

contents

preface	xv
chapter one: An overview	3
1.1. The basic categories: Actors, behavior, institutions, and equilibrium	3
1.2. The purpose of microeconomic theory	7
1.3. Scope, detail, emphasis, and complexity	10
1.4. A précis of the plot	12
 <i>part I: Individual and social choice</i>	
chapter two: The theory of consumer choice and demand	17
Prologue to part I	17
2.1. Preferences and choices	18
2.2. Marshallian demand without derivatives	37
2.3. Marshallian demand with derivatives	51
2.4. Aggregate demand	62
2.5. Bibliographic notes	63
2.6. Problems	65
chapter three: Choice under uncertainty	71
3.1. Von Neumann-Morgenstern expected utility	72
3.2. On utility for money	81
3.3. Applications to market demand	87
3.4. States of nature and subjective probability	98
3.5. Problems with these models	112
3.6. Normative applications of the theory	120
3.7. Bibliographic notes	122
3.8. Problems	124

chapter four: Dynamic choice	133
4.1. Optimal dynamic strategies	133
4.2. Menus and meals	139
4.3. Bibliographic notes and discussion	143
4.4. Problems	146
chapter five: Social choice and efficiency	149
5.1. The problem	149
5.2. Pareto efficiency and optimality: Definitions	153
5.3. Benevolent social dictators and social welfare functionals	156
5.4. Characterizing efficient social outcomes	164
5.5. Social choice rules and Arrow's possibility theorem	174
5.6. Bibliographic notes	181
5.7. Problems	182
 <i>part II: The price mechanism</i>	
chapter six: Pure exchange and general equilibrium	187
Prologue to part II	187
6.1. Pure exchange and price equilibrium	187
6.2. Why (not) believe in Walrasian equilibrium?	193
6.3. The efficiency of a general equilibrium	199
6.4. Existence and the number of equilibria	205
6.5. Time, uncertainty, and general equilibrium	216
6.6. Bibliographic notes	223
6.7. Problems	225
chapter seven: The neoclassical firm	233
7.1. Models of the firm's technological capabilities	234
7.2. The profit function	239
7.3. Conditional factor demands and cost functions	250
7.4. From profit or cost functions to technology sets	253
7.5. Cost functions and -runs	255

7.6. Bibliographic notes	259
7.7. Problems	259
chapter eight: The competitive firm and perfect competition	263
8.1. A perfectly competitive market	264
8.2. Perfect competition and -runs	267
8.3. What's wrong with partial equilibrium analysis?	279
8.4. General equilibrium with firms	283
8.5. Bibliographic notes	292
8.6. Problems	292
chapter nine: Monopoly	299
9.1. The standard theory	299
9.2. Maintaining monopoly	302
9.3. Multigood monopoly	304
9.4. Nonlinear pricing	306
9.5. Monopoly power?	314
9.6. Bibliographic notes	317
9.7. Problems	318
chapter ten: Imperfect competition	325
10.1. The classic models of duopoly	325
10.2. Bibliographic notes and discussion	340
10.3. Problems	347
<i>part III: Noncooperative game theory</i>	
chapter eleven: Modeling competitive situations	355
Prologue to part III	355
11.1. Games in extensive form: An example	356
11.2. Games in extensive form: Formalities	363
11.3. Games in normal or strategic form	376

11.4. Mixed strategies and Kuhn's theorem	380
11.5. Bibliographic notes	384
11.6. Problems	385
chapter twelve: Solution concepts for noncooperative games	387
12.1. Opening remarks	387
12.2. Dominance and iterated dominance for normal form games	393
12.3. Backwards induction in games of complete and perfect information	399
12.4. Nash equilibrium	402
12.5. Equilibria in mixed strategies	407
12.6. Why might there be an obvious way to play a given game?	410
12.7. Refinements of Nash equilibrium	417
12.7.1. Weak dominance	418
12.7.2. Subgame perfection (and iterated weak dominance)	421
12.7.3. Sequential equilibrium	425
12.7.4. Restrictions on out-of-equilibrium beliefs	432
12.7.5. Trembling-hand perfection	437
12.7.6. Proper equilibria and stable sets of equilibria	442
12.8. Reprise: Classic duopoly	443
12.9. Bibliographic notes	449
12.10. Problems	451
chapter thirteen: Incomplete information and irrationality	463
13.1. Games of incomplete information	463
13.2. An application: Entry deterrence	468
13.3. Modeling irrationality	480
13.4. More on refinements: Complete theories	489
13.5. Bibliographic notes	496
13.6. Problems	498
chapter fourteen: Repeated play: Cooperation and reputation	503
14.1. The prisoners' dilemma	503
14.2. Repeating games can yield cooperation: The folk theorem	505
14.3. Noisy observables	515

14.4. Implicit collusion in oligopoly	524
14.5. Reputation	531
14.6. Reputation redux: Incomplete information	536
14.7. Bibliographic notes	543
14.8. Problems	546
chapter fifteen: Bilateral bargaining	551
15.1. Simultaneous offers and indeterminacy	552
15.2. Focal equilibria	554
15.3. Rubinstein's model	556
15.4. The experimental evidence about alternating offers	565
15.5. Models with incomplete information	568
15.6. Bibliographic notes	570
15.7. Problems	571
 <i>part IV: Topics in information economics</i>	
chapter sixteen: Moral hazard and incentives	577
Prologue to part IV	577
16.1. Introduction	578
16.2. Effort incentives: A simple example	579
16.3. Finitely many actions and outcomes	586
16.4. Continuous actions: The first-order approach	604
16.5. Bibliographic notes and variations	608
16.6. Problems	616
chapter seventeen: Adverse selection and market signaling	625
17.1. Akerlof's model of lemons	625
17.2. Signaling quality	629
17.3. Signaling and game theory	645
17.4. Bibliographic notes and discussion	650
17.5. Problems	654

chapter eighteen: The revelation principle and mechanism design	661
18.1. Optimal contracts designed for a single party	661
18.2. Optimal contracts for interacting parties	680
18.3. The pivot mechanism	704
18.4. The Gibbard-Satterthwaite theorem	712
18.5. Bibliographic notes	713
18.6. Problems	715
 <i>part V: Firms and transactions</i>	
chapter nineteen: Theories of the firm	723
19.1. The firm as a profit-maximizing entity	724
19.2. The firm as a maximizing entity	729
19.3. The firm as a behavioral entity	731
19.4. Firms in the category of markets	739
19.5. Bibliographic notes	740
19.6. Problems	740
chapter twenty: Transaction cost economics and the firm	743
20.1. Transaction cost economics and firms	743
20.2. Mathematical models of transaction cost economics	756
20.3. Bibliographic notes	769
postscript	771
appendix one: Constrained optimization	775
A1.1. A recipe for solving problems	775
A1.2. The recipe at work: An example	778
A1.3. Intuition	782
A1.4. Bibliographic notes	788
A1.5. Problems	789

<i>Contents</i>	xiii
appendix two: Dynamic programming	791
A2.1. An example with a finite horizon	791
A2.2. Finite horizon dynamic programming	796
A2.3. An example with an infinite horizon	801
A2.4. Stationary Markov decision problems	806
A2.5. Bibliographic notes and discussion	813
A2.6. Problems	814
addendum to the second and subsequent printings	817
index	819