

CONTENTS

Preface xxv

PART • ONE Introduction: Markets and Prices 1

1 Preliminaries 3

1.1 The Themes of Microeconomics 4

Trade-Offs 4

Prices and Markets 5

Theories and Models 5

Positive versus Normative Analysis 6

1.2 What Is a Market? 7

Competitive versus Noncompetitive Markets 8

Market Price 8

Market Definition—The Extent of a Market 9

1.3 Real versus Nominal Prices 12

1.4 Why Study Microeconomics? 15

Corporate Decision Making: Ford's Sport Utility Vehicles 15

Public Policy Design: Automobile Emission Standards for the Twenty-First Century 17

Summary 18

Questions for Review 18

Exercises 18

2 The Basics of Supply and Demand 21

2.1 Supply and Demand 22

The Supply Curve 22

The Demand Curve 23

2.2 The Market Mechanism 25

2.3 Changes in Market Equilibrium 26

2.4 Elasticities of Supply and Demand 34

Point versus Arc Elasticities 37

2.5 Short-Run versus Long-Run Elasticities 40

Demand 40

Supply 45

*2.6 Understanding and Predicting the Effects of Changing Market Conditions 49

2.7 Effects of Government Intervention—Price Controls 58

Summary 61

Questions for Review 61

Exercises 62

3 Consumer Behavior 67

Consumer Behavior 67

3.1 Consumer Preferences 69

Market Baskets 69

Some Basic Assumptions about Preferences 70

Indifference Curves 70

Indifference Maps 72

The Shape of Indifference Curves 74

The Marginal Rate of Substitution 75

Perfect Substitutes and Perfect Complements 76

3.2 Budget Constraints 83

The Budget Line 83

The Effects of Changes in Income and Prices 84

3.3 Consumer Choice 86

Corner Solutions 90

3.4 Revealed Preference 92

3.5 Marginal Utility and Consumer Choice 95

*3.6 Cost-of-Living Indexes 100

Ideal Cost-of-Living Index 101

Laspeyres Index 102

Paasche Index 103

Price Indexes in the United States: Chain

Weighting 104

Summary 106

Questions for Review 106

Exercises 107

4 Individual and Market Demand 111

4.1 Individual Demand 112

Price Changes 112

The Individual Demand Curve 113

Income Changes 114

Normal versus Inferior Goods 115

Engel Curves 116

Substitutes and Complements 119

4.2 Income and Substitution Effects 120

Substitution Effect 121

Income Effect 121

A Special Case: The Giffen Good 122

4.3 Market Demand 125

From Individual to Market Demand 125

Elasticity of Demand 127

4.4 Consumer Surplus 132

Consumer Surplus and Demand 132

4.5	Network Externalities	136
	<i>The Bandwagon Effect</i>	136
	<i>The Snob Effect</i>	137
*4.6	Empirical Estimation of Demand	140
	<i>The Statistical Approach to Demand Estimation</i>	140
	<i>The Form of the Demand Relationship</i>	142
	<i>Interview and Experimental Approaches to Demand Determination</i>	144
	Summary	144
	Questions for Review	145
	Exercises	146

Appendix to Chapter 4: Demand Theory—A Mathematical Treatment 149

	<i>Utility Maximization</i>	149
	<i>The Method of Lagrange Multipliers</i>	150
	<i>The Equal Marginal Principle</i>	151
	<i>Marginal Rate of Substitution</i>	151
	<i>Marginal Utility of Income</i>	152
	<i>An Example</i>	152
	<i>Duality in Consumer Theory</i>	154
	<i>Income and Substitution Effects</i>	155

Exercises 157

5 Uncertainty and Consumer Behavior 159

5.1	Describing Risk	160
	<i>Probability</i>	160
	<i>Expected Value</i>	161
	<i>Variability</i>	161
	<i>Decision Making</i>	163
5.2	Preferences Toward Risk	165
	<i>Different Preferences Toward Risk</i>	167
5.3	Reducing Risk	170
	<i>Diversification</i>	170
	<i>Insurance</i>	172
	<i>The Value of Information</i>	174
*5.4	The Demand for Risky Assets	176
	<i>Assets</i>	177
	<i>Risky and Riskless Assets</i>	177
	<i>Asset Returns</i>	178
	<i>The Trade-Off Between Risk and Return</i>	179
	<i>The Investor's Choice Problem</i>	180
5.5	Behavioral Economics	185
	<i>More Complex Preferences</i>	186
	<i>Rules of Thumb and Biases in Decision Making</i>	188
	<i>Probabilities and Uncertainty</i>	189
	<i>Summing Up</i>	189

Summary 191

Questions for Review 191

Exercises 191

6 Production 195

- The Production Decisions of a Firm* 195
- 6.1 The Technology of Production 196
 - The Production Function* 197
 - The Short Run versus the Long Run* 197
- 6.2 Production with One Variable Input (Labor) 198
 - Average and Marginal Products* 199
 - The Slopes of the Product Curve* 200
 - The Average Product of Labor Curve* 201
 - The Marginal Product of Labor Curve* 202
 - The Law of Diminishing Marginal Returns* 202
 - Labor Productivity* 205
- 6.3 Production with Two Variable Inputs 207
 - Isoquants* 207
 - Input Flexibility* 209
 - Diminishing Marginal Returns* 209
 - Substitution Among Inputs* 209
 - Production Functions—Two Special Cases* 211
- 6.4 Returns to Scale 215
 - Describing Returns to Scale* 215
- Summary** 218
- Questions for Review** 218
- Exercises** 219

7 The Cost of Production 221

- 7.1 Measuring Cost: Which Costs Matter? 221
 - Economic Cost versus Accounting Cost* 222
 - Opportunity Cost* 222
 - Sunk Costs* 222
 - Fixed Costs and Variable Costs* 224
 - Fixed versus Sunk Costs* 225
 - Marginal and Average Cost* 227
- 7.2 Cost in the Short Run 228
 - The Determinants of Short-Run Cost* 228
 - The Shapes of the Cost Curves* 230
- 7.3 Cost in the Long Run 234
 - The User Cost of Capital* 234
 - The Cost-Minimizing Input Choice* 235
 - The Isocost Line* 236
 - Choosing Inputs* 237
 - Cost Minimization with Varying Output Levels* 241
 - The Expansion Path and Long-Run Costs* 241
- 7.4 Long-Run versus Short-Run Cost Curves 243
 - The Inflexibility of Short-Run Production* 243
 - Long-Run Average Cost* 243
 - Economies and Diseconomies of Scale* 245
 - The Relationship between Short-Run and Long-Run Cost* 247

7.5	Production with Two Outputs—Economies of Scope	248
	<i>Product Transformation Curves</i>	249
	<i>Economies and Diseconomies of Scope</i>	250
	<i>The Degree of Economies of Scope</i>	250
*7.6	Dynamic Changes in Costs—The Learning Curve	251
	<i>Graphing the Learning Curve</i>	252
	<i>Learning versus Economies of Scale</i>	253
*7.7	Estimating and Predicting Cost	256
	<i>Cost Functions and the Measurement of Scale Economies</i>	258
	Summary	260
	Questions for Review	261
	Exercises	261

Appendix to Chapter 7: Production and Cost Theory— A Mathematical Treatment 264

	<i>Cost Minimization</i>	264
	<i>Marginal Rate of Technical Substitution</i>	265
	<i>Duality in Production and Cost Theory</i>	266
	<i>The Cobb-Douglas Cost and Production Functions</i>	267
	Exercises	269

8 Profit Maximization and Competitive Supply 271

8.1	Perfectly Competitive Markets	271
	<i>When Is a Market Highly Competitive?</i>	273
8.2	Profit Maximization	274
	<i>Do Firms Maximize Profit?</i>	274
	<i>Alternative Forms of Organization</i>	275
8.3	Marginal Revenue, Marginal Cost, and Profit Maximization	276
	<i>Demand and Marginal Revenue for a Competitive Firm</i>	277
	<i>Profit Maximization by a Competitive Firm</i>	279
8.4	Choosing Output in the Short Run	279
	<i>Short-Run Profit Maximization by a Competitive Firm</i>	279
	<i>The Short-Run Profit of a Competitive Firm</i>	280
8.5	The Competitive Firm's Short-Run Supply Curve	284
	<i>The Firm's Response to an Input Price Change</i>	284
8.6	The Short-Run Market Supply Curve	287
	<i>Elasticity of Market Supply</i>	288
	<i>Producer Surplus in the Short Run</i>	291
8.7	Choosing Output in the Long Run	292
	<i>Long-Run Profit Maximization</i>	293
	<i>Long-Run Competitive Equilibrium</i>	294
	<i>Economic Rent</i>	297
	<i>Producer Surplus in the Long Run</i>	297
8.8	The Industry's Long-Run Supply Curve	299
	<i>Constant-Cost Industry</i>	299
	<i>Increasing-Cost Industry</i>	300
	<i>Decreasing-Cost Industry</i>	302

	<i>The Effects of a Tax</i>	302
	<i>Long-Run Elasticity of Supply</i>	303
	Summary	305
	Questions for Review	306
	Exercises	306

9 The Analysis of Competitive Markets 309

9.1	Evaluating the Gains and Losses from Government Policies—Consumer and Producer Surplus	309
	<i>Review of Consumer and Producer Surplus</i>	310
	<i>Application of Consumer and Producer Surplus</i>	311
9.2	The Efficiency of a Competitive Market	315
9.3	Minimum Prices	319
9.4	Price Supports and Production Quotas	324
	<i>Price Supports</i>	324
	<i>Production Quotas</i>	325
9.5	Import Quotas and Tariffs	331
9.6	The Impact of a Tax or Subsidy	335
	<i>The Effects of a Subsidy</i>	339
	Summary	342
	Questions for Review	342
	Exercises	343

PART • THREE Market Structure and Competitive Strategy 347

10 Market Power: Monopoly and Monopsony 349

10.1	Monopoly	350
	<i>Average Revenue and Marginal Revenue</i>	350
	<i>The Monopolist's Output Decision</i>	352
	<i>An Example</i>	353
	<i>A Rule of Thumb for Pricing</i>	354
	<i>Shifts in Demand</i>	357
	<i>The Effect of a Tax</i>	357
	<i>*The Multiplant Firm</i>	359
10.2	Monopoly Power	361
	<i>Measuring Monopoly Power</i>	362
	<i>The Rule of Thumb for Pricing</i>	363
10.3	Sources of Monopoly Power	366
	<i>The Elasticity of Market Demand</i>	367
	<i>The Number of Firms</i>	367
	<i>The Interaction Among Firms</i>	368
10.4	The Social Costs of Monopoly Power	368
	<i>Rent Seeking</i>	370
	<i>Price Regulation</i>	370
	<i>Natural Monopoly</i>	372
	<i>Regulation in Practice</i>	373

- 10.5 Monopsony 373
 - Monopsony and Monopoly Compared* 376
- 10.6 Monopsony Power 376
 - Sources of Monopsony Power* 377
 - The Social Costs of Monopsony Power* 379
 - Bilateral Monopoly* 380
- 10.7 Limiting Market Power: The Antitrust Laws 381
 - Enforcement of the Antitrust Laws* 383
 - Antitrust in Europe* 384
- Summary** 387
- Questions for Review** 387
- Exercises** 388

11 Pricing with Market Power 391

- 11.1 Capturing Consumer Surplus 392
- 11.2 Price Discrimination 393
 - First-Degree Price Discrimination* 393
 - Second-Degree Price Discrimination* 396
 - Third-Degree Price Discrimination* 397
- 11.3 Intertemporal Price Discrimination and Peak-Load Pricing 403
 - Intertemporal Price Discrimination* 403
 - Peak-Load Pricing* 404
- 11.4 The Two-Part Tariff 406
- *11.5 Bundling 413
 - Relative Valuations* 414
 - Mixed Bundling* 418
 - Bundling in Practice* 421
 - Tying* 423
- *11.6 Advertising 424
 - A Rule of Thumb for Advertising* 426
- Summary** 428
- Questions for Review** 429
- Exercises** 429

Appendix to Chapter 11: Transfer Pricing in the Integrated Firm 433

- Transfer Pricing When There Is No Outside Market* 433
- Transfer Pricing with a Competitive Outside Market* 436
- Transfer Pricing with a Noncompetitive Outside Market* 438
- A Numerical Example* 439

Exercises 441

12 Monopolistic Competition and Oligopoly 443

- 12.1 Monopolistic Competition 444
 - The Makings of Monopolistic Competition* 444
 - Equilibrium in the Short Run and the Long Run* 445
 - Monopolistic Competition and Economic Efficiency* 446
- 12.2 Oligopoly 449
 - Equilibrium in an Oligopolistic Market* 449
 - The Cournot Model* 450

	<i>The Linear Demand Curve—An Example</i>	453
	<i>First Mover Advantage—The Stackelberg Model</i>	455
12.3	Price Competition	456
	<i>Price Competition with Homogeneous Products—The Bertrand Model</i>	456
	<i>Price Competition with Differentiated Products</i>	458
12.4	Competition versus Collusion: The Prisoners' Dilemma	461
12.5	Implications of the Prisoners' Dilemma for Oligopolistic Pricing	464
	<i>Price Rigidity</i>	465
	<i>Price Signaling and Price Leadership</i>	465
	<i>The Dominant Firm Model</i>	468
12.6	Cartels	469
	<i>Analysis of Cartel Pricing</i>	470
	Summary	475
	Questions for Review	475
	Exercises	476
13	Game Theory and Competitive Strategy	479
13.1	Gaming and Strategic Decisions	479
	<i>Noncooperative versus Cooperative Games</i>	480
13.2	Dominant Strategies	482
13.3	The Nash Equilibrium Revisited	484
	<i>Maximin Strategies</i>	486
	<i>*Mixed Strategies</i>	488
13.4	Repeated Games	490
13.5	Sequential Games	494
	<i>The Extensive Form of a Game</i>	495
	<i>The Advantage of Moving First</i>	496
13.6	Threats, Commitments, and Credibility	497
	<i>Empty Threats</i>	498
	<i>Commitment and Credibility</i>	498
	<i>Bargaining Strategy</i>	500
13.7	Entry Deterrence	503
	<i>Strategic Trade Policy and International Competition</i>	505
*13.8	Auctions	509
	<i>Auction Formats</i>	510
	<i>Valuation and Information</i>	510
	<i>Private-Value Auctions</i>	511
	<i>Common-Value Auctions</i>	512
	<i>Maximizing Auction Revenue</i>	513
	<i>Bidding and Collusion</i>	514
	Summary	517
	Questions for Review	517
	Exercises	518
14	Markets for Factor Inputs	521
14.1	Competitive Factor Markets	521
	<i>Demand for a Factor Input When Only One Input Is Variable</i>	522
	<i>Demand for a Factor Input When Several Inputs Are Variable</i>	524
	<i>The Market Demand Curve</i>	526

	<i>The Supply of Inputs to a Firm</i>	529
	<i>The Market Supply of Inputs</i>	531
14.2	Equilibrium in a Competitive Factor Market	534
	<i>Economic Rent</i>	535
14.3	Factor Markets with Monopsony Power	539
	<i>Monopsony Power: Marginal and Average Expenditure</i>	539
	<i>Purchasing Decisions with Monopsony Power</i>	540
	<i>Bargaining Power</i>	541
14.4	Factor Markets with Monopoly Power	543
	<i>Monopoly Power over the Wage Rate</i>	544
	<i>Unionized and Nonunionized Workers</i>	545
	Summary	549
	Questions for Review	549
	Exercises	550
15	Investment, Time, and Capital Markets	551
15.1	Stocks versus Flows	552
15.2	Present Discounted Value	553
	<i>Valuing Payment Streams</i>	553
15.3	The Value of a Bond	556
	<i>Perpetuities</i>	556
	<i>The Effective Yield on a Bond</i>	557
15.4	The Net Present Value Criterion for Capital Investment Decisions	560
	<i>The Electric Motor Factory</i>	561
	<i>Real versus Nominal Discount Rates</i>	562
	<i>Negative Future Cash Flows</i>	563
15.5	Adjustments for Risk	564
	<i>Diversifiable versus Nondiversifiable Risk</i>	564
	<i>The Capital Asset Pricing Model</i>	565
15.6	Investment Decisions by Consumers	568
15.7	Investments in Human Capital	570
*15.8	Intertemporal Production Decisions—Depletable Resources	573
	<i>The Production Decision of an Individual Resource Producer</i>	574
	<i>The Behavior of Market Price</i>	574
	<i>User Cost</i>	575
	<i>Resource Production by a Monopolist</i>	576
15.9	How Are Interest Rates Determined?	577
	<i>A Variety of Interest Rates</i>	579
	Summary	580
	Questions for Review	580
	Exercises	581
PART • FOUR	Information, Market Failure, and the Role of Government	583
16	General Equilibrium and Economic Efficiency	585
16.1	General Equilibrium Analysis	585
	<i>Two Interdependent Markets—Moving to General Equilibrium</i>	586
	<i>Reaching General Equilibrium</i>	587

- 16.2 Efficiency in Exchange 590
 - The Advantages of Trade* 590
 - The Edgeworth Box Diagram* 591
 - Efficient Allocations* 592
 - The Contract Curve* 593
 - Consumer Equilibrium in a Competitive Market* 594
 - The Economic Efficiency of Competitive Markets* 596
- 16.3 Equity and Efficiency 597
 - The Utility Possibilities Frontier* 597
 - Equity and Perfect Competition* 599
- 16.4 Efficiency in Production 600
 - Input Efficiency* 600
 - The Production Possibilities Frontier* 601
 - Output Efficiency* 603
 - Efficiency in Output Markets* 604
- 16.5 The Gains from Free Trade 605
 - Comparative Advantage* 606
 - An Expanded Production Possibilities Frontier* 607
- 16.6 An Overview—The Efficiency of Competitive Markets 610
- 16.7 Why Markets Fail 612
 - Market Power* 612
 - Incomplete Information* 613
 - Externalities* 613
 - Public Goods* 613
- Summary** 614
- Questions for Review** 614
- Exercises** 615

17 Markets with Asymmetric Information 617

- 17.1 Quality Uncertainty and the Market for Lemons 617
 - The Market for Used Cars* 618
 - Implications of Asymmetric Information* 620
 - The Importance of Reputation and Standardization* 621
- 17.2 Market Signaling 623
 - A Simple Model of Job Market Signaling* 624
 - Guarantees and Warranties* 627
- 17.3 Moral Hazard 628
- 17.4 The Principal-Agent Problem 630
 - The Principal-Agent Problem in Private Enterprises* 631
 - The Principal-Agent Problem in Public Enterprises* 633
 - Incentives in the Principal-Agent Framework* 635
- *17.5 Managerial Incentives in an Integrated Firm 636
 - Asymmetric Information and Incentive Design in the Integrated Firm* 637
 - Applications* 639
- 17.6 Asymmetric Information in Labor Markets: Efficiency Wage Theory 639
- Summary** 642
- Questions for Review** 642
- Exercises** 643

18 Externalities and Public Goods 645

- 18.1 Externalities 645
 - Negative Externalities and Inefficiency* 646
 - Positive Externalities and Inefficiency* 648
- 18.2 Ways of Correcting Market Failure 651
 - An Emissions Standard* 652
 - An Emissions Fee* 653
 - Standards versus Fees* 654
 - Tradeable Emissions Permits* 656
 - Recycling* 660
- 18.3 Stock Externalities 663
 - Stock Buildup and Its Impact* 664
- 18.4 Externalities and Property Rights 669
 - Property Rights* 669
 - Bargaining and Economic Efficiency* 670
 - Costly Bargaining—The Role of Strategic Behavior* 671
 - A Legal Solution—Suing for Damages* 671
- 18.5 Common Property Resources 673
- 18.6 Public Goods 676
 - Efficiency and Public Goods* 677
 - Public Goods and Market Failure* 678
- 18.7 Private Preferences for Public Goods 680
- Summary** 682
- Questions for Review** 683
- Exercises** 683

Appendix: The Basics of Regression 687

- An Example* 687
- Estimation* 688
- Statistical Tests* 689
- Goodness of Fit* 691
- Economic Forecasting* 691
- Summary* 694

Glossary 695

Answers to Selected Exercises 711

Photo Credits 723

Index 725

LIST OF EXAMPLES

- EXAMPLE 1.1 Markets for Prescription Drugs 10
- EXAMPLE 1.2 The Market for Sweeteners 11
- EXAMPLE 1.3 The Price of Eggs and the Price of a College Education 13
- EXAMPLE 1.4 The Minimum Wage 14

EXAMPLE 2.1	The Price of Eggs and the Price of a College Education Revisited	28
EXAMPLE 2.2	Wage Inequality in the United States	29
EXAMPLE 2.3	The Long-Run Behavior of Natural Resource Prices	30
EXAMPLE 2.4	The Effects of 9/11 on the Supply and Demand for New York City Office Space	32
EXAMPLE 2.5	The Market for Wheat	38
EXAMPLE 2.6	The Demand for Gasoline and Automobiles	44
EXAMPLE 2.7	The Weather in Brazil and the Price of Coffee in New York	46
EXAMPLE 2.8	The Behavior of Copper Prices	52
EXAMPLE 2.9	Upheaval in the World Oil Market	54
EXAMPLE 2.10	Price Controls and Natural Gas Shortages	59
EXAMPLE 3.1	Designing New Automobiles (I)	77
EXAMPLE 3.2	Can Money Buy Happiness?	81
EXAMPLE 3.3	Designing New Automobiles (II)	89
EXAMPLE 3.4	A College Trust Fund	91
EXAMPLE 3.5	Revealed Preference for Recreation	94
EXAMPLE 3.6	Marginal Utility and Happiness	97
EXAMPLE 3.7	Gasoline Rationing	98
EXAMPLE 3.8	The Bias in the CPI	105
EXAMPLE 4.1	Consumer Expenditures in the United States	117
EXAMPLE 4.2	The Effects of a Gasoline Tax	123
EXAMPLE 4.3	The Aggregate Demand for Wheat	129
EXAMPLE 4.4	The Demand for Housing	130
EXAMPLE 4.5	The Value of Clean Air	134
EXAMPLE 4.6	Network Externalities and the Demands for Computers and E-Mail	139
EXAMPLE 4.7	The Demand for Ready-to-Eat Cereal	143
EXAMPLE 5.1	Deterring Crime	164
EXAMPLE 5.2	Business Executives and the Choice of Risk	169
EXAMPLE 5.3	The Value of Title Insurance When Buying a House	173
EXAMPLE 5.4	The Value of Information in the Dairy Industry	175
EXAMPLE 5.5	Doctors, Patients, and the Value of Information	175
EXAMPLE 5.6	Investing in the Stock Market	183
EXAMPLE 5.7	New York City Taxicab Drivers	190
EXAMPLE 6.1	Malthus and the Food Crisis	204
EXAMPLE 6.2	Labor Productivity and the Standard of Living	206
EXAMPLE 6.3	A Production Function for Wheat	213
EXAMPLE 6.4	Returns to Scale in the Carpet Industry	217

EXAMPLE 7.1	Choosing the Location for a New Law School Building	223
EXAMPLE 7.2	Sunk, Fixed, and Variable Costs: Computers, Software, and Pizzas	226
EXAMPLE 7.3	The Short-Run Cost of Aluminum Smelting	232
EXAMPLE 7.4	The Effect of Effluent Fees on Input Choices	239
EXAMPLE 7.5	Economies of Scope in the Trucking Industry	251
EXAMPLE 7.6	The Learning Curve in Practice	255
EXAMPLE 7.7	Cost Functions for Electric Power	258
EXAMPLE 8.1	Condominiums versus Cooperatives in New York City	275
EXAMPLE 8.2	The Short-Run Output Decision of an Aluminum Smelting Plant	282
EXAMPLE 8.3	Some Cost Considerations for Managers	283
EXAMPLE 8.4	The Short-Run Production of Petroleum Products	286
EXAMPLE 8.5	The Short-Run World Supply of Copper	289
EXAMPLE 8.6	Constant-, Increasing-, and Decreasing-Cost Industries: Coffee, Oil, and Automobiles	302
EXAMPLE 8.7	The Long-Run Supply of Housing	304
EXAMPLE 9.1	Price Controls and Natural Gas Shortages	314
EXAMPLE 9.2	The Market for Human Kidneys	317
EXAMPLE 9.3	Airline Regulation	321
EXAMPLE 9.4	Supporting the Price of Wheat	327
EXAMPLE 9.5	The Sugar Quota	333
EXAMPLE 9.6	A Tax on Gasoline	340
EXAMPLE 10.1	Astra-Merck Prices Prilosec	356
EXAMPLE 10.2	Markup Pricing: Supermarkets to Designer Jeans	364
EXAMPLE 10.3	The Pricing of Videos	365
EXAMPLE 10.4	Monopsony Power in U.S. Manufacturing	380
EXAMPLE 10.5	A Phone Call About Prices	384
EXAMPLE 10.6	The United States versus Microsoft	385
EXAMPLE 11.1	The Economics of Coupons and Rebates	400
EXAMPLE 11.2	Airline Fares	402
EXAMPLE 11.3	How to Price a Best-Selling Novel	406
EXAMPLE 11.4	Polaroid Cameras	410
EXAMPLE 11.5	Pricing Cellular Phone Service	411
EXAMPLE 11.6	The Complete Dinner versus à la Carte: A Restaurant's Pricing Problem	422
EXAMPLE 11.7	Advertising in Practice	427
EXAMPLE 12.1	Monopolistic Competition in the Markets for Colas and Coffee	447
EXAMPLE 12.2	A Pricing Problem for Procter & Gamble	460
EXAMPLE 12.3	Procter & Gamble in a Prisoners' Dilemma	463

EXAMPLE 12.4	Price Leadership and Price Rigidity in Commercial Banking	467
EXAMPLE 12.5	The Cartelization of Intercollegiate Athletics	473
EXAMPLE 12.6	The Milk Cartel	474
EXAMPLE 13.1	Acquiring a Company	481
EXAMPLE 13.2	Oligopolistic Cooperation in the Water Meter Industry	492
EXAMPLE 13.3	Competition and Collusion in the Airline Industry	493
EXAMPLE 13.4	Wal-Mart Stores' Preemptive Investment Strategy	501
EXAMPLE 13.5	DuPont Deters Entry in the Titanium Dioxide Industry	507
EXAMPLE 13.6	Diaper Wars	508
EXAMPLE 13.7	Auctioning Legal Services	514
EXAMPLE 13.8	Internet Auctions	515
EXAMPLE 14.1	The Demand for Jet Fuel	528
EXAMPLE 14.2	Labor Supply for One- and Two-Earner Households	533
EXAMPLE 14.3	Pay in the Military	537
EXAMPLE 14.4	Monopsony Power in the Market for Baseball Players	541
EXAMPLE 14.5	Teenage Labor Markets and the Minimum Wage	542
EXAMPLE 14.6	The Decline of Private-Sector Unionism	546
EXAMPLE 14.7	Wage Inequality—Have Computers Changed the Labor Market?	547
EXAMPLE 15.1	The Value of Lost Earnings	555
EXAMPLE 15.2	The Yields on Corporate Bonds	559
EXAMPLE 15.3	Capital Investment in the Disposable Diaper Industry	566
EXAMPLE 15.4	Choosing an Air Conditioner and a New Car	569
EXAMPLE 15.5	Should You Go to Business School?	572
EXAMPLE 15.6	How Depletable Are Depletable Resources?	576
EXAMPLE 16.1	The Global Market for Ethanol	588
EXAMPLE 16.2	Trading Tasks and iPod Production	608
EXAMPLE 16.3	The Costs and Benefits of Special Protection	609
EXAMPLE 17.1	Lemons in Major League Baseball	622
EXAMPLE 17.2	Working into the Night	627
EXAMPLE 17.3	Reducing Moral Hazard: Warranties of Animal Health	630
EXAMPLE 17.4	CEO Salaries	632
EXAMPLE 17.5	Managers of Nonprofit Hospitals as Agents	634
EXAMPLE 17.6	Efficiency Wages at Ford Motor Company	641
EXAMPLE 18.1	The Costs and Benefits of Sulfur Dioxide Emissions	649
EXAMPLE 18.2	Reducing Sulfur Dioxide Emissions in Beijing	657
EXAMPLE 18.3	Emissions Trading and Clean Air	658
EXAMPLE 18.4	Regulating Municipal Solid Wastes	662

- EXAMPLE 18.5 Global Warming 667
- EXAMPLE 18.6 The Coase Theorem at Work 672
- EXAMPLE 18.7 Crawfish Fishing in Louisiana 674
- EXAMPLE 18.8 The Demand for Clean Air 679
- EXAMPLE A.1 The Demand for Coal 693