understanding while reducing time devoted to the concepts already mastered. The result for every student is the fastest path to mastery of the chapter concepts. LearnSmart

- Applies an intelligent concept engine to identify the relationships between concepts and to serve new concepts to each student only when he or she is ready.
- Adapts automatically to each student, so students spend less time on the topics they understand and practice more those they have yet to master.
- Provides continual reinforcement and remediation, but gives only as much guidance as students need.
- Integrates diagnostics as part of the learning experience.
- Enables you to assess which concepts students have efficiently learned on their own, thus freeing class time for more applications and discussion.

Self-Quiz and Study The Self-Quiz and Study (SQS) connects each student to the learning resources needed for success in the course. For each chapter, students

- Take a practice test to initiate the Self-Quiz and Study.
- Immediately upon completing the practice test, see how their performance compares to chapter Learning Objectives to be achieved within each section of the chapter.
- Receive a Study Plan that recommends specific readings from the text, supplemental study material, and practice work that will improve their understanding and mastery of each learning objective.

Student Progress Tracking *Connect™ Economics* keeps instructors informed about how each student, section, and class are performing, allowing for more productive use of lecture and office hours. The progress-tracking function enables you to

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB.

Lecture Capture Increase the attention paid to lecture discussion by decreasing the attention paid to note taking. For an additional charge, Lecture Capture offers new ways for students to focus on the in-class discussion, knowing they can revisit important topics later. Lecture Capture enables you to

- Record and distribute your lecture with a click of a button.
- Record and index PowerPoint presentations and anything shown on your computer so it is easily searchable, frame by frame.
- Offer access to lectures anytime and anywhere by computer, iPod, or mobile device.
- Increase intent listening and class participation by easing students' concerns about note-taking.

Lecture Capture will make it more likely you will see students' faces, not the tops of their heads.

- To learn more about Tegrity, watch a 2-minute Flash demo at <http://tegritycampus.mhhe.com>.

McGraw-Hill's *Connect™ Plus Economics*

McGraw-Hill reinvents the textbook learning experience for the modern student with *Connect™ Plus Economics*. A seamless integration of an e-book and *Connect™ Economics*, *Connect™ Plus Economics* provides all of the features mentioned above plus the following:

- An integrated e-book, allowing for anytime, anywhere access to the textbook.
- Dynamic links between the problems or questions you assign to your students and the location in the e-book where that problem or question is covered.
- A powerful search function to pinpoint and connect key concepts in a snap.

In short, *Connect™ Economics* offers you and your students powerful tools and features that optimize your

time and energies, enabling you to focus on course content, teaching, and student learning.

For more information about Connect, please visit www.mcgrawhillconnect.com, or contact your local McGraw-Hill sales representative.

McGraw-Hill Customer Care Contact Information

At McGraw-Hill, we understand that getting the most from new technology can be challenging. That's why our services don't stop after you purchase our products. You can e-mail our Product Specialists 24 hours a day to get product-training online. Or you can search our knowledge bank of frequently asked questions on our support website. For customer support, call **800-331-5094**, e-mail hmsupport@mcgraw-hill.com, or visit www.mhhe.com/support. One of our technical support analysts will be able to assist you in a timely fashion.

CourseSmart



CourseSmart is a new way for faculty to find and review e-textbooks. It's also a great option for students who are interested in accessing their course materials digitally. CourseSmart offers thousands of the most commonly adopted textbooks across hundreds of courses from a wide variety of higher education publishers. It is the only place for faculty to review and compare the full text of a textbook online. At CourseSmart, students can save up to 50 percent off the cost of a print book, reduce their impact on the environment, and gain access to powerful web tools for learning including full text search, notes and highlighting, and e-mail tools for sharing notes between classmates. Your e-book also includes tech support in case you ever need help. Finding your e-book is easy. Visit www.CourseSmart.com and search by title, author, or ISBN.

Online Learning Center

At www.mcconnellbrief2e.com, students have access to several learning aids. Along with the Interactive Graphs, Worked Problems, and Origin of the Idea pieces, the student portion of the website includes web-based study questions, self-grading quizzes, and PowerPoint presentations. For math-minded students, there is a "See the Math" section, written by Norris Peterson, where the mathematical details of the concepts in the text can be explored.

The password-protected instructor's side of the Online Learning Center holds all of the supplementary instructor resource materials.

Premium Content

The Premium Content, available at the Online Learning Center, enables students to study and self-test on their computer or on the go.

- One of the world's leading experts on economic education—William Walstad of the University of Nebraska at Lincoln—has prepared the *Study Guide*. Each chapter contains an introductory statement, a checklist of behavioral objectives, an outline, a list of important terms, fill-in questions, problems and projects, objective questions, and discussion questions. Many students will find this “digital tutor” indispensable.
- The Solman Videos, a set of more than 250 minutes of video created by Paul Solman of *The News Hour with Jim Lehrer*, cover core economic concepts such as elasticity, deregulation, and perfect competition.

Study Econ Mobile App



McGraw-Hill is proud to offer a new mobile study app for students learning economics from McConnell, Brue, and Flynn's *Brief Edition*. The features of the Study Econ app include: flashcards for all key terms, a basic math review, customizable self quizzes, common mistakes, and games. For additional information please refer to the back inside cover of this book. Visit your mobile app store and download a trial version of the McConnell: Brief Edition Study Econ app today!

Supplements for Instructors

Instructor's Manual

Amy Stapp of Cuesta College prepared the Instructor's Manual. It includes chapter learning objectives, outlines, and summaries; numerous teaching suggestions; discussions of “student stumbling blocks;” listings of data and visual aid sources with suggestions for classroom use; and sample chapter quizzes. Available in MS Word on the instructor's side of the website, the manual enables instructors to print portions of the contents, complete with their own additions and alterations, for use as student handouts or in whatever ways they wish.

Test Bank

The *Microeconomics: Brief Edition* Test Bank, originally written by William Walstad and newly compiled and updated by Mark Wilson of West Virginia University and Jeffrey Phillips of Colby-Sawyer College, contains multiple choice and true-false questions. Each question is tied to a learning objective, topic, and AACSB Assurance of Learning and Bloom's Taxonomy guidelines. While crafting tests in EZTest Online, instructors can use the whole chapter, scramble questions, and narrow the group by selecting the criteria. The Test Bank is also available in MS Word on the instructor's side of the website.

PowerPoint Presentations

Amy Chatagner of Mississippi Gulf Coast Community College created these in-depth slides to accompany lectures. The slides highlight all the main points of each chapter and include all of the figures and key tables from the text, as well as additional discussion notes. Each slide is tied to a learning objective.

Digital Image Library

Every graph and table in the text is available on the website. These figures allow instructors to create their own PowerPoint presentations and lecture materials.

Computerized Test Bank Online

A comprehensive bank of test questions is provided within McGraw-Hill's flexible electronic testing program EZ Test Online, www.eztestonline.com. EZ Test Online allows instructors to simply and quickly create tests or quizzes for their students. Instructors can select questions from multiple McGraw-Hill test banks or author their own, and then either print the finalized test or quiz for paper distribution or publish it online for access via the Internet.

This user-friendly program allows instructors to sort questions by format; select questions by learning objectives or Bloom's taxonomy tags; edit existing questions or add new ones; and scramble questions for multiple versions of the same test. Instructors can export their tests for use in WebCT, Blackboard, and PageOut, making it easy to share assessment materials with colleagues, adjuncts, and TAs. Instant scoring and feedback are provided, and EZ Test Online's record book is designed to easily export to instructor gradebooks.

Assurance of Learning Ready

Many educational institutions today are focused on the notion of *assurance of learning*, an important element of many accreditation standards. *Microeconomics: Brief Edition*, 2nd edition is designed specifically to support your assurance of learning initiatives with a simple, yet powerful, solution.

Each chapter in the book begins with a list of numbered learning objectives, which appear throughout the chapter as well as in the end-of-chapter content. Every Test Bank question for the *Brief Edition* maps to a specific chapter learning objective in the textbook. Each Test Bank question also identifies topic area, level of difficulty, Bloom's Taxonomy level, and AACSB skill area. You can use our Test Bank software, *EZ Test* and *EZ Test Online*, or *Connect Economics* to easily search for learning objectives that directly relate to the learning objectives for your course. You can then use the reporting features of *EZ Test* to aggregate student results in similar fashion, making the collection and presentation of Assurance of Learning data simple and easy.

AACSB Statement

McGraw-Hill/Irwin is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Microeconomics: Brief Edition* recognizes the curriculum guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and the Test Bank to the general knowledge and skill guidelines in the AACSB standards.

The statements contained in *Microeconomics: Brief Edition* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Microeconomics: Brief Edition* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within the *Brief Edition*, labeled selected questions according to the six general knowledge and skills areas.

Acknowledgments

We give special thanks to Randy R. Grant of Linfield College, who not only wrote the Origin of the Idea pieces on our website but also served as the content coordinator for the *Brief Edition*. Professor Grant modified and seamlessly incorporated appropriate new content and revisions that the authors made in the nineteenth edition of *Economics* into this second edition of the *Brief Edition*. He also updated the tables and other information in *Microeconomics: Brief Edition* and made various improvements that he deemed helpful or were suggested to him by the authors, reviewers, and publisher.

We also want to acknowledge Norris Peterson of Pacific Lutheran University, who created the See the Math pieces and the Worked Problem pieces on our website. Professor Peterson also oversaw the development of the Interactive Graph pieces that are on the site. Finally, we wish to acknowledge William Walstad and Tom Barbiero (the coauthor of the Canadian edition of *Economics*) for their ongoing ideas and insights.

We are greatly indebted to an all-star group of professionals at McGraw-Hill—in particular Douglas Reiner, Noelle Bathurst, Harvey Yep, Melissa Larmon, Katie White, and Brent Gordon for their publishing and marketing expertise. We thank Keri Johnson and Michelle Buhr for their selection of Photo Op images. Mary Kazak Sander provided the vibrant interior design and cover.

The second edition has benefited from a number of perceptive formal reviews. The reviewers, listed at the end of the preface, were a rich source of suggestions for this revision. To each of you, and others we may have inadvertently overlooked, thank you for your considerable help in improving *Microeconomics: Brief Edition*.

Stanley L. Brue
Sean M. Flynn
Campbell R. McConnell

Contributors

Reviewers

Mark Abajian, *San Diego City College*
Rebecca Arnold, *San Diego Mesa College*
Benjamin Artz, *University of Wisconsin, Milwaukee*
Clare Battista, *California Polytechnic State University*
Derek Berry, *Calhoun Community College*
Laura Jean Bhadra, *Northern Virginia Community College, Manassas*
Philip Bohan, *Ventura College*
Kalyan Chakraborty, *Emporia State University*
Jan Christopher, *Delaware State University*
Donald Coffin, *Indiana University Northwest*
Diana Denison, *Red Rocks Community College*
John Allen Deskins, *Creighton University, Omaha*
Caf Dowlah, *Queensborough Community College*
Mariano Escobedo, *Columbus State Community College*
Charles Fairchild, *Northern Virginia Community College, Manassas*
Charles Fraley, *Cincinnati State Tech and Community College*
Amy Gibson, *Christopher Newport University*
John Gibson, *Indiana University Northwest*
Robert Harris, *IUPUI, Indianapolis*
Mark Healy, *William Rainey Harper College*
Melinda Hickman, *Doane College*
Glenn Hsu, *Kishwaukee College*
Scott Hunt, *Columbus State Community College*
John Ifcher, *Santa Clara University*
Vani Kotcherlakota, *University of Nebraska, Kearney*
Marie Kratochvil, *Nassau Community College*
Teresa Laughlin, *Palomar College*
Melissa Lind, *University of Texas, Arlington*
Keith Malone, *University of North Alabama*
Khalid Mehtabdin, *College of Saint Rose*
Jennifer Kelleher Michaels, *Emmanuel College*
Babu Nahata, *University of Louisville*
Jim Payne, *Calhoun Community College*
Michael Petrowsky, *Glendale Community College*
Mitchell Redlo, *Monroe Community College*
Belinda Roman, *Palo Alto College*
Dave St. Clair, *California State University, East Bay*
Courtenay Stone, *Ball State University*
Gary Stone, *Winthrop University*
Anh Le Tran, *Lasell College*
Miao Wang, *Marquette University*
Timothy Wunder, *University of Texas, Arlington*

PART ONE

Introduction

	To the Student	2
1	Limits, Alternatives, and Choices	3
2	The Market System and the Circular Flow	31

PART TWO

Price, Quantity, and Efficiency

3	Demand, Supply, and Market Equilibrium	52
4	Elasticity of Demand and Supply	75
5	Market Failures: Public Goods and Externalities	97

PART THREE

Product Markets

6	Businesses and Their Costs	126
7	Pure Competition	153

8	Pure Monopoly	179
9	Monopolistic Competition and Oligopoly	202

PART FOUR

Resource Markets and Government

10	Wage Determination	228
11	Income Inequality and Poverty	253
12	Public Finance: Expenditures and Taxes	275

PART FIVE

International Economics

13	International Trade and Exchange Rates	300
----	--	-----

	Glossary	327
	Index	341

Contents

PART ONE

Introduction

To the Student 2

Chapter 1

Limits, Alternatives, and Choices 3

The Economic Perspective 4

Scarcity and Choice 4

Illustrating the Idea *Did Gates, Winfrey, and Rodriguez Make Bad Choices?* 4

Purposeful Behavior 5 / Marginalism: Comparing Benefits and Costs 5

Applying the Analysis *Fast-Food Lines* 6

Theories, Principles, and Models 7

Microeconomics and Macroeconomics 8

Microeconomics 8 / Macroeconomics 8

Individual's Economic Problem 8

Limited Income 9 / Unlimited Wants 9 /

A Budget Line 10

Society's Economic Problem 12

Scarce Resources 12 / Resource Categories 12

Production Possibilities Model 14

Production Possibilities Table 14 / Production Possibilities

Curve 15 / Law of Increasing Opportunity

Costs 15 / Optimal Allocation 16

Applying the Analysis *The Economics of War* 17

Unemployment, Growth, and the Future 18

A Growing Economy 18

Applying the Analysis *Information Technology and Biotechnology* 20

Present Choices and Future Possibilities 20

Summary 22

Terms and Concepts 22

Questions 22

Problems 23

APPENDIX CHAPTER 1: Graphs and Their Meaning 25

Chapter 2

The Market System and the Circular Flow 31

Economic Systems 32

The Command System 32 / The Market System 32

Characteristics of the Market System 33

Private Property 33 / Freedom of Enterprise and Choice 34 / Self-Interest 34 /

Competition 35 / Markets and Prices 36 / Technology and

Capital Goods 36 / Specialization 36 / Use

of Money 38 / Active, but Limited,

Government 39

Four Fundamental Questions 39

What Will Be Produced? 39

Applying the Analysis *McHits and McMisses* 40

How Will the Goods and Services Be Produced? 40 / Who Will Get the Output 41 / How Will the System Promote Progress? 41	
Applying the Analysis <i>The “Invisible Hand”</i> 42	
Applying the Analysis <i>The Demise of the Command Systems</i> 42	
The Circular Flow Model 44	44
Households 44 / Businesses 44 / Product Market 45 / Resource Market 45	
Applying the Analysis <i>Some Facts about U.S. Businesses</i> 46	
Applying the Analysis <i>Some Facts about U.S. Households</i> 47	
Summary 49	
Terms and Concepts 49	
Questions 49	
Problems 50	
PART TWO	
Price, Quantity, and Efficiency	
Chapter 3	
Demand, Supply, and Market Equilibrium 52	
Demand 53	53
Law of Demand 53 / The Demand Curve 53 / Market Demand 54 / Changes in Demand 56 / Changes in Quantity Demanded 58	
Supply 58	58
Law of Supply 59 / Market Supply 59 / Determinants of Supply 60 / Changes in Supply 60 / Changes in Quantity Supplied 61	
Market Equilibrium 62	62
Equilibrium Price and Quantity 62 / Rationing Function of Prices 63	
Applying the Analysis <i>Ticket Scalping</i> 64	
Changes in Demand, Supply, and Equilibrium 65	65
Changes in Demand 65 / Changes in Supply 65 / Complex Cases 65	
Government-Set Prices 67	67
Applying the Analysis <i>Price Ceilings on Gasoline</i> 67	
Applying the Analysis <i>Rent Controls</i> 68	
Applying the Analysis <i>Price Floors on Wheat</i> 69	
Summary 71	
Terms and Concepts 72	
Questions 72	
Problems 73	
APPENDIX CHAPTER 3W: Additional Examples of Supply and Demand www.mcconnellbrief2e.com	•••
Chapter 4	
Elasticity of Demand and Supply 75	
Price Elasticity of Demand 76	76
The Price-Elasticity Coefficient and Formula 76 / Interpretations of E_d 77	
Illustrating the Idea <i>A Bit of a Stretch</i> 79	
The Total-Revenue Test 83 / Price Elasticity along a Linear Demand Curve 81 / Determinants of Price Elasticity of Demand 83	
Applying the Analysis <i>Price Elasticity of Demand and College Tuition</i> 84	
Applying the Analysis <i>Decriminalization of Illegal Drugs</i> 85	
Applying the Analysis <i>Excise Taxes and Tax Revenue</i> 86	
Applying the Analysis <i>Fluctuating Farm Income</i> 86	
Price Elasticity of Supply 88	88
Price Elasticity of Supply: The Market Period 89 / Price Elasticity of Supply: The Short Run 89 / Price Elasticity of Supply: The Long Run 90	
Applying the Analysis <i>Antiques and Reproductions</i> 90	
Applying the Analysis <i>Volatile Gold Prices</i> 91	
Income Elasticity of Demand 92	92
Normal Goods 92 / Inferior Goods 92	
Applying the Analysis <i>Which Consumer Products Suffer the Greatest Demand Decreases during Recessions?</i> 92	
Cross-Elasticity of Demand 93	93
Substitute Goods 93 / Complementary Goods 93 / Independent Goods 93	
Applying the Analysis <i>Using Cross-Elasticity to Make Business and Regulatory Decisions</i> 93	
Summary 94	
Terms and Concepts 95	
Questions 95	
Problems 95	
Chapter 5	
Market Failures: Public Goods and Externalities 97	
Market Failures in Competitive Markets 98	98
Demand-Side Market Failures 98 / Supply-Side Market Failures 98	
Efficiently Functioning Markets 99	99
Consumer Surplus 99 / Producer Surplus 101 / Efficiency Revisited 102 / Efficiency Losses (or Deadweight Losses) 104	
Private and Public Goods 106	106
Private Goods Characteristics 106 / Profitable Provision 106 / Public Goods Characteristics 107	
Illustrating the Idea <i>Art for Art’s Sake</i> 108	
Comparing Marginal Benefit and Marginal Cost 109	
Applying the Analysis <i>Cost-Benefit Analysis</i> 110	
Externalities 111	111
Negative Externalities 111 / Positive Externalities 112	
Illustrating the Idea <i>Beekeepers and the Coase Theorem</i> 114	
Government Intervention 114	
Applying the Analysis <i>Lojack: A Case of Positive Externalities</i> 117	
Applying the Analysis <i>Reducing Greenhouse Gases</i> 118	
Society’s Optimal Amount of Externality Reduction 118	
Government’s Role in the Economy 120	120
Summary 121	
Terms and Concepts 122	
Questions 122	
Problems 123	

PART THREE

Product Markets

Chapter 6

Businesses and Their Costs 126

The Business Population 127

Advantages of Corporations 127 / The Principal-Agent Problem 128

Applying the Analysis *Unprincipled Agents* 128

Economic Costs 129

Explicit and Implicit Costs 129 / Accounting Profit and Normal Profit 130 / Economic Profit 131 / Short Run and Long Run 132

Short-Run Production Relationships 133

Law of Diminishing Returns 134 / Relevancy for Firms 134

Illustrating the Idea *Diminishing Returns from Study* 134

Tabular and Graphical Representations 135

Illustrating the Idea *Exam Scores* 137

Short-Run Production Costs 138

Fixed, Variable, and Total Costs 138

Applying the Analysis *Sunk Costs* 138

Per-Unit, or Average, Costs 140 / Marginal Cost 141

Applying the Analysis *Rising Gasoline Prices* 142

Long-Run Production Costs 142

Firm Size and Costs 142 / The Long-Run Cost

Curve 143 / Economies and Diseconomies of Scale 144

Applying the Analysis *The Verson Stamping Machine* 147

Minimum Efficient Scale and Industry Structure 148

Applying the Analysis *Aircraft Assembly Plants versus Concrete Plants* 148

Summary 149

Terms and Concepts 150

Questions 150

Problems 151

Chapter 7

Pure Competition 153

Four Market Models 154

Pure Competition: Characteristics and Occurrence 155

Demand as Seen by a Purely Competitive Seller 155

Perfectly Elastic Demand 156 / Average, Total, and Marginal Revenue 157

Profit Maximization in the Short Run 157

Profit Maximization 158 / Loss Minimization and Shutdown 159

Applying the Analysis *The Still There Motel* 162

Marginal Cost and Short-Run Supply 163

Generalized Depiction 163 / Firm and Industry: Equilibrium Price 164

Profit Maximization in the Long Run 166

Assumptions 167 / Goal of Our Analysis 167 / Long-Run Equilibrium 167

Applying the Analysis *The Exit of Farmers from U.S.*

Agriculture 169

Long-Run Supply for a Constant-Cost Industry 170 / Long-Run

Supply for an Increasing-Cost Industry 170 / Long-Run

Supply for a Decreasing-Cost Industry 171

Pure Competition and Efficiency 172

Productive Efficiency: $P = \text{Minimum ATC}$ 173 / Allocative

Efficiency: $P = MC$ 174 / Maximum Consumer and Producer

Surplus 175

Summary 176

Terms and Concepts 176

Questions 176

Problems 177

Chapter 8

Pure Monopoly 179

An Introduction to Pure Monopoly 180

Barriers to Entry 180

Economies of Scale 181 / Legal Barriers to Entry: Patents

and Licenses 181 / Ownership or Control of Essential

Resources 182 / Pricing and Other Strategic Barriers to

Entry 182

Monopoly Demand 182

Marginal Revenue Is Less Than Price 183 / The Monopolist Is

a Price Maker 183

Output and Price Determination 185

Cost Data 185 / $MR = MC$ Rule 185 / Misconceptions

Concerning Monopoly Pricing 186

Economic Effects of Monopoly 187

Price, Output, and Efficiency 187 / Income

Transfer 189 / Cost Complications 189

Applying the Analysis *Is De Beers' Diamond Monopoly Forever?* 191

Price Discrimination 192

Conditions 192 / Examples 193 / Graphical Analysis 193

Applying the Analysis *Price Discrimination at the Ballpark* 194

Monopoly and Antitrust Policy 195

Not Widespread 195 / Antitrust Policy 196

Applying the Analysis *United States v. Microsoft* 197

Summary 198

Terms and Concepts 199

Questions 199

Problems 200

Chapter 9

Monopolistic Competition and Oligopoly 202

Monopolistic Competition 203

Relatively Large Number of Sellers 203 / Differentiated

Products 204 / Easy Entry and Exit 205 /

Advertising 205 / Monopolistically Competitive

Industries 205

Price and Output in Monopolistic Competition 205

The Firm's Demand Curve 206 / The Short Run: Profit or

Loss 207 / The Long Run: Only a Normal Profit 207

Monopolistic Competition and Efficiency	207	Monopsony	239
Neither Productive nor Allocative Efficiency	208	Upward-Sloping Labor Supply to Firm	239
Capacity	208	MRC Higher Than the Wage Rate	240
Product Variety and Improvement	209	Equilibrium Wage and Employment	240
Oligopoly	209	Applying the Analysis <i>Monopsony Power</i>	241
A Few Large Producers	209	Union Models	241
Differentiated Products	209	Exclusive or Craft Union Model	241
Control over Price, but Mutual Interdependence	210	Inclusive or Industrial Union Model	241
Illustrating the Idea <i>Creative Strategic Behavior</i>	210	Wage Increases and Job Loss	244
Entry Barriers	211	Wage Differentials	244
Mergers	211	Marginal Revenue Productivity	245
Oligopoly Behavior: A Game-Theory Overview	211	Noncompeting Groups	246
Illustrating the Idea <i>The Prisoner's Dilemma</i>	211	Illustrating the Idea <i>My Entire Life</i>	248
Mutual Interdependence Revisited	213	Compensating Differences	248
Collusion	213	Applying the Analysis <i>The Minimum Wage</i>	248
Incentive to Cheat	213	Summary	250
Kinked-Demand Model	214	Terms and Concepts	250
Kinked-Demand Curve	214	Questions	250
Price Inflexibility	215	Problems	251
Price Leadership	215	Chapter 11	
Applying the Analysis <i>Challenges to Price Leadership</i>	216	Income Inequality and Poverty	253
Collusion	217	Facts about Income Inequality	254
Joint-Profit Maximization	217	Distribution by Income Category	254
Applying the Analysis <i>Cartels and Collusion</i>	218	Distribution by Quintiles (Fifths)	254
Obstacles to Collusion	219	The Lorenz Curve and Gini Ratio	254
Oligopoly and Advertising	220	Income Mobility: The Time Dimension	256
Positive Effects of Advertising	220	Effect of Government Redistribution	257
Effects of Advertising	221	Causes of Income Inequality	258
Oligopoly and Efficiency	222	Ability	258
Inefficiency	222	Education and Training	258
Qualifications	222	Discrimination	258
Applying the Analysis <i>Oligopoly in the Beer Industry</i>	223	Preferences and Risks	259
Summary	224	Unequal Distribution of Wealth	259
Terms and Concepts	225	Market Power	259
Questions	225	Luck, Connections, and Misfortune	259
Problems	226	Income Inequality over Time	260
		Rising Income Inequality since 1970	260
		Causes of Growing Inequality	261
		Applying the Analysis <i>Laughing at Shrek</i>	262
		Equality versus Efficiency	263
		The Case for Equality: Maximizing Total Utility	263
		The Case for Inequality: Incentives and Efficiency	265
		The Equality-Efficiency Trade-off	265
		Illustrating the Idea <i>Slicing the Pizza</i>	266
		The Economics of Poverty	266
		Definition of Poverty	266
		Incidence of Poverty	266
		Poverty Trends	267
		Measurement Issues	268
		The U.S. Income-Maintenance System	269
		Social Insurance Programs	269
		Public Assistance Programs	270
		Summary	272
		Terms and Concepts	273
		Questions	273
		Problems	274
		Chapter 12	
		Public Finance: Expenditures and Taxes	275
		Government and the Circular Flow	276
		Government Finance	277
		Government Purchases and Transfers	277
		Government Revenues	279
PART FOUR			
Resource Markets and Government			
Chapter 10			
Wage Determination	228		
A Focus on Labor	229		
Labor Demand	229		
Marginal Revenue Product	229		
Rule for Employing Labor: $MRP = MRC$	231		
MRP as Labor Demand Schedule	231		
Market Demand for Labor	232		
Changes in Labor Demand	232		
Changes in Product Demand	232		
Changes in Productivity	232		
Changes in the Prices of Other Resources	233		
Applying the Analysis <i>Occupational Employment Trends</i>	234		
Elasticity of Labor Demand	236		
Ease of Resource Substitutability	236		
Elasticity of Product Demand	236		
Ratio of Labor Cost to Total Cost	237		
Market Supply of Labor	237		
Wage and Employment Determination	238		

Federal Finance	279	The Foreign Exchange Market	308
Federal Expenditures	279	Exchange Rates	309
Federal Tax Revenues	280	Depreciation and	
State and Local Finance	281	Appreciation	310
State Finances	281	Determinants of Exchange Rates	310
Applying the Analysis		Government and Trade	312
<i>State Lotteries: A Good Bet?</i>	282	Trade Protections and Subsidies	312
Local Finances	282	Economic Impact of	
Local, State, and Federal Employment	283	Tariffs	313
Apportioning the Tax Burden	284	Net Costs of Tariffs	314
Benefits Received versus Ability to Pay	284	So Why	
Proportional, and Regressive Taxes	285	Government Trade Protections	314
Applying the Analysis		Illustrating the Idea	315
<i>The VAT: A Very Alluring Tax?</i>	287	Three Arguments for Protection	315
Tax Incidence and Efficiency Loss	287	Increased-Domestic-Employment Argument	315
Elasticity and Tax Incidence	287	Cheap-Foreign-Labor Argument	316
Efficiency Loss of a		Protection-against-Dumping Argument	316
Tax	290	Trade Adjustment Assistance	317
Probable Incidence of U.S. Taxes	292	Applying the Analysis	318
The U.S. Tax Structure	294	<i>Is Offshoring of Jobs Bad?</i>	
Summary	295	Multilateral Trade Agreements and	
Terms and Concepts	295	Free-Trade Zones	319
Questions	296	General Agreement on Tariffs and Trade	319
Problems	296	World Trade Organization	319
		European Union	319
		North American Free Trade Agreement	320
		Recent U.S. Trade Deficits	320
		Causes of the Trade Deficits	321
		Implications of	
		U.S. Trade Deficits	321
		Summary	323
		Terms and Concepts	323
		Questions	324
		Problems	324
		Glossary	327
		Index	341

PART FIVE

International Economics

Chapter 13

International Trade and Exchange Rates 300

Trade Facts 301

Comparative Advantage and Specialization 302

Illustrating the Idea *A CPA and a House Painter* 303

 Comparative Advantage: Production Possibilities

 Analysis 304 / Trade with Increasing Costs 306