

Contents

Preface	xi
Acknowledgements	xx
PART 1 INTRODUCTION	1
<i>Chapter 1 Economics and the Economy</i>	<i>2</i>
1.1 Resource Allocation	3
Exploring the What, How, and For Whom	3
1.2 Dynamic Resource Allocation	4
1.3 Scarcity and the Competing Use of Resources	6
The Economy's Production Possibilities	6
Expanding the Production Possibilities	8
Opportunity Cost and Comparative Advantage as Guiding Principles	8
1.4 The Role of the Market	9
The Command Economy	9
The Invisible Hand	10
The Mixed Economy	10
1.5 Positive and Normative Economics	10
1.6 An Economist's Credo	12
1.7 Micro and Macro Economics	15
<i>Chapter 2 The Tools of Economic Analysis</i>	<i>19</i>
2.1 Models and Theories	19
2.2 Data	20
Time-Series Data	20
Cross-Section Data	21
2.3 Index Numbers	23
Index Numbers as Averages	24
The Consumer Price Index	25
Nominal and Real Variables	25
Quality and Technological Change	25
Measuring Change in Economic Variables	26
2.4 Economic Models and Analysis	26
Evidence	27
Fitting Lines through the Scatter Plot	27
Interpreting Linear Relationships	29
Non-Linear Relationships	30
Other Things Being Equal	30
2.5 Theories and Evidence: Accepting and Rejecting Theories	31
2.6 The Great Canadian Data Hunt	32
2.7 Popular Criticisms of Economics and Economists	32
<i>Chapter 3 Demand, Supply, and the Market</i>	<i>37</i>
3.1 The Market	38
3.2 Demand, Supply, and Equilibrium	38
Other Things Being Equal— <i>Ceteris Paribus</i>	39
The Equilibrium Price	39



3.3	Demand and Supply Curves	40
	Computing the Market Equilibrium	41
3.4	Behind the Demand Curve	41
	The Prices of Related Goods	42
	Consumer Incomes	42
	Tastes and Networks	43
	Expectations	43
3.5	Shifts in the Demand Curve	43
3.6	Behind the Supply Curve	45
	Technology	45
	Input Costs	46
	Competing Products	46
3.7	Shifts in the Supply Curve	46
3.8	Simultaneous Shifts in Supply and Demand: Applications	47
3.9	Free Markets and Managed Markets	50
	Price Ceilings as Rent Controls	50
	Price Floors	51
	Quotas	51
3.10	Summing Individual Decisions	54
3.11	What, How, and For Whom	55
 PART 2 INTRODUCTION TO MICROECONOMICS		 59
<i>Chapter 4 Elasticities of Demand and Supply</i>		60
4.1	The Price Responsiveness of Demand	61
	Extreme Cases	63
	Using Information on the Slope of the Demand Curve	63
	Elastic and Inelastic Demands	65
	Using Price Elasticities	66
4.2	Price Elasticity and Total Expenditure	67
4.3	Short-Run and Long-Run Elasticities	70
4.4	The Cross-Price Elasticity of Demand	70
4.5	The Income Elasticity of Demand	71
4.6	Inflation and Demand Elasticities	74
4.7	Elasticity of Supply	74
4.8	Elasticities and Taxes	76
 <i>Chapter 5 Welfare Economics</i>		 83
5.1	Consumer and Supplier Surplus	84
	Computing the Surplus	86
5.2	Efficient Market Outcomes	86
5.3	Taxation and Efficiency	88
	Elasticities Revisited	89
	A Wage Tax	89
5.4	Market Failures—Negative Externalities	90
5.5	Market Failures—Positive Externalities	92
5.6	Other Market Failures	94
5.7	Equity, Justice, and Efficiency	95
	Equity versus Efficiency	95

PART 3 CONSUMERS AND PRODUCERS	101
<i>Chapter 6 Consumer Choice and Demand Decisions</i>	102
6.1 Consumer Choice with Measurable Utility	103
6.2 Utility and Demand	106
The Theory	106
Applying the Theory	107
6.3 Indifference Analysis–The Budget Constraint	108
6.4 Indifference Analysis–Tastes	110
6.5 Optimization	112
Adjustment to Income Changes	113
Adjustment to Price Changes	114
6.6 Applications of Indifference Analysis	114
Complements and Substitutes	114
Cross-Price Elasticities	114
Normal and Inferior Goods	115
Income and Substitution Effects	115
6.7 Policy Application: Income Transfers and Price Subsidies	116
 <i>Chapter 7 Firms, Investors, and Capital Markets</i>	 123
7.1 Business Organization	124
7.2 Profit, Ownership, and Corporate Goals	125
7.3 Risk and the Investor	126
7.4 Diminishing Marginal Utility and Risk	128
7.5 Uncertainty and Asset Returns	131
7.6 Financing the Risky Firm: Diversification	131
The Capital Market's Role	134
 <i>Chapter 8 Production and Costs</i>	 139
8.1 Efficient Production	140
8.2 The Time Frame	141
8.3 Production in the Short Run	141
8.4 Costs in the Short Run	144
8.5 Life and Death in the Short Run–Sunk Costs	148
8.6 Long-Run Production and Costs	149
8.7 Technological Change and Globalization	152
8.8 Clusters and Externalities, Learning by Doing, and Scope Economies	152
Clusters and Externalities	152
Learning by Doing	153
Economies of Scope	153
 PART 4 MARKET STRUCTURES	 159
<i>Chapter 9 Perfect Competition</i>	160
9.1 The Perfectly Competitive Marketplace	161
Characteristics of a Perfectly Competitive Market	161
9.2 The Firm's Supply Decision	162
The Short-Run Supply Decision	162
9.3 Industry Supply and Equilibrium in the Short Run	166
9.4 Industry Dynamics: Entry and Exit of Firms	166

9.5	Long-Run Industry Supply	169
	Increasing and Decreasing Cost Industries	170
9.6	Globalization and Technological Change	171
9.7	Efficient Resource Allocation under Perfect Competition	171
 <i>Chapter 10 Monopoly</i>		175
10.1	Reasons for Monopoly	176
	Natural Monopolies	176
	National Policy	177
	Maintaining Barriers to Entry	177
10.2	Profit Maximizing Behaviour	178
	Marginal Revenue	178
	The Optimal Output	180
	Demand Elasticity and Marginal Revenue	182
	A General Graphical Representation	182
	The Missing Supply Curve	183
10.3	Demand Shifts and the Long Run	183
10.4	Inefficiency of the Monopoly Market Structure	185
	Perfect Competition versus Monopoly	185
10.5	Price Discrimination	186
10.6	Cartels—Acting like a Monopolist	190
	Cartel Instability	190
10.7	Monopolies and Rent-Seeking Behaviour	191
	Who Pays for Rent Seeking?	192
10.8	Monopoly, Technology, and Innovation	192
	Conclusion	193
 <i>Chapter 11 Imperfect Competition</i>		197
11.1	Defining the Imperfect Competitor	197
11.2	Why Market Structures Differ	198
	Evidence of Market Structure	199
	Globalization and Multinationals	200
11.3	Monopolistic Competition	200
11.4	Oligopoly, Game Theory, and Interdependence	202
	Dominant Strategies	203
11.5	Duopoly and Cournot Games	205
	Cournot Behaviour	205
11.6	Entry and Potential Competition	207
	Free Entry and Exit and the Role of the Global Firm	207
	Strategic and Unintended Entry Barriers	208
	Conclusion	209
 PART 5 FACTOR MARKETS		215
 <i>Chapter 12 The Markets for Labour and Capital</i>		217
12.1	Derived Demands	217
	Demand in the Short Run	218
	Demand in the Long Run	219
12.2	Firm versus Industry Demand	220

12.3	The Supply of Labour	222
	Individual Labour Supply	222
	Labour Supply to an Industry	223
12.4	Industry Labour-Market Equilibrium and Labour Mobility	224
	Do Labour Markets Really Clear?	225
12.5	The Market for Capital Goods and Services	227
	Present Values and Discounting	228
12.6	Capital Services	229
	Demand	229
	Supply	230
12.7	Equilibrium and Dynamics in the Capital Market	231
	The Price of Capital Assets	232
12.8	Land and Natural Resources	232
	Natural Resources	233
 <i>Chapter 13 Human Capital and the Distribution of Income</i>		238
13.1	Human Capital Defined	238
13.2	Productivity Differences and Education	239
	Age-Earnings Profiles	239
	The Education Premium	239
	Are Students Credit-Constrained?	241
13.3	On-the-Job Training	242
13.4	Education as Signalling	243
13.5	Measuring Education Benefits and Education Quality	243
13.6	Discrimination	244
13.7	The Income Distribution	246
	Theory and Measurement	246
	Recent Distributional Trends	247
	Economic Forces	249
 PART 6 GOVERNMENT AND THE TRADING WORLD		255
 <i>Chapter 14 Government Activity in the Canadian Economy</i>		256
14.1	Governments and Market Failure	257
	Externalities	257
	Public Goods	258
	Asymmetric Information	259
	Concentration of Power	259
	Unfavourable Market Outcomes	259
14.2	Fiscal Federalism: Taxing and Spending	260
14.3	Federal-Provincial Fiscal Relations	261
	Equalization	261
	The Canada Social Transfer and the Canada Health Transfer	262
14.4	Government-to-Individual Transfers	263
14.5	Competition Policy: Government as Industry Regulator	266
	Goals and Objectives of Policy	266
	Anti-Competitive Practices	266
	Enforcement	268
	Deregulation	268
	Privatization	269
	Regulation Theory	269

<i>Chapter 15 International Trade</i>	273
15.1 Trade Patterns	274
The World Economy	274
Developed and Less Developed Economies	275
The Commodity Composition of Trade	275
15.2 Trade Issues for Canada and the World	277
15.3 Comparative Advantage	279
The Gains from Trade	280
Exchange Rates	281
Other Reasons for Comparative Advantage	282
Intra-Industry Trade	283
15.4 Does Everyone Gain from Trade?	284
Refrigeration	284
The United Kingdom Auto Industry	284
15.5 The Economics of Protectionism	285
Markets and Tariffs	285
Costs and Benefits of a Tariff	286
Production Subsidies	286
15.6 Good and Bad Arguments for Protection	287
Popular (Mostly Bad) Arguments for Restricting Trade	287
Sustainable Arguments for Restricting Trade	289
So Why Do We Have Tariffs?	290
15.7 Institutions Governing Trade	291
The WTO and GATT	291
NAFTA and the EU	292
Glossary	297
Index	303