

Preface

Bringing new textbooks in Introductory Economics to a market already supplied with a number of alternatives raises obvious questions. How are these new books distinct? What are the underlying motivations? What are the advantages for students and instructors?

Curtis, Irvine, Begg: *Microeconomics* and *Macroeconomics* are primarily new books and are not just Canadian adaptations of books focussed on other national economies. A fresh start has been made on the content, organization, and writing of most of the topics and issues covered.

However, we have built on the philosophy and pedagogy of David Begg's introductory book, *Economics*, which has dominated the United Kingdom market in recent years. His text is comprehensive for the needs of new students of economics, and focusses upon the essentials. We emphasize policy issues and the use of the core analytical tools that first year students should master. The results are books more focussed and more compact than virtually all books on the principles of economics in the Canadian marketplace. In contrast with some encyclopedic books, we make choices and concentrate on the core topics important to an introductory course.

Consistent with this approach, there are no appendices or “afterthought” chapters. If important material is challenging, it is still included in the main body of the text; it is not relegated elsewhere for a limited audience. The results are introductory *Microeconomics* and *Macroeconomics* books of just fifteen chapters and sixteen chapters respectively; four of which, three introductory chapters and an international trade chapter, are common to both.

The examples used in the text are domestic and international and are from the modern era—consumers buy iPods, snowboards, and jazz, and not so much coffee and hamburgers. Globalization is a recurring theme. The book has a complete array of figures, tables, and illustrations, and occasional linear equations that are carefully explained and developed.

NOTE ABOUT THE COVER

“If we look at the world in the form of a circle, let us look at what is on the inside of the circle as experience, culture and knowledge: let us look at this as the past ... What is outside of the circle is yet to be experienced. But in order to expand the circle we must know what is inside the circle ... it has been the art that has brought us back to our roots. ... I am proud to be one of those people chosen to put the puzzle back together and move on ... The challenge is ours to keep expanding the circle.”

—Robert Davidson

CONTENT

Microeconomics provides a concise, yet complete, coverage of microeconomic theory, application and policy in a Canadian and global environment. We begin by explaining and developing the standard tools of analysis in the discipline.



Economic policy is about the well-being of the economy's participants, and economic theory should inform economic policy. So we investigate early in the text the meaning of 'well-being' in the context of an efficient use of the economy's resources.

We then develop an understanding of individual optimizing behaviour. This optimizing behaviour is then used to link household decisions on savings with firms' decisions on production, expansion, and investment. A natural progression is to explain production and cost structures.

From the individual level of household and firm decision-making, the text then explores behaviour in a variety of different market structures.

Markets for the inputs in the productive process—capital and labour—are a natural component of firm-level decisions. Education and human capital are omnipresent concepts and concerns in the modern economy, so we devote a complete chapter to them.

The book concludes by examining the role of a non-market player in the economy—the government, and then develops the key elements in the modern theory of international trade.

Opportunity cost, a global economy, and behavioural responses to incentives are the dominant themes.

STRUCTURE

The structure of *Microeconomics* is reasonably conventional but is differentiated in the development at several points.

CHAPTERS 1–3 provide the tool kit, covering the nature of economics, models, data and diagrams, and basic supply and demand.

CHAPTER 4, Elasticities of Demand and Supply, involves understanding and measuring the responses of economic players to prices and incentives in the marketplace. In this chapter we develop an array of unit-free responses—elasticities.

CHAPTER 5, Welfare Economics, develops the essentials of welfare economics. An understanding of opportunity cost and efficient markets is critical to new students. Since these concepts are omnipresent in the discipline, they should be introduced early and applied frequently. Surplus, market efficiency, deadweight losses, taxes, and externalities are all developed. But distributional and equity considerations underlie all market interactions, and the authors show how different income distributions can lead to different efficient outcomes.

CHAPTER 6, Consumer Choice and Demand Decisions, develops consumer theory from both a utility and indifference curve perspective. The correspondence between the two is developed.

CHAPTER 7, Firms, Investors, and Capital Markets, is an introduction to the theory and practice of the firm. It differs substantially from virtually all other texts. The

integration of the household and the firm is typically dealt with in macroeconomics. This chapter integrates, in a “micro” context, the presence of the stock market, concepts of risk, investment, portfolio management, and returns in our daily lives that suggest that the firm is not an isolated entity. It not only produces goods and services; it also provides investors with a means of saving for retirement, diversifying their income sources and risk, and thereby taking on the role of an engine of growth in the economy.

CHAPTER 8, Production and Costs, develops cost and production theory—initially following the standard paradigm, but then explaining learning by doing, clusters, economies of scope, and other features of the modern global economy.

CHAPTER 9, Perfect Competition, and **CHAPTER 10, Monopoly**, develop perfect competition and monopoly.

CHAPTER 11, Imperfect Competition, develops imperfect competition, monopolistic competition, Cournot duopolies, and game theoretic competition.

CHAPTER 12, The Markets for Labour and Capital, examines the factors of production and their pricing. It deals with both labour and capital, and consequently with asset valuation and discounting. This material is always challenging for the student.

CHAPTER 13, Human Capital and the Distribution of Income, develops the concept of human capital and the distribution of income. Knowledge, education, and a skilled workforce are deemed such important elements of the modern economy that a full chapter is given to them.

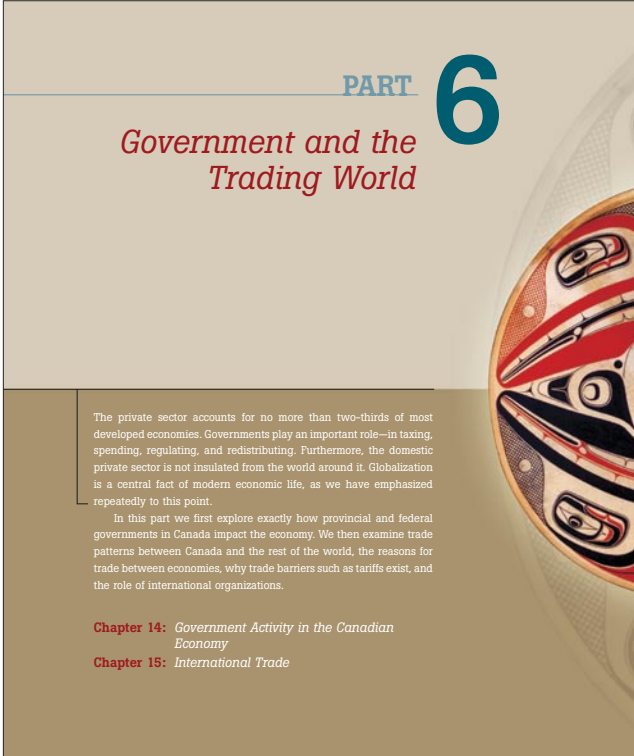
CHAPTER 14, Government Activity in the Canadian Economy, is devoted to government. It explains the functions that governments perform, and how the federal and provincial governments perform them in Canada. It describes the major sources of tax revenue, and the interrelationship between federal and provincial governments. The role played by the government in relation to markets and competition policy is also developed.

CHAPTER 15, International Trade, develops the essentials of international trade: how the Canadian economy has evolved in the post-World War II era and in the post-NAFTA era, the theory of comparative advantage, the role of exchange rates, protectionism, and trading blocks. It ends with a section designed to give students exposure to arguments for and against protectionism.

LEARNING SOLUTIONS

To provide guidance and insights throughout the text, we include a number of proven pedagogical aids, to assist student learning, including:

Part Openers/Chapter Openers set the scene for the areas of study in the chapters that follow.



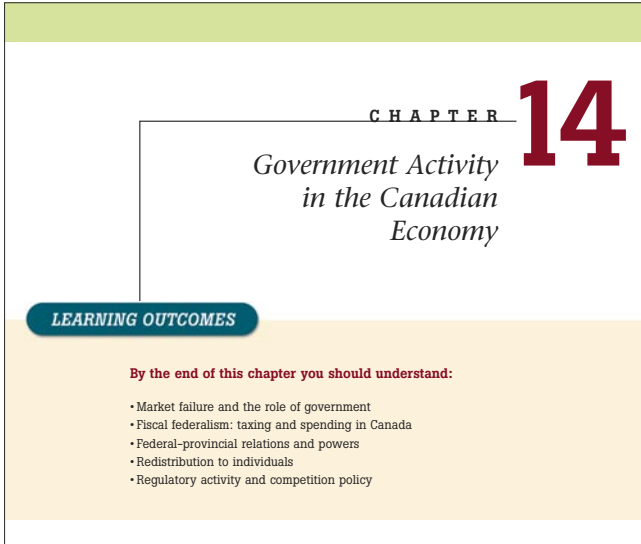
PART 6
Government and the Trading World

The private sector accounts for no more than two-thirds of most developed economies. Governments play an important role—in taxing, spending, regulating, and redistributing. Furthermore, the domestic private sector is not insulated from the world around it. Globalization is a central fact of modern economic life, as we have emphasized repeatedly to this point.

In this part we first explore exactly how provincial and federal governments in Canada impact the economy. We then examine trade patterns between Canada and the rest of the world, the reasons for trade between economies, why trade barriers such as tariffs exist, and the role of international organizations.

Chapter 14: *Government Activity in the Canadian Economy*
Chapter 15: *International Trade*

Learning Outcomes identify the primary topics to be covered in the following pages, and highlight what should be understood when the chapter has been completed.



CHAPTER 14
Government Activity in the Canadian Economy

LEARNING OUTCOMES

By the end of this chapter you should understand:

- Market failure and the role of government
- Fiscal federalism: taxing and spending in Canada
- Federal-provincial relations and powers
- Redistribution to individuals
- Regulatory activity and competition policy

Application Boxes contain current and practical examples to highlight the application of the concepts to economics in the real world. These boxes also provide further and more in-depth discussions of key models and theories to expand on the core concepts in the book.



APPLICATION BOX 13.2

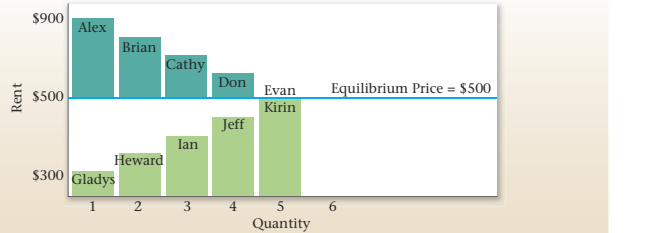
Student Loans in Canada

Among graduating students in Canada, 45 percent have student loans, and the average size of these loans has grown over time to about \$13,000. Student loans, in addition to grants which go to students from low-income households, have been an important source of funding for very many of Canada's almost one million university students. Currently, these loans are provided and managed by the National Student Loans Service Centre, which has replaced the Canada Student Loan Program. The outstanding stock of loans stands at \$9 billion.

While this program enables many students to attend post-secondary institutions, several problems exist. The first is that the amount students would like to borrow is often greater than

they are offered. The second is that there has been a high rate of default on these loans—up to 25 percent for many cohorts. This is a serious threat to the viability of the system. For many unemployed graduates with no income prospects, there is every incentive to declare bankruptcy rather than to continue with their efforts to repay in the future. In a remarkably interesting piece of research, M. Connolly, C. Montmarquette, and A. Bejaoui have shown that, when an individual misses even one interest payment after his or her graduation, this is a signal that there is a high likelihood that such an individual will ultimately default. But new regulations make personal bankruptcy and default much more difficult.

FIGURE 5.1 The Market for City Apartments



Demanders and suppliers of apartments are ranked in order of the value they place on an apartment. The market equilibrium is where the marginal demand value of Evan equals the marginal supply value of Kirin at \$500. Five apartments are rented in equilibrium.

Figures and tables are presented in a simple and clear design. The use of colour will help students to interpret and absorb key economic data and concepts. Captions explain what is being demonstrated.

Next

It is now time to turn our attention explicitly outward. We have discussed the global economy on many occasions. Our objective is to develop the theory of international trade, with a view to understanding why it can increase the living standards of all trading economies.

“Next” Feature appears before the end-of-chapter summary and is a paragraph linking the chapter in which it appears with the material to come in the next chapter.

SUMMARY

- A **pure monopoly** is a structure where a **single supplier produces for the whole market**. Though rare in reality, this case offers an important benchmark against which to compare less extreme forms of monopoly power.
 - A monopoly can continue to survive as a result of **owning a patent**, or having **increasing returns to scale**, or through **successful lobbying and protection seeking**, or **predatory pricing**. In the case of returns to scale, the structure is termed a **natural monopoly**.
 - The monopolist supplies the whole market and therefore **faces a downward-sloping demand curve**. He is not a price taker. Increased output involves a lower price, and therefore the **marginal revenue from additional sales declines**.
- consumers. Such behaviour is not altruistic; it is designed to increase profit over the single-price policy. Price discrimination also has the potential to reduce deadweight loss. A discriminating seller must be able to segregate her customers and prevent resale. **Perfect price discrimination** involves charging a different price to every buyer or for every unit sold.
- A **cartel** is a group of firms that collude in such a way as to increase their collective profit. By **acting in unison, they behave as a multi-plant monopolist**, and therefore charge a higher price than in a more competitive environment. Most cartels have an **inherent instability** because of the incentive to break the supply-restriction behaviour that is required for the cartel to sustain itself.

End-of-Chapter Summaries review and reinforce the main topics covered in each chapter.

KEY TERMS

Monopolist 175	Cartel 190
Natural monopoly 176	Rent seeking 191
Marginal revenue 179	Invention 192
Price discrimination 186	Product innovation 192
Perfect price discrimination 189	Process innovation 192

Key Terms appear in boldface within the text where the term first appears, with the definition provided in the margin and summarized at the end of each chapter.

Key Equations and Relations are serially numbered. Linear equations are explicitly solved in the textual development.

KEY EQUATIONS AND RELATIONS

Equations

Average variable cost: $AVC = TVC/Q$ (8.1) p. 146

Marginal cost: $MC = \Delta TC/\Delta Q$ (8.2a) p. 148

$MC = \text{Wage}/MP$ (8.2b) p. 148

Relations

Productivity: If $MP > AP$ then $AP \uparrow$; If $MP < AP$ then $AP \downarrow$

Productivity and costs: $AVC \downarrow$ when $AP \uparrow$; $AVC \uparrow$ when $AP \downarrow$

AVC reaches a minimum where AP is a maximum.

Marginal cost and marginal product: $MC \downarrow$ when $MP \uparrow$; $MC \uparrow$ when $MP \downarrow$

MC reaches a minimum where MP is a maximum.

Marginal cost and average variable cost:

When $MC < AVC$ then $AVC \downarrow$; when $MC > AVC$ then $AVC \uparrow$

Marginal cost and average total cost:

When $MC < ATC$ then $ATC \downarrow$; when $MC > ATC$ then $ATC \uparrow$

Review Questions located at the end of each chapter encourage students to review and apply the knowledge acquired from each chapter. Text material tied into the Review Questions is indicated by a question-mark and the respective question numbers in the margin of the text.

REVIEW QUESTIONS

Answers to odd-numbered Review Questions can be found in Appendix A on the Online Learning Centre.

1. *Stream Lined* is a company specializing in the production of bicycle shirts. It has a fixed capital stock, and sells its shirts for \$20 each. It pays a weekly wage of \$400 per worker. *Stream Lined* must maximize its profits by determining the optimal number of employees to hire. The marginal product of each worker can be inferred from the table below. Determine the optimal number of employees. [Hint: You must determine the VMP_L schedule, having first computed the MP_L .]

Employment	0	1	2	3	4	5	6
Total output	0	20	50	75	95	110	120

the same wage; so when one additional worker is hired, the wage must increase to all workers employed.]

4. Consider the following supply and demand equations for berry pickers.
Demand: $W = 22 - 0.4L$; Supply: $W = 10 + 0.2L$
- Plot these functions and calculate the equilibrium wage and employment level.
 - Illustrate in the diagram the areas defining transfer earnings and rent.
 - Compute the transfer earnings and rent components of the total wage bill.

Review Question 3

Nobel Laureate George Stigler has argued that there is a serious danger of regulators becoming too close to the regulated, and that the relationship can evolve to a point where the regulator may protect the regulated firms. A case in point was Canada's airline industry in the 1970s, at which time regulation was probably inhibiting entry.

COMPREHENSIVE LEARNING AND TEACHING PACKAGE

We have developed a number of supplements for both teaching and learning to accompany this text.

Lyryx

Lyryx Assessment for Economics is a leading edge online assessment program designed to support both students and instructors. The assessment takes the form of a homework assignment called a Lab. The assessments are algorithmically generated and automatically graded so that students get instant grades and detailed feedback. New Labs are randomly generated each time, providing the student with unlimited opportunities to try a question. After they submit a Lab for marking, students receive extensive feedback on their work, thus enhancing their learning experience.



For the Student: Lyryx Assessment for Economics offers algorithmically generated and automatically graded assignments. Students get instant grades and instant feedback—no need to wait until the next class to find out how well they did! Grades are instantly recorded in a grade book that the student can view.

Students are motivated to do their labs for two reasons: first because it can be tied to assessment, and second, because they can try the lab as many times as they wish prior to the due date with only their best grade being recorded.

Instructors know from experience that if students are doing their economics homework, they will be successful in the course. Recent research regarding the use of Lyryx has shown that when labs are tied to assessment, even if worth only a small percentage of the total grade of the course, students WILL do their homework—and MORE THAN ONCE!

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Student Online Learning Centre

This electronic learning aid, located at www.mcgrawhill.ca/olc/curtisirvine offers a wealth of materials including multiple-choice quizzes, web links, internet questions, searchable glossary, *The Globe&Mail* News feeds and other News feeds, link to *iStudy*, answers to the odd-numbered review questions, and much more.

MICRO ECONOMICS CANADIAN EDITION

Information Center

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Microeconomics

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Welcome to the Online Learning Centre for *Microeconomics*, First Canadian Edition. Use the navigation to the left to preview several key features of the text.

Students will find valuable interactive learning material in the Student Centre.

Instructors: Note that the Instructor Centre is password protected, intended for adopters. If you require a password, contact your McGraw-Hill Ryerson *i*-Learning Sales Specialist or [send a request](#) from this website.

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Instructor's CD-ROM

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- Instructor's Manual contains brief chapter outlines, introductions, examples, teaching tips, and answers to the end-of-chapter Review Questions.
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