

Contents

Preface	xiii
Acknowledgments	xvii
Introduction	1
<i>Rationale</i>	1
<i>Organization</i>	2
<i>Method</i>	3
<i>Reader Outcomes</i>	3
<i>Themes</i>	4
<i>Relevance and Applicability</i>	5
<i>References</i>	6
<i>Notes</i>	6
1 Production	8
1.1 <i>The Production Function</i>	9
1.2 <i>The “Law” of Variable Proportions</i>	11
1.3 <i>Substitution</i>	13
1.4 <i>Measuring Substitution</i>	15
1.5 <i>Specific “Functional Forms” for Production Functions</i>	16
1.6 <i>Attributing Products to Inputs: Distributing Income from Production</i>	17
1.7 <i>Efficiency and the Choice of How to Produce</i>	18
1.8 <i>Predictions of Production Theory 1: Input Price Changes</i>	20
1.9 <i>Predictions of Production Theory 2: Technological Changes</i>	21
1.10 <i>Stocks and Flows</i>	22
1.11 <i>The Distribution of Income</i>	23
1.12 <i>Production Functions in Achaemenid Babylonia</i>	25
<i>References</i>	26
<i>Suggested Readings</i>	27
<i>Notes</i>	27
2 Cost and Supply	29
2.1 <i>The Cost Function</i>	31
2.2 <i>Short Run and Long Run</i>	32
2.3 <i>The Relationship between Cost and Production</i>	33
2.4 <i>Producers’ Objectives</i>	34
2.5 <i>Supply Curves</i>	35

2.6	<i>Demands for Factors of Production</i>	40
2.7	<i>Factor Costs in General: Wages and Rents</i>	41
2.8	<i>Allocation of Factors across Activities</i>	43
2.9	<i>Organizing Production: The Firm</i>	43
2.10	<i>A More General Treatment of Cost Functions</i>	46
2.11	<i>The Economics of Mycenaean Vases, I: Supply and Cost</i>	47
2.12	<i>Accounting for Apparent Cost Changes in Minoan Pottery</i>	49
2.13	<i>Production in an Entire Economy: The Production Possibilities Frontier</i>	50
	<i>References</i>	52
	<i>Suggested Readings</i>	53
	<i>Notes</i>	53
3	Consumption	55
3.1	<i>Rationality of the Consumer</i>	57
3.2	<i>The Budget</i>	57
3.3	<i>Utility and Indifference Curves</i>	58
3.4	<i>Demand</i>	60
3.5	<i>Demand Elasticities</i>	63
3.6	<i>Aggregate Demand</i>	65
3.7	<i>Evaluating Changes in Wellbeing</i>	66
3.8	<i>Price and Consumption Indexes</i>	70
3.9	<i>Intertemporal Choice</i>	73
3.10	<i>Durable Goods and Discrete Choice</i>	75
3.11	<i>Variety and Differentiated Goods</i>	79
3.12	<i>Value of Time and Household Production</i>	82
3.13	<i>Risk, Risk Aversion, and Expected Utility</i>	86
3.14	<i>Irrational Behavior</i>	88
3.15	<i>Fixed Prices</i>	90
3.16	<i>Applying Demand Concepts: Relationships between Housing Consumption, Housing Prices, and Incomes in Pompeii</i>	93
3.17	<i>The Economics of Mycenaean Vases, II: Demand</i>	96
	<i>References</i>	99
	<i>Suggested Readings</i>	99
	<i>Notes</i>	100
4	Industry Structure and the Types of Competition	103
4.1	<i>Perfect Competition</i>	104
4.2	<i>Competitive Equilibrium</i>	106
4.3	<i>Monopoly</i>	108
4.4	<i>Oligopoly</i>	110
4.5	<i>Monopolistic Competition</i>	111
4.6	<i>Contestable Markets</i>	112
4.7	<i>Buyer's Power: Monopsony</i>	113
4.8	<i>The Economics of Mycenaean Vases, III: Industry Structure</i>	114
4.9	<i>Ancient Monopoly and Oligopoly: Religion and Foreign Trade</i>	115
	<i>References</i>	117
	<i>Suggested Readings</i>	118
	<i>Notes</i>	118
5	General Equilibrium	120
5.1	<i>General Equilibrium as a Fact and as a Model</i>	120
5.1.1	<i>The facts</i>	121
5.1.2	<i>The models</i>	121
5.1.3	<i>The questions</i>	123

5.2	<i>The Walrasian Model</i>	124
5.3	<i>Exchange</i>	127
5.4	<i>The Two-Sector Model</i>	128
5.4.1	The basics with the Lerner–Pearce diagram	128
5.4.2	Growth in factor supplies	130
5.4.3	Technical change	132
5.5	<i>Existence and Uniqueness of Equilibrium</i>	133
5.6	<i>Computable General Equilibrium Models</i>	134
	<i>References</i>	136
	<i>Suggested Readings</i>	137
	<i>Notes</i>	137
6	Public Economics	139
6.1	<i>Government in the Economy: Scope of Activities, Modern and Ancient</i>	139
6.2	<i>Private Goods, Public Goods, and Externalities</i>	141
6.2.1	Private goods	141
6.2.2	Public goods	142
6.2.3	Externalities	143
6.3	<i>Raising Revenue</i>	149
6.3.1	Taxation 1: rationales and instruments	149
6.3.2	Taxation 2: effects of taxes	154
6.3.3	Taxation 3: tax incidence (who really pays?)	165
6.3.4	Taxation 4: optimal tax systems	169
6.3.5	Other revenue sources	173
6.4	<i>The Theory of Second Best</i>	174
6.5	<i>Government Productive Activities</i>	175
6.5.1	Public production and pricing	175
6.5.2	The supply of public goods and social choice mechanisms	181
6.5.3	Public investment and cost–benefit analysis	186
6.6	<i>Regulation of Private Economic Activities</i>	191
6.6.1	Rent seeking	192
6.6.2	The costs of regulation: the Averch–Johnson effect	193
6.7	<i>The Behavior of Government and Government Agencies</i>	194
6.7.1	Theories of government	194
6.7.2	Theories of bureaucracy	195
6.7.3	Levels of government	196
6.8	<i>Suggestions for Using the Material of this Chapter</i>	196
	<i>References</i>	197
	<i>Suggested Readings</i>	199
	<i>Notes</i>	199
7	The Economics of Information and Risk	202
7.1	<i>Risk</i>	202
7.1.1	The ubiquity of risky decisions	203
7.1.2	Concepts and measurement	205
7.1.3	Risk and behavior: expected utility	209
7.1.4	Risk versus uncertainty: the substance of probabilities	215
7.2	<i>Information and Learning</i>	217
7.2.1	The structure of information	217
7.2.2	Learning as Bayesian updating	218
7.2.3	Experts and groups	223
7.3	<i>Dealing with Nature’s Uncertainty</i>	225
7.3.1	Contingent markets	225
7.3.2	Portfolios and diversification	230

7.4	<i>Behavioral Uncertainty</i>	235
7.4.1	Asymmetric information: problems and solutions	236
7.4.2	Strategic behavior	242
7.5	<i>Expectations</i>	246
7.5.1	The role of expectations in resource-allocation decisions	247
7.5.2	Adaptive models of expectations	247
7.5.3	The rational expectations hypothesis	249
7.6	<i>Competitive Behavior under Uncertainty</i>	252
7.6.1	Production behavior	252
7.6.2	Search problems	253
7.7	<i>Suggestions for Using the Material of this Chapter</i>	253
	<i>References</i>	254
	<i>Suggested Readings</i>	255
	<i>Notes</i>	255
8	Capital	258
8.1	<i>The Substance and Concepts of Capital</i>	258
8.1.1	Capital as stuff	259
8.1.2	Capital in the production function	262
8.1.3	Stocks, flows, and accumulation	263
8.1.4	Prices and values	264
8.1.5	Temporal aspects of capital	265
8.1.6	Measuring capital	268
8.1.7	The labor theory of value	269
8.2	<i>Quasi-Rents</i>	270
8.3	<i>Interest Rates</i>	272
8.4	<i>The Theory of Capital</i>	276
8.4.1	Present and future consumption, investment, and capital accumulation	276
8.4.2	Demand for and supply of capital: flows and stocks	279
8.4.3	Capital richness and interest rates	283
8.5	<i>Use of Capital by Firms</i>	284
8.5.1	Investment	284
8.5.2	Maintenance	287
8.5.3	Scrapping and replacement	289
8.6	<i>Consumption and Saving</i>	290
8.6.1	Intertemporal utility maximization	290
8.6.2	Hypotheses about consumption	291
8.6.3	Individual and aggregate savings	294
8.7	<i>Capital Formation</i>	294
8.8	<i>Suggestions for Using the Material of this Chapter</i>	296
	<i>References</i>	297
	<i>Suggested Readings</i>	298
	<i>Notes</i>	298
9	Money and Banking	301
9.1	<i>The Services of Money</i>	302
9.1.1	Money as a medium of exchange	302
9.1.2	Money as a store of value	302
9.1.3	Money as a unit of account	303
9.1.4	Stability of value	303
9.1.5	Monetization prior to currency	303
9.2	<i>The Types of Money</i>	304
9.2.1	Commodity money	304
9.2.2	Credit money	304
9.2.3	One special case of credit money: bank money	305

9.3	<i>Some Preliminary Concepts</i>	305
9.3.1	The price level	305
9.3.2	Inflation	306
9.3.3	“Nominal” versus “real” distinctions	307
9.3.4	What people in antiquity knew	309
9.4	<i>The Demand for Money</i>	309
9.4.1	Measuring money	310
9.4.2	The distinctiveness of the demand for money	311
9.4.3	Monetary theory and macroeconomics for ancient economies?!	312
9.4.4	The neoclassical quantity theory	313
9.4.5	Keynesian monetary theory	315
9.4.6	The contemporary synthesis	317
9.5	<i>The Supply of Money</i>	318
9.5.1	Supply of a commodity money	320
9.5.2	Creation of money by banks	323
9.5.3	The banking firm	328
9.5.4	Financial intermediation	332
9.5.5	Exogeneity / endogeneity of money supply and foreign exchange	335
9.5.6	Seigniorage: making money by issuing money	336
9.5.7	Bimetallism	337
9.6	<i>Inflation</i>	337
9.6.1	Causes of inflation	338
9.6.2	Mechanisms of inflation	339
9.6.3	Consequences of inflation	340
9.7	<i>Monetary Policy</i>	342
9.7.1	The players and their motives	342
9.7.2	Choice of monetary standard	343
9.7.3	Influencing the supply of money	343
9.7.4	Influencing the demand for money	345
9.7.5	International monetary policies	345
9.8	<i>Suggestions for Using the Material of this Chapter</i>	345
	<i>References</i>	345
	<i>Suggested Readings</i>	347
	<i>Notes</i>	347
10	Labor	350
10.1	<i>Applying Contemporary Labor Models to Ancient Behavior and Institutions</i>	350
10.2	<i>Human Capital</i>	353
10.2.1	Investment in human capital	354
10.2.2	Health	356
10.2.3	Guilds, occupational licensing, and entry restriction	356
10.3	<i>Labor Supply</i>	357
10.3.1	Utility analysis of individual and family labor supply	357
10.3.2	Lifecycle / dynamic labor supply	364
10.3.3	Supply of labor to activities	368
10.3.4	Household production	369
10.4	<i>Labor Demand</i>	375
10.4.1	The productive enterprise’s demand for labor	376
10.4.2	Derived demand	379
10.5	<i>Labor Contracts</i>	384
10.5.1	Information problems and incentives	384
10.5.2	The basis of pay	385
10.5.3	Sequencing of pay	387
10.5.4	Compensating differentials in wages	387

10.6	<i>Migration</i>	391
10.6.1	Economic incentives for migration	392
10.6.2	Consequences of migration	394
10.6.3	Refugee migration	396
10.6.4	Equilibrating migration flows when the wage rate doesn't adjust	396
10.7	<i>Families</i>	398
10.7.1	Marriage	398
10.7.2	Intrafamily resource allocation	405
10.7.3	Children and the economics of fertility and child mortality	412
10.8	<i>Labor and the Family Enterprise</i>	414
10.8.1	The farm family household and the separability of production decisions from consumption decisions	415
10.8.2	Effects of missing markets on labor allocation	418
10.8.3	Restrictions on household activities	420
10.8.4	Implications of the family farm model	422
10.9	<i>Slavery</i>	423
10.9.1	The supply of slaves	424
10.9.2	The demand for slaves	426
10.9.3	Investment in slaves	427
10.9.4	Market consequences of slaves	427
10.9.5	Slaves' incentives	427
10.10	<i>Suggestions for Using the Material of this Chapter</i>	428
	<i>References</i>	429
	<i>Suggested Readings</i>	432
	<i>Notes</i>	433
11	Land and Location	440
11.1	<i>The Special Characteristics of Land</i>	440
11.2	<i>Land as a Factor of Production</i>	441
11.2.1	Supply	441
11.2.2	Demand	441
11.3	<i>The Location of Land Uses</i>	442
11.3.1	The Thünen model	442
11.3.2	The bid-rent function	447
11.3.3	Equilibrium in a region	450
11.3.4	Modifying the social context	451
11.4	<i>The Location of Production Facilities</i>	452
11.4.1	Individual facilities	452
11.4.2	Industries	455
11.5	<i>Consumption and the Location of Marketing</i>	457
11.5.1	The structure of transportation costs	457
11.5.2	The shopping tradeoff: frequency versus storage	458
11.5.3	Aggregate demand in a spatial market	460
11.5.4	Hierarchies of marketplaces: central place theory	461
11.5.5	Periodic markets	462
11.6	<i>Transportation</i>	463
11.6.1	Infrastructure	463
11.6.2	Equipment	465
11.6.3	Pricing of transportation services	465
11.7	<i>Suggestions for Using the Material of this Chapter</i>	467
	<i>References</i>	468
	<i>Suggested Readings</i>	469
	<i>Notes</i>	470

12	Cities	472
12.1	<i>Cities and their Analysis, Modern and Ancient</i>	472
12.1.1	Classifying cities	472
12.1.2	Characteristics of cities	473
12.1.3	What goes on in cities	473
12.1.4	Ancient observations and contemporary analytical emphases	474
12.2	<i>Economies of Cities</i>	475
12.2.1	Scale economies in production	475
12.2.2	Externalities	477
12.2.3	Types of production	477
12.3	<i>Housing</i>	479
12.3.1	The Special Characteristics of Housing	479
12.3.2	Housing supply	480
12.3.3	Housing demand	481
12.4	<i>Urban Spatial Structure</i>	482
12.4.1	The monocentric city model	483
12.4.2	Multiple categories of residents	488
12.4.3	Working at home	489
12.4.4	Endogenous centers	490
12.4.5	Density gradients and the ancient city	491
12.4.6	Wage differentials across cities	491
12.5	<i>Systems of Cities</i>	492
12.5.1	Production and consumption within any city	493
12.5.2	Different types of cities	497
12.5.3	The city size distribution and its responses to various changes	499
12.6	<i>Urban Finance</i>	503
12.6.1	Local public goods	504
12.6.2	What to supply and how much	505
12.6.3	Raising revenue	506
12.7	<i>Suggestions for Using the Material of this Chapter</i>	507
	<i>References</i>	508
	<i>Suggested Readings</i>	510
	<i>Notes</i>	511
13	Natural Resources	516
13.1	<i>Exhaustible Resources</i>	517
13.1.1	The theory of optimal depletion	517
13.1.2	Different deposits	520
13.1.3	Uncertainty	521
13.1.4	Exploration	521
13.1.5	Monopoly	523
13.2	<i>Renewable Resources</i>	524
13.2.1	Biological growth	524
13.2.2	Harvesting	525
13.2.3	The theory of optimal use	527
13.2.4	Open access and the fishery	528
13.3	<i>Resource Scarcity</i>	531
13.4	<i>The Ancient Mining-Forestry Complex</i>	531
13.5	<i>Suggestions for Using the Material of this Chapter</i>	532
	<i>References</i>	533
	<i>Suggested Readings</i>	533
	<i>Notes</i>	533

14	Growth	535
14.1	<i>Introduction</i>	535
14.1.1	Economic growth: delimiting the scope	535
14.1.2	Growth in antiquity: is there anything to explain?	536
14.2	<i>Essential Concepts</i>	536
14.2.1	Production functions again	536
14.2.2	Technical change	537
14.2.3	Growth versus development	537
14.3	<i>Neoclassical Growth Theory</i>	538
14.3.1	The Solow model	538
14.3.2	Technology and growth in the Solow model	541
14.3.3	Endogenizing technical change	543
14.3.4	Extent of the market, division of labor, and productivity	545
14.4	<i>Structural Change</i>	546
14.4.1	Sectoral concepts as organizing devices	546
14.4.2	A two-sector model of an economy	548
14.4.3	Some stylized facts	549
14.5	<i>Institutions</i>	551
14.5.1	Property rights	552
14.5.2	Governments	552
14.5.3	Stability and change	553
14.6	<i>Studying Economic Growth in Antiquity</i>	553
14.6.1	What there is to explain	554
14.6.2	Organizing inquiry about economic growth with the help of growth theory	554
14.6.3	Studying episodes of growth following declines: beyond growth theory	557
14.6.4	Summary	559
14.7	<i>Suggestions for Using the Material of this Chapter</i>	559
14.7.1	Evidence of growth	559
14.7.2	Sectoral structure	561
	<i>References</i>	561
	<i>Suggested Readings</i>	564
	<i>Notes</i>	564
	Index	569