CONTENTS

ACKNOWLEDGMENTS		Хi
Introduction Outline of the Book Further Reading		1 8 9
LESSON ONE, PART I: THE LESSON	11	
Chapter 1. Market Prices and Opportunity Costs		13
1.1. What Is Opportunity Cost?		14
1.2. Production Cost and Opportunity Cost		17
1.3. Households, Prices, and Opportunity Costs		22
1.4. Lesson One		24
1.5. The Intellectual History of Opportunity Cost		25
Further Reading		27
Chapter 2. Markets, Opportunity Cost,		
and Equilibrium		30
2.1. TISATAAFL (There Is Such A Thing As		
A Free Lunch)		32
2.2. Gains from Exchange		35
2.3. Trade and Comparative Advantage		37
2.4. Competitive Equilibrium		40
2.5. Free Lunches and Rents		44
2.6. Adam Smith and the Division of Labor		45
Further Reading		48

Chapter 3. Time, Information, and Uncertainty	50
3.1. Interest and the Opportunity Cost of (Not) Waiting	51
3.2. Information	59
3.3. Uncertainty	62
Further Reading	64
LESSON ONE, PART II: APPLICATIONS	67
Chapter 4. Lesson One: How Opportunity Cost	
Works in Markets	69
4.1. Tricks and Traps	69
4.2. Airfares	71
4.3. The Cost of (Not) Going to College	75
4.4. An Exception That Proves the Rule: The Boom	
and Bust in Law Schools	77
4.5. TANSTAAFL: What about "Free" TV, Radio,	=0
and Internet Content?	79
Further Reading	83
Chapter 5. Lesson One and Economic Policy	85
5.1. Why Price Control Doesn't (Usually) Work	85
5.2. To Help Poor People, Give Them Money	89
5.3. Road Pricing	96
5.4. Fish and Tradable Quota	100
5.5. A License to Print Money: Property Rights	
and Telecommunications Spectrum	108
5.6. Concluding Comments	111
Further Reading	111
Chapter 6. The Opportunity Cost of Destruction	114
6.1. The Glazier's Fallacy	115
6.2. The Economics of Natural Disasters	118
6.3. The Opportunity Cost of War	119
6.4. Technological Benefits of War?	125
Further Reading	128

LESSON TWO, PART I: SOCIAL OPPORTUNITY COSTS 131

Chapter 7. Property Rights and Income Distribution	134
7.1. What Lesson Two Tells Us about Property Rights	
and Income Distribution	135
7.2. Property Rights and Market Equilibrium	136
7.3. The Starting Point	138
7.4. Property Rights and Natural Law	142
7.5. Pareto and Inequality	145
7.6. Conclusion	148
Further Reading	149
Chapter 8. Unemployment	150
8.1. Macroeconomics and Microeconomics	151
8.2. The Business Cycle	153
8.3. The Experience of the Great and Lesser Depressions	155
8.4. Are Recessions Abnormal?	159
8.5. Unemployment and Opportunity Cost	162
8.6. The Macro Foundations of Micro	165
8.7. Hazlitt and the Glazier's Fallacy	167
Further Reading	169
Chapter 9. Monopoly and Market Failure	171
9.1. The Idea of Market Failure	171
9.2. Economies of Size	173
9.3. Monopoly	177
9.4. Oligopoly	184
9.5. Monopsony and Labor Markets	185
9.6. Bargaining	187
9.7. Monopoly and Inequality	191
Further Reading	193
Chapter 10. Market Failure: Externalities and Pollution	196
10.1. Externalities	197
10.2. Pollution	200

10.4. Public Goods 10.5. The Origins of Externality Further Reading Chapter 11. Market Failure: Information, Uncertainty, and Financial Markets 11.1. Market Prices, Information, and Public Goods 11.2. The Efficient Markets Hypothesis 11.3. Financial Markets, Bubbles, and Busts 11.4. Financial Markets and Speculation 11.5. Risk and Insurance 11.6. Bounded Rationality 11.7. What Bitcoin Reveals about Financial Markets	208 210 212 214 215 218 221 223 226 228
Further Reading Chapter 11. Market Failure: Information, Uncertainty, and Financial Markets 11.1. Market Prices, Information, and Public Goods 11.2. The Efficient Markets Hypothesis 11.3. Financial Markets, Bubbles, and Busts 11.4. Financial Markets and Speculation 11.5. Risk and Insurance 11.6. Bounded Rationality 11.7. What Bitcoin Reveals about Financial Markets	212 214 215 218 221 223 226
Chapter 11. Market Failure: Information, Uncertainty, and Financial Markets 11.1. Market Prices, Information, and Public Goods 11.2. The Efficient Markets Hypothesis 11.3. Financial Markets, Bubbles, and Busts 11.4. Financial Markets and Speculation 11.5. Risk and Insurance 11.6. Bounded Rationality 11.7. What Bitcoin Reveals about Financial Markets	214 215 218 221 223 226
Uncertainty, and Financial Markets 11.1. Market Prices, Information, and Public Goods 11.2. The Efficient Markets Hypothesis 11.3. Financial Markets, Bubbles, and Busts 11.4. Financial Markets and Speculation 11.5. Risk and Insurance 11.6. Bounded Rationality 11.7. What Bitcoin Reveals about Financial Markets	215 218 221 223 226
11.1. Market Prices, Information, and Public Goods 11.2. The Efficient Markets Hypothesis 11.3. Financial Markets, Bubbles, and Busts 11.4. Financial Markets and Speculation 11.5. Risk and Insurance 11.6. Bounded Rationality 11.7. What Bitcoin Reveals about Financial Markets	215 218 221 223 226
 11.2. The Efficient Markets Hypothesis 11.3. Financial Markets, Bubbles, and Busts 11.4. Financial Markets and Speculation 11.5. Risk and Insurance 11.6. Bounded Rationality 11.7. What Bitcoin Reveals about Financial Markets 	218 221 223 226
11.3. Financial Markets, Bubbles, and Busts 11.4. Financial Markets and Speculation 11.5. Risk and Insurance 11.6. Bounded Rationality 11.7. What Bitcoin Reveals about Financial Markets	221 223 226
11.4. Financial Markets and Speculation11.5. Risk and Insurance11.6. Bounded Rationality11.7. What Bitcoin Reveals about Financial Markets	223 226
11.5. Risk and Insurance11.6. Bounded Rationality11.7. What Bitcoin Reveals about Financial Markets	226
11.5. Risk and Insurance11.6. Bounded Rationality11.7. What Bitcoin Reveals about Financial Markets	
11.7. What Bitcoin Reveals about Financial Markets	228
m 1 m 1.	232
Further Reading	235
LESSON TWO, PART II: PUBLIC POLICY	237
Chapter 12. Income Distribution: Predistribution	239
12.1. Income Distribution and Opportunity Cost	240
12.2. Predistribution: Unions	242
12.3. Predistribution: Minimum Wages	249
12.4. Predistribution: Intellectual Property	254
12.5. Predistribution: Bankruptcy, Limited Liability,	
and Business Risk	262
un 1 en 1.	267
Further Reading	
Further Reading Chapter 13. Income Distribution: Redistribution	270
Chapter 13. Income Distribution: Redistribution	270 272
Chapter 13. Income Distribution: Redistribution 13.1. The Effective Marginal Tax Rate	
Chapter 13. Income Distribution: Redistribution 13.1. The Effective Marginal Tax Rate 13.2. Opportunity Cost of Redistribution: Example	272
Chapter 13. Income Distribution: Redistribution 13.1. The Effective Marginal Tax Rate 13.2. Opportunity Cost of Redistribution: Example 13.3. Weighing Opportunity Costs and Benefits	272 275
Chapter 13. Income Distribution: Redistribution 13.1. The Effective Marginal Tax Rate 13.2. Opportunity Cost of Redistribution: Example	272 275 278
Chapter 13. Income Distribution: Redistribution 13.1. The Effective Marginal Tax Rate 13.2. Opportunity Cost of Redistribution: Example 13.3. Weighing Opportunity Costs and Benefits 13.4. How Much Should the Top 1 Percent Be Taxed?	272 275 278 282

Chapter 14. Policy for Full Employment	288
14.1. What Can Governments Do about Recessions?	289
14.2. Fiscal Policy	290
14.3. Monetary Policy	297
14.4. Labor Market Programs and the Job Guarantee	299
14.5. One Lesson Economics and Unemployment	301
14.6. Summary	306
Further Reading	306
Chapter 15. Monopoly and the Mixed Economy	308
15.1. Monopoly and Monopsony	309
15.2. Antitrust	311
15.3. Regulation and Its Limits	314
15.4. Public Enterprise	315
15.5. The Mixed Economy	319
15.6. I, Pencil	322
Further Reading	326
Chapter 16. Environmental Policy	328
16.1. Regulation	330
16.2. Environmental Taxes	332
16.3. Tradeable Emissions Permits	334
16.4. Global Pollution Problems	335
16.5. Climate Change	336
16.6. Summary	341
Further Reading	342
Conclusion	343
BIBLIOGRAPHY	345
INDEX	371