

Table of Contents

Preface to Students xv
Preface to Instructors xxi
Acknowledgments xxvii

Chapter 1

What's in Economics for You? Scarcity, Opportunity Cost, Trade, and Models 2

- 1.1 Are You Getting Enough?
Scarcity and Choice 4
- 1.2 Give It Up for Opportunity Cost!
Opportunity Cost 5
 - Choose to Snooze? 5
 - Opportunity Cost Beats Money Cost 5

Economics Out There

Where Have All the Men Gone? 6

- 1.3 Why Don't You Cook Breakfast?
Gains from Trade 7
 - Voluntary Trade 7
 - Deal or No Deal? Do the Numbers 9
 - Smart Deals 11
- 1.4 Economists as Mapmakers and Scientists:
Thinking Like an Economist 13
 - Why Maps (and Economists) Are Useful 13
 - The Circular Flow of Economic Life 14
 - Models as the Economist's Laboratory 15

Economics Out There

Do You Want to Be an Online Gamer Economist? 16

- 1.5 Where and How to Look:
Models for Microeconomics and
Macroeconomics 17
 - It's All Greek to Me:
Microeconomics or Macroeconomics? 18
 - Three Keys to Smart Choices:
Weigh Marginal Benefits and Marginal Costs 19
 - Moving On 21

Study Guide: Chapter 1 22

Chapter Summary 22
True/False 23
Multiple Choice 24

Chapter 2

Making Smart Choices The Law of Demand 26

- 2.1 Put Your Money Where Your Mouth Is:
Weighing Benefits, Costs, and Substitutes 28
 - How Badly Do You Want It? 28
 - What Will You Give Up? 29
- 2.2 Living on the Edge:
Smart Choices Are Marginal Choices 30
 - Marginal Benefits Change with Circumstances 30
 - Marginal Benefits Decrease with Quantity 31

Economics Out There

Coke's Automatic Price Gouging 31

The Diamond/Water Paradox 32

- 2.3 Move On When the Price Isn't Right:
The Law of Demand 33
 - Quantity Demanded 33
 - The Law of Demand 34
 - Two Ways to Read a Demand Curve 36

- 2.4 Moving the Margins:
What Can Change Demand? 38

Why Bother Distinguishing between Quantity Demanded
and Demand? 38

Five Ways to Change Demand and Shift the
Demand Curve 39

Economics Out There

Diamond Engagement Rings Were Not Forever 41

Economics Out There

If I Had \$1 000 000 Dollars 43

Saving the Law of Demand 45

Study Guide: Chapter 2 47

Chapter Summary 47
True/False 48
Multiple Choice 48

Show Me the Money

The Law of Supply 50

- 3.1 What Does It Really Cost?
 - Costs Are Opportunity Costs 52
 - How Much to Work? 52
 - What Do Inputs *Really* Cost? 53
- 3.2 Forget It, It's History:
 - Sunk Costs Don't Matter for Future Choices 54
- 3.3 More for More Money:
 - The Law of Supply 55
 - Quantity Supplied 55
 - Body Piercings or Nail Sets? 56
 - Increasing Marginal Opportunity Costs 57
 - The Law of Supply 61
 - Two Ways to Read a Supply Curve 62
- 3.4 Changing the Bottom Line:
 - What Can Change Supply? 64

Economics Out There

Uncorking the Okanagan 64

- Six Ways to Change Supply and Shift the Supply Curve 65

Economics Out There

Army of Noodle-Shaving Robots Invades Restaurants 66

- Saving the Law of Supply 70

Study Guide: Chapter 3 71

- Chapter Summary 71
- True/False 72
- Multiple Choice 73

Coordinating Smart Choices

Demand and Supply 76

- 4.1 What's a Market? 78
 - Markets Mix Competition and Cooperation 78
 - The Rules of the Game 79
 - 4.2 Where Do Prices Come From?
 - Price Signals from Combining Demand and Supply 80
- Economics Out There*
- Rules of the Game Are Necessary for All Games, Not Just Markets 80
 - Prices in Action 81
 - 4.3 When Prices Sit Still:
 - Market-Clearing or Equilibrium Prices 85
 - Market-Clearing Price 85
 - Equilibrium Price 85
 - 4.4 Moving Targets:
 - What Happens When Demand and Supply Change? 87
 - Changes in Demand 88
 - Changes in Supply 90

Economics Out There

Lobsters Galore! 91

- Combining Changes in Demand and Supply 92
- Putting It All Together 94
- Economists Do It with Models 94

- 4.5 Getting More Than You Bargained For:
 - Consumer Surplus, Producer Surplus, and Efficiency 96
 - Consumer Surplus 96
 - Producer Surplus 97
 - Economic Efficiency 98

Study Guide: Chapter 4 102

- Chapter Summary 102
- True/False 104
- Multiple Choice 104

Just How Badly Do You Want It?

Elasticity 106

- 5.1 **Measuring Your Responsiveness: Price Elasticity of Demand** 108
 - Measuring Your Responsiveness 108
 - Calculating Elasticity of Demand 109
 - Why Are You (Un)Responsive? 112
 - Factors Determining Elasticity 112
- 5.2 **Will You Make It Up in Volume? Elasticity and Total Revenue** 113
 - Total Revenue 113
 - Price Cuts Are Smart Facing Elastic Demand 114
 - Price Rises Are Smart Facing Inelastic Demand 114
 - Smart Pricing Decisions Depend on Elasticity of Demand 114
 - Calculating Elasticity and Total Revenue 115
- Economics Out There**
 - When It Comes to Reservations, Time Is Money 115
- 5.3 **How Far Will You Jump for the Money? Price Elasticity of Supply** 119
 - Measuring Business Responsiveness 121
 - Gearing Up (Production) Can Be Hard to Do: Factors Determining Elasticity of Supply 122
 - Why Do We Care about Elasticity of Supply? 123
- 5.4 **Can You Measure Substitutes? More Elasticities of Demand** 123
 - Cross Elasticity of Demand 124
 - Income Elasticity of Demand 125
 - Quick Guide to Elasticity Measures 127
- 5.5 **Who Pays the HST? Tax Incidence and Government Tax Choices** 128
 - Tax Incidence 128
 - What's in Taxes for Government? 131
 - Measurement Stretches Understanding 132

Study Guide: Chapter 5 133

- Chapter Summary 133
- True/False 135
- Multiple Choice 136

What Gives When Prices Don't?

Government Policy Choices 138

- 6.1 **Do Prices or Quantities Adjust? Unintended Consequences of Government Policies** 140
 - When Price Is Fixed Too Low, Quantities Adjust 140
 - When Price Is Fixed Too High, Quantities Adjust 142
 - Fixed Prices Prevent Markets from Functioning Well 143
- Economics Out There**
 - Price Controls Keep Venezuelan Cupboards Bare 143
- 6.2 **Do Rent Controls Help the Homeless? Price Ceilings** 144
 - Benefits and Costs of Rent Control Policies 144
 - Inefficiency of Rent Controls 145
 - Unintended Consequences of Rent Controls 146
 - Alternatives to Rent Controls 147
- 6.3 **Do Minimum Wages Help the Working Poor? Price Floors** 148
 - Minimum Wage Laws Past and Present 148
 - Benefits and Costs of Minimum Wage Laws 149
 - Unintended Consequences of Minimum Wages 151
- Economics Out There**
 - Hundreds of Economists Say Raise the Minimum Wage 151
 - Weighing the Benefits and Costs of Minimum Wages 152
 - Alternatives to Minimum Wage Laws 152
- 6.4 **When Markets Work Well, Are They Fair? Trade-Offs between Efficiency and Equity** 153
 - Efficient Market Outcomes 154
- Economics Out There**
 - Is Price Gouging During a Disaster Wrong? 154
 - Who Is Excluded from Efficient Market Outcomes? 155
- 6.5 **Choosing between Efficiency and Equity: What Economics Can and Cannot Do for You** 157
 - Efficiency or Equity? 157
- Economics Out There**
 - Can We Eliminate the Trade-Off between Efficiency and Equity? 157
 - Equal Outcomes or Equal Opportunity? 158
 - What Economics Can and Cannot Do for You 159

Study Guide: Chapter 6 160

- Chapter Summary 160
- True/False 162
- Multiple Choice 163

Finding the Bottom Line

Opportunity Costs, Economic Profits and Losses, and the Miracle of Markets 166

- 7.1 What Accountants Miss: Accounting Profits and Hidden Opportunity Costs 168
 Obvious Costs and Accounting Profits 168
 Your Time's Opportunity Cost 169
 Your Money's Opportunity Cost 169

Economics Out There

Which Mortgage Is Right for You? 171

- 7.2 What Economists Find: Normal Profits and Economic Profits 172
 Normal Profits 172
 Economic Profits 172

- 7.3 Red Light, Green Light: How Economic Profits Direct the Invisible Hand 174
 Economic Profits Signal the Way 175
 Market Equilibrium 176

Study Guide: Chapter 7 179

- Chapter Summary 179
- True/False 180
- Multiple Choice 180

Pricing Power

Monopoly to Competition and In Between 182

- 8.1 Dreams of Monopoly and Nightmares of Competition: Price Makers and Price Takers 184
 Monopoly 184
 Perfect Competition 185
- 8.2 How Much Competition Is Going On? Market Structure 187
 "What's a Market" Depends on
 "What's a Substitute" 187
 Counting Competitors:
 How Many Competing Businesses? 188

Economics Out There

What's Your Favourite Beer — and Why? 188

- Keeping Competitors Out and Profits In:
 Barriers to Entry 189

Economics Out There

Pricing Headaches and Sex 190

- How Do You Spell Competition?
 E-L-A-S-T-I-C-I-T-Y of Demand 191

- 8.3 Mash-Ups of Market Structure: Oligopoly and Monopolistic Competition 193
- 8.4 To Compete Is a Verb: How Do Businesses Compete? 195
 What Do Businesses Do to Compete? 195

Economics Out There

Where's the Real Competition? 196

- The Invisible Hand, Like Gravity, Is Unforgiving:
 Freedom Meets Competition 197

Economics Out There

Higher Wages = Lower Costs? 198

- Competition as Creative Destruction:
 Breaking Free of Equilibrium 198

Study Guide: Chapter 8 201

- Chapter Summary 201
- True/False 202
- Multiple Choice 203

Pricing for Profits

Marginal Revenue and Marginal Cost 204

9.1 Is the Price You See the Revenue You Get?

Marginal Revenue 206

Basic Ingredients 206

One Price Rules When Buyers Can Resell 207

Economics *Out There*

iResentment 207

Marginal Revenue 207

When Marginal Revenue Equals Price 208

When Marginal Revenue Is Less Than Price 208

9.2 Increasing or Constant?

Marginal Cost 212

Increasing Marginal Cost 212

Constant Marginal Cost 213

9.3 Recipe for Profits:

Marginal Revenue Greater Than
Marginal Cost 214

Recipe for Profits in Numbers 214

Recipe for Profits in Graphs 216

Why Is This Recipe the Best?

Pricing for Maximum Economic Profits 217

Back to the Three Keys to Smart Choices 218

9.4 Divide and Conquer:

Price Discrimination Recipes for
Higher Profits 220

Breaking the One-Price Rule 220

Discriminate (Cleverly) by Elasticity 221

Doubling Up the Recipe for Profits 223

Economics *Out There*

Are You a Coupon Clipper? 223

Putting It All Together 224

Economics *Out There*

Squeezing More Profits with Dynamic Pricing 224

9.5 Are Maximum Profits Good for All?

Market Structure and Efficiency 225

Efficiency of Perfect Competition and Price Takers 225

Inefficiency of Market Structures with Price Makers 226

Are Inefficient Price Makers All Bad? 227

Study Guide: Chapter 9 228

Chapter Summary 228

True/False 229

Multiple Choice 230

Exploring Perfect Competition

Productivity, Costs, Quantities, and Profits 232

9A.1 All Equal!

Marginal Revenue and Price 234

9A.2 More Gets You Less:

Costs and Diminishing

Marginal Productivity 235

Fixed Costs and Variable Costs 235

Diminishing Marginal Productivity 235

From Diminishing Marginal Productivity to Increasing

Marginal Costs 237

From Marginal Costs to Average Total Costs 238

9A.3 Prices and the Recipe for Profits:

Marginal Cost Curve Determines
the Supply Curve 242Maximum Economic Profits Where $MR = MC$ 243

9A.4 Go or Stay?

Short-Run and Long-Run Equilibrium 245

Three Short-Run Economic Profit Scenarios 245

Long-Run Economic Profit Adjustments 247

The Invisible Hand Again 249

Study Guide: Chapter 9 Appendix 250

Chapter Summary 250

True/False 251

Multiple Choice 252

When Markets Fail

Natural Monopoly, Gaming, Competition,
and Government 254

10.1 Size Matters:

Market Failure and Natural Monopoly 256

Market Failure 257

The Government Policy Challenge 257

What's So Natural about Natural Monopoly? 259

10.2 Cooperate or Cheat?

Prisoners' Dilemma and Conspiracies 259

Gasoline Price Wars and Conspiracies 260

The Prisoners' Dilemma:

Game Theory and Strategic Behaviour 260

10.3 C-Words Everywhere:

Cartels, Collusion, Cheating, Competition Law,
Caveat Emptor 263

Well-Dressed Thieves 263

Competition Law 264

Economics Out There

Hershey Guilty of Price-Fixing in Canadian Chocolate Cartel 265

Should the Buyer Alone Beware?

Regulatory Agencies in Canada 266

10.4 Pick Your Poison:

Market Failure or Government Failure? 268

Should Governments Regulate?

Public-Interest View or Capture View 268

Evidence and Explanations 269

Economics Out There

Cheese Smuggling? Only in Canada 271

Trade-Offs:

Market Failure or Government Failure? 272

Study Guide: Chapter 10 274

Chapter Summary 274

True/False 275

Multiple Choice 276

Acid Rain on Others' Parades

Externalities, Carbon Taxes, Free Riders,
and Public Goods 278

11.1 Handcuffing the Invisible Hand:

Market Failure with Externalities 280

How Much Does That Honda Civic Really Cost? 280

Was It Good Just for You? 282

No Ownership, No Incentives, No Coordinated
Choices 28311.2 Why Radical Environmentalists Dislike
Economists:

Efficient Pollution 284

The Price (Opportunity Cost) of Pollution 285

Economics Out There

A Useful Poison? 285

Efficient Combinations of Output and Pollution 286

11.3 Liberating the Invisible Hand:

Policies to Internalize the Externality 290

Government Support for the Invisible Hand 290

Carbon Taxes and Cap-and-Trade

System for Emissions 291

Economics Out There

Make Polluters (Including You) Pay 293

Green Trade-Offs of Efficiency versus Equity 294

Economics Out There

Carbon Taxes Make Ireland Even Greener 294

11.4 Why Lighthouses Won't Make You Rich:

Free Riders and Public Goods 295

The Free-Rider Problem 295

Efficient Combinations of Output and

External Benefits 296

Economics Out There

Infrastructure as Public Good 298

11.5 Why Your Tuition Is Cheap (Really!):

Subsidies for the Public Good 300

Adam Smith's Vote for Government 300

Subsidies 300

Economics Out There

Should Drivers Be Taxed to Pay for Public Transit? 302

Public Provision 303

Study Guide: Chapter 11 305

Chapter Summary 305

True/False 306

Multiple Choice 307

Chapter 12

What Are You Worth?

Inputs, Incomes, and Inequality 310

12.1 Switching Sides:

Incomes Are Prices and Quantities in Input Markets 312

Finding Your Way Around the Circle 312

Inputs and Income 313

Income Is a Flow, Wealth Is a Stock 313

Entrepreneurs' Income Is Different 314

12.2 What Have You Done for Me Lately? Labour and Marginal Revenue Product 314

Back to the Future of Wahid's

Web Wonders Business 315

Show Me the Money (Again):

Supply of Labour 315

Why Your Boss Wants You:

Derived Demand for Labour 315

Smart Business Choices in Hiring Labour 316

Marginal Productivity and Income 318

12.3 All Present and Accounted For: Interest on Capital and Present Value 318

Comparing the Present and Future 319

From Present to Future 319

From Future to Present:

Key 3 and Implicit Costs to the Rescue 319

12.4 Why Sidney Crosby Plays by Different Rules: Land, Economic Rent, and Superstars 322

Economic Rent 322

Is Sidney Crosby a Landlord? 323

Are Superstar Salaries to Blame for

High Ticket Prices? 324

Economics Out There

Fans Stick It to NHL Players 324

12.5 What *Should* You Be Worth? Inequality and Poverty 325

What Do We Earn and Own?

Measuring (In)Equality of Income and Wealth 325

Why Are You (Not) Rich? 328

What Can Be Done to Help the Poor? 329

What Should Be Done to Help the Poor?

Equity and Efficiency One More Time 331

Study Guide: Chapter 12 333

Chapter Summary 333

True/False 334

Multiple Choice 335

Summing Up 337

Glossary 339

Answers to the Study Guide

Questions 343

Index 350