

BRIEF CONTENTS

Preface	23
A Word of Thanks	49

PART 1: Introduction

Chapter 1: Economics: Foundations and Models	50
Appendix: Using Graphs and Formulas	72
Chapter 2: Trade-offs, Comparative Advantage, and the Market System	84
Chapter 3: Where Prices Come From: The Interaction of Demand and Supply	116
Chapter 4: Economic Efficiency, Government Price Setting, and Taxes	148
Appendix: Quantitative Demand and Supply Analysis	179

PART 2: Markets in Action: Policy and Applications

Chapter 5: Externalities, Environmental Policy, and Public Goods	184
Chapter 6: Elasticity: The Responsiveness of Demand and Supply	218
Chapter 7: The Economics of Health Care	252

PART 3: Firms in the Domestic and International Economies

Chapter 8: Firms, the Stock Market, and Corporate Governance	284
Appendix: Tools to Analyze Firms' Financial Information	309
Chapter 9: Comparative Advantage and the Gains from International Trade	318

PART 4: Microeconomic Foundations: Consumers and Firms

Chapter 10: Consumer Choice and Behavioral Economics	352
Appendix: Using Indifference Curves and Budget Lines to Understand Consumer Behavior	383
Chapter 11: Technology, Production, and Costs	398
Appendix: Using Isoquants and Isocost Lines to Understand Production and Cost	427

PART 5: Market Structure and Firm Strategy

Chapter 12: Firms in Perfectly Competitive Markets	438
Chapter 13: Monopolistic Competition: The Competitive Model in a More Realistic Setting	472
Chapter 14: Oligopoly: Firms in Less Competitive Markets	498
Chapter 15: Monopoly and Antitrust Policy	524
Chapter 16: Pricing Strategy	554

PART 6: Labor Markets, Public Choice, and the Distribution of Income

Chapter 17: The Markets for Labor and Other Factors of Production	580
Chapter 18: Public Choice, Taxes, and the Distribution of Income	616
Glossary	649
Company Index	654
Subject Index	657
Credits	669
Chapter Features Chart	670

DETAILED CONTENTS

Preface	23	Determining Cause and Effect	77
A Word of Thanks	49	Are Graphs of Economic Relationships Always Straight Lines?	79
PART 1: Introduction		Slopes of Nonlinear Curves	79
Chapter 1: Economics: Foundations and Models		Formulas	79
Is the Private Doctor's Office Going to Disappear?	51	Formula for a Percentage Change	80
1.1 Three Key Economic Ideas	52	Formulas for the Areas of a Rectangle and a Triangle	81
People Are Rational	53	Summary of Using Formulas	82
People Respond to Economic Incentives	53	Chapter 2: Trade-offs, Comparative Advantage, and the Market System	
Making the Connection: Does Health Insurance Give People an Incentive to Become Obese?	53	Managers at Tesla Motors Face Trade-Offs	85
Optimal Decisions Are Made at the Margin	55	2.1 Production Possibilities Frontiers and Opportunity Costs	86
Solved Problem 1.1: A Doctor Makes a Decision at the Margin	55	Graphing the Production Possibilities Frontier	86
1.2 The Economic Problem That Every Society Must Solve	56	Solved Problem 2.1: Drawing a Production Possibilities Frontier for Tesla Motors	88
What Goods and Services Will Be Produced?	57	Increasing Marginal Opportunity Costs	90
How Will the Goods and Services Be Produced?	57	Economic Growth	91
Who Will Receive the Goods and Services Produced?	57	2.2 Comparative Advantage and Trade	91
Centrally Planned Economies versus Market Economies	57	Specialization and Gains from Trade	92
The Modern "Mixed" Economy	58	Absolute Advantage versus Comparative Advantage	93
Efficiency and Equity	59	Comparative Advantage and the Gains from Trade	94
1.3 Economic Models	59	Don't Let This Happen to You: Don't Confuse	
The Role of Assumptions in Economic Models	60	Absolute Advantage and Comparative Advantage	95
Forming and Testing Hypotheses in Economic Models	60	Solved Problem 2.2: Comparative Advantage and the Gains from Trade	95
Positive and Normative Analysis	61	Making the Connection: Comparative Advantage, Opportunity Cost, and Housework	97
Don't Let This Happen to You: Don't Confuse		2.3 The Market System	98
Positive Analysis with Normative Analysis	62	The Circular Flow of Income	98
Economics as a Social Science	62	The Gains from Free Markets	100
Making the Connection: Should Medical School Be Free?	62	The Market Mechanism	100
1.4 Microeconomics and Macroeconomics	63	Making the Connection: A Story of the Market System in Action: How Do You Make an iPad?	101
1.5 A Preview of Important Economic Terms	64	The Role of the Entrepreneur	102
Conclusion	65	The Legal Basis of a Successful Market System	104
An Inside Look: Look Into Your Smartphone and Say "Ahh"	66	Making the Connection: Who Owns <i>The Wizard of Oz</i> ?	105
*Chapter Summary and Problems	68	Conclusion	107
Key Terms, Summary, Review Questions, Problems and Applications		An Inside Look: What's on the Horizon at Mercedes-Benz?	108
Appendix: Using Graphs and Formulas	72	Chapter 3: Where Prices Come From: The Interaction of Demand and Supply	
Graphs of One Variable	73	Smartphones: The Indispensible Product?	117
Graphs of Two Variables	74	3.1 The Demand Side of the Market	118
Slopes of Lines	74	Demand Schedules and Demand Curves	118
Taking into Account More Than Two Variables on a Graph	75	The Law of Demand	119
Positive and Negative Relationships	77		

What Explains the Law of Demand?	119	Marginal Benefit Equals Marginal Cost in Competitive Equilibrium	155
Holding Everything Else Constant: The <i>Ceteris paribus</i> Condition	120	Economic Surplus	155
Variables That Shift Market Demand	120	Deadweight Loss	156
Making the Connection: Are Tablet Computers Substitutes for E-Readers?	121	Economic Surplus and Economic Efficiency	157
Making the Connection: Coke and Pepsi Are Hit by U.S. Demographics	122	4.3 Government Intervention in the Market: Price Floors and Price Ceilings	157
A Change in Demand versus a Change in Quantity Demanded	123	Price Floors: Government Policy in Agricultural Markets	157
Making the Connection: Forecasting the Demand for iPhones	125	Making the Connection: Price Floors in Labor Markets: The Debate over Minimum Wage Policy	159
3.2 The Supply Side of the Market	126	Price Ceilings: Government Rent Control Policy in Housing Markets	160
Supply Schedules and Supply Curves	126	Don't Let This Happen to You: Don't Confuse "Scarcity" with "Shortage"	161
The Law of Supply	127	Black Markets and Peer-to-Peer Sites	161
Variables That Shift Market Supply	128	Solved Problem 4.3: What's the Economic Effect of a Black Market in Renting Apartments?	162
A Change in Supply versus a Change in Quantity Supplied	129	The Results of Government Price Controls: Winners, Losers, and Inefficiency	163
3.3 Market Equilibrium: Putting Demand and Supply Together	130	Positive and Normative Analysis of Price Ceilings and Price Floors	163
How Markets Eliminate Surpluses and Shortages	131	4.4 The Economic Impact of Taxes	164
Demand and Supply Both Count	132	The Effect of Taxes on Economic Efficiency	164
Solved Problem 3.3: Demand and Supply Both Count: A Tale of Two Letters	132	Tax Incidence: Who Actually Pays a Tax?	165
3.4 The Effect of Demand and Supply Shifts on Equilibrium	133	Solved Problem 4.4: When Do Consumers Pay All of a Sales Tax Increase?	166
The Effect of Shifts in Supply on Equilibrium	133	Making the Connection: Is the Burden of the Social Security Tax Really Shared Equally between Workers and Firms?	167
Making the Connection: The Falling Price of Blu-ray Players	134	Conclusion	169
The Effect of Shifts in Demand on Equilibrium	135	An Inside Look At Policy: Does the Sharing Economy Increase Efficiency?	170
The Effect of Shifts in Demand and Supply over Time	135	Appendix: Quantitative Demand and Supply Analysis	179
Solved Problem 3.4: What Has Caused the Decline in Beef Consumption?	136	Demand and Supply Equations	179
Shifts in a Curve versus Movements along a Curve	138	Calculating Consumer Surplus and Producer Surplus	180
Don't Let This Happen to You: Remember: A Change in a Good's Price Does <i>Not</i> Cause the Demand or Supply Curve to Shift	138	PART 2: Markets in Action: Policy and Applications	
Conclusion	139	<hr/>	
An Inside Look: Google and Apple Face Supply and Demand Concerns in the Smartphone Market	140	Chapter 5: Externalities, Environmental Policy, and Public Goods	184
Chapter 4: Economic Efficiency, Government Price Setting, and Taxes	148	Can Economic Policy Help Protect the Environment?	185
The Sharing Economy, Phone Apps, and Rent Control	149	5.1 Externalities and Economic Efficiency	186
4.1 Consumer Surplus and Producer Surplus	150	The Effect of Externalities	186
Consumer Surplus	150	Externalities and Market Failure	188
Making the Connection: The Consumer Surplus from Broadband Internet Service	152	What Causes Externalities?	188
Producer Surplus	153	5.2 Private Solutions to Externalities: The Coase Theorem	189
What Consumer Surplus and Producer Surplus Measure	154	The Economically Efficient Level of Pollution Reduction	189
4.2 The Efficiency of Competitive Markets	154		

Making the Connection: The Clean Air Act: How a Government Policy Reduced Infant Mortality 190

The Basis for Private Solutions to Externalities 192

Don't Let This Happen to You: Remember That It's the *Net* Benefit That Counts 193

Making the Connection: The Fable of the Bees 193

Do Property Rights Matter? 194

The Problem of Transactions Costs 194

The Coase Theorem 195

5.3 Government Policies to Deal with Externalities 195

Making the Connection: Should the Government Tax Cigarettes and Soda? 196

Solved Problem 5.3: Dealing with the Externalities of Car Driving 198

Command-and-Control versus Market-Based Approaches 200

The End of the Sulfur Dioxide Cap-and-Trade System 200

Are Tradable Emission Allowances Licenses to Pollute? 201

Making the Connection: Can a Carbon Tax Reduce Global Warming? 201

5.4 Four Categories of Goods 202

The Demand for a Public Good 203

The Optimal Quantity of a Public Good 204

Solved Problem 5.4: Determining the Optimal Level of Public Goods 206

Common Resources 208

Conclusion 209

Chapter 6: Elasticity: The Responsiveness of Demand and Supply 218

Do People Respond to Changes in the Price of Gasoline? 219

6.1 The Price Elasticity of Demand and Its Measurement 220

Measuring the Price Elasticity of Demand 220

Elastic Demand and Inelastic Demand 221

An Example of Computing Price Elasticities 221

The Midpoint Formula 222

Solved Problem 6.1: Calculating the Price Elasticity of Demand 223

When Demand Curves Intersect, the Flatter Curve Is More Elastic 224

Polar Cases of Perfectly Elastic and Perfectly Inelastic Demand 224

Don't Let This Happen to You: Don't Confuse Inelastic with Perfectly Inelastic 226

6.2 The Determinants of the Price Elasticity of Demand 226

Availability of Close Substitutes 226

Passage of Time 227

Luxuries versus Necessities 227

Definition of the Market 227

Share of a Good in a Consumer's Budget 227

Some Estimated Price Elasticities of Demand 227

Making the Connection: The Price Elasticity of Demand for Breakfast Cereal 228

6.3 The Relationship between Price Elasticity of Demand and Total Revenue 229

Elasticity and Revenue with a Linear Demand Curve 230

Solved Problem 6.3: Price and Revenue Don't Always Move in the Same Direction 231

Estimating Price Elasticity of Demand 232

6.4 Other Demand Elasticities 233

Cross-Price Elasticity of Demand 233

Income Elasticity of Demand 234

Making the Connection: Price Elasticity, Cross-Price Elasticity, and Income Elasticity in the Market for Alcoholic Beverages 234

6.5 Using Elasticity to Analyze the Disappearing Family Farm 235

Solved Problem 6.5: Using Price Elasticity to Analyze a Policy of Taxing Gasoline 236

6.6 The Price Elasticity of Supply and Its Measurement 237

Measuring the Price Elasticity of Supply 237

Determinants of the Price Elasticity of Supply 238

Making the Connection: Why Are Oil Prices So Unstable? 238

Polar Cases of Perfectly Elastic and Perfectly Inelastic Supply 239

Using Price Elasticity of Supply to Predict Changes in Price 241

Conclusion 242

Chapter 7: The Economics of Health Care 252

How Much Will You Pay for Health Insurance? 253

7.1 The Improving Health of People in the United States 254

Changes over Time in U.S. Health 254

Reasons for Long-Run Improvements in U.S. Health 255

7.2 Health Care around the World 256

The U.S. Health Care System 256

The Health Care Systems of Canada, Japan, and the United Kingdom 258

Comparing Health Care Outcomes around the World 259

7.3 Information Problems and Externalities in the Market for Health Care 261

Adverse Selection and the Market for "Lemons" 261

Asymmetric Information in the Market for Health Insurance 261

Don't Let This Happen to You: Don't Confuse Adverse Selection with Moral Hazard 263

Solved Problem 7.3: If You Are Young and Healthy, Should You Buy Health Insurance? 264

Externalities in the Market for Health Care 265

Making the Connection: Should the Government Run the Health Care System?	267	Did Principal–Agent Problems Help Cause the 2007–2009 Financial Crisis?	301
7.4 The Debate over Health Care Policy in the United States	268	Making the Connection: The Ups and Downs of Investing in Facebook	302
The Rising Cost of Health Care	268	Conclusion	303
Making the Connection: Are U.S. Firms Handicapped by Paying for Their Employees' Health Insurance?	270	Appendix: Tools to Analyze Firms' Financial Information	309
Explaining Rapid Increases in Health Care Spending	271	Using Present Value to Make Investment Decisions	309
The Continuing Debate over Health Care Policy	273	Solved Problem 8A.1: How to Receive Your Contest Winnings	311
Making the Connection: How Much Is That MRI Scan?	275	Using Present Value to Calculate Bond Prices	311
Conclusion	277	Using Present Value to Calculate Stock Prices	312
		A Simple Formula for Calculating Stock Prices	313
		Going Deeper into Financial Statements	313
		Analyzing Income Statements	314
		Analyzing Balance Sheets	315
PART 3: Firms in the Domestic and International Economies		Chapter 9: Comparative Advantage and the Gains from International Trade	318
Chapter 8: Firms, the Stock Market, and Corporate Governance	284	Saving Jobs in the U.S. Tire Industry?	319
Facebook Learns the Benefits and Costs of Becoming a Publicly Owned Firm	285	9.1 The United States in the International Economy	320
8.1 Types of Firms	286	The Importance of Trade to the U.S. Economy	320
Who Is Liable? Limited and Unlimited Liability Corporations Earn the Majority of Revenue and Profits	286	Making the Connection: Goodyear and the Tire Tariff	321
Making the Connection: How Important Are Small Businesses to the U.S. Economy?	288	U.S. International Trade in a World Context	322
8.2 The Structure of Corporations and the Principal–Agent Problem	289	9.2 Comparative Advantage in International Trade	323
Corporate Structure and Corporate Governance	289	A Brief Review of Comparative Advantage	323
Solved Problem 8.2: Should a Firm's CEO Also Be the Chairman of the Board?	290	Comparative Advantage and Absolute Advantage	324
8.3 How Firms Raise Funds	290	9.3 How Countries Gain from International Trade	325
Sources of External Funds	291	Increasing Consumption through Trade	325
Making the Connection: The Rating Game: Is the U.S. Treasury Likely to Default on Its Bonds?	292	Solved Problem 9.3: The Gains from Trade	326
Stock and Bond Markets Provide Capital—and Information	294	Why Don't We See Complete Specialization?	328
Don't Let This Happen to You: When Facebook Shares Are Sold, Facebook Doesn't Get the Money	294	Does Anyone Lose as a Result of International Trade?	328
Why Do Stock Prices Fluctuate So Much?	295	Don't Let This Happen to You: Remember That Trade Creates Both Winners and Losers	328
Making the Connection: Following Abercrombie & Fitch's Stock Price in the Financial Pages	296	Where Does Comparative Advantage Come From?	329
8.4 Using Financial Statements to Evaluate a Corporation	297	Making the Connection: Leaving New York City Is Risky for Financial Firms	330
The Income Statement	298	Comparative Advantage over Time: The Rise and Fall—and Rise—of the U.S. Consumer Electronics Industry	331
The Balance Sheet	299	9.4 Government Policies That Restrict International Trade	331
8.5 Corporate Governance Policy and the Financial Crisis of 2007–2009	299	Tariffs	333
The Accounting Scandals of the Early 2000s	299	Quotas and Voluntary Export Restraints	334
The Financial Crisis of 2007–2009	300	Measuring the Economic Effect of the Sugar Quota	334
		Solved Problem 9.4: Measuring the Economic Effect of a Quota	335
		The High Cost of Preserving Jobs with Tariffs and Quotas	336
		Making the Connection: The Effect on the U.S. Economy of the Tariff on Chinese Tires	337

Gains from Unilateral Elimination of Tariffs and Quotas 338
Other Barriers to Trade 338
25 The Arguments over Trade Policies and Globalization 338
Why Do Some People Oppose the World Trade Organization? 339
Making the Connection: The Unintended Consequences of Banning Goods Made with Child Labor 340
Dumping 342
Positive versus Normative Analysis (Once Again) 342
Conclusion 343

PART 4: Microeconomic Foundations: Consumers and Firms

Chapter 10: Consumer Choice and Behavioral Economics 352
J.C. Penney Learns That Simplifying Prices Isn't Simple 353
10.1 Utility and Consumer Decision Making 354
 The Economic Model of Consumer Behavior in a Nutshell 354
 Utility 354
 The Principle of Diminishing Marginal Utility 355
 The Rule of Equal Marginal Utility per Dollar Spent 355
Solved Problem 10.1: Finding the Optimal Level of Consumption 358
 What If the Rule of Equal Marginal Utility per Dollar Does Not Hold? 359
Don't Let This Happen to You: Equalize Marginal Utilities per Dollar 360
 The Income Effect and Substitution Effect of a Price Change 361
10.2 Where Demand Curves Come From 362
Making the Connection: Are There Any Upward-Sloping Demand Curves in the Real World? 364
10.3 Social Influences on Decision Making 365
 The Effects of Celebrity Endorsements 365
 Network Externalities 366
 Does Fairness Matter? 367
Making the Connection: What's Up with "Fuel Surcharges"? 369
10.4 Behavioral Economics: Do People Make Their Choices Rationally? 371
 Pitfalls in Decision Making 371
Making the Connection: A Blogger Who Understands the Importance of Ignoring Sunk Costs 373
 The Behavioral Economics of Shopping 374
Making the Connection: J.C. Penney Meets Behavioral Economics 375
Conclusion 376

Appendix: Using Indifference Curves and Budget Lines to Understand Consumer Behavior 383
Consumer Preferences 383
 Indifference Curves 383
 The Slope of an Indifference Curve 384
 Can Indifference Curves Ever Cross? 384
The Budget Constraint 385
Choosing the Optimal Consumption of Pizza and Coke 386
Making the Connection: Dell Determines the Optimal Mix of Products 387
 Deriving the Demand Curve 388
Solved Problem 10A.1: When Does a Price Change Make a Consumer Better Off? 389
 The Income Effect and the Substitution Effect of a Price Change 391
 How a Change in Income Affects Optimal Consumption 392
The Slope of the Indifference Curve, the Slope of the Budget Line, and the Rule of Equal Marginal Utility per Dollar Spent 392
 The Rule of Equal Marginal Utility per Dollar Spent Revisited 393

Chapter 11: Technology, Production, and Costs 398
Fracking, Marginal Costs, and Energy Prices 399
11.1 Technology: An Economic Definition 400
Making the Connection: Improving Inventory Control at Wal-Mart 400
11.2 The Short Run and the Long Run in Economics 401
 The Difference between Fixed Costs and Variable Costs 401
Making the Connection: Fixed Costs in the Publishing Industry 402
 Implicit Costs Versus Explicit Costs 402
 The Production Function 403
 A First Look at the Relationship between Production and Cost 404
11.3 The Marginal Product of Labor and the Average Product of Labor 405
 The Law of Diminishing Returns 405
 Graphing Production 406
Making the Connection: Adam Smith's Famous Account of the Division of Labor in a Pin Factory 407
 The Relationship between Marginal Product and Average Product 407
 An Example of Marginal and Average Values: College Grades 408
11.4 The Relationship between Short-Run Production and Short-Run Cost 409
 Marginal Cost 409
 Why Are the Marginal and Average Cost Curves U Shaped? 409

Solved Problem 11.4: Calculating Marginal Cost and Average Cost	411	12.2 How a Firm Maximizes Profit in a Perfectly Competitive Market	443
11.5 Graphing Cost Curves	412	Revenue for a Firm in a Perfectly Competitive Market	443
11.6 Costs in the Long Run	414	Determining the Profit-Maximizing Level of Output	444
Economies of Scale	414	12.3 Illustrating Profit or Loss on the Cost Curve Graph	446
Long-Run Average Cost Curves for Automobile Factories	415	Showing a Profit on the Graph	447
Solved Problem 11.6: Using Long-Run Average Cost Curves to Understand Business Strategy	415	Solved Problem 12.3: Determining Profit-Maximizing Price and Quantity	447
Making the Connection: The Colossal River Rouge: Diseconomies of Scale at Ford Motor Company	417	Don't Let This Happen to You: Remember That Firms Maximize Their Total Profit, Not Their Profit per Unit	449
Don't Let This Happen to You: Don't Confuse Diminishing Returns with Diseconomies of Scale	418	Illustrating When a Firm Is Breaking Even or Operating at a Loss	450
Conclusion	419	Making the Connection: Losing Money in the Solar Panel Industry	450
Appendix: Using Isoquants and Isocost Lines to Understand Production and Cost	427	12.4 Deciding Whether to Produce or to Shut Down in the Short Run	451
Isoquants	427	Solved Problem 12.4: When to Pull the Plug on a Movie	452
An Isoquant Graph	427	The Supply Curve of a Firm in the Short Run	453
The Slope of an Isoquant	428	The Market Supply Curve in a Perfectly Competitive Industry	454
Isocost Lines	428	12.5 "If Everyone Can Do It, You Can't Make Money at It": The Entry and Exit of Firms in the Long Run	455
Graphing the Isocost Line	428	Economic Profit and the Entry or Exit Decision	455
The Slope and Position of the Isocost Line	429	Long-Run Equilibrium in a Perfectly Competitive Market	457
Choosing the Cost-Minimizing Combination of Capital and Labor	429	The Long-Run Supply Curve in a Perfectly Competitive Market	457
Different Input Price Ratios Lead to Different Input Choices	430	Making the Connection: In the Apple iPhone Apps Store, Easy Entry Makes the Long Run Pretty Short	460
Making the Connection: The Changing Input Mix in Walt Disney Film Animation	431	Increasing-Cost and Decreasing-Cost Industries	460
Another Look at Cost Minimization	432	12.6 Perfect Competition and Efficiency	461
Solved Problem 11A.1: Determining the Optimal Combination of Inputs	433	Productive Efficiency	461
Making the Connection: Do National Football League Teams Behave Efficiently?	434	Solved Problem 12.6: How Productive Efficiency Benefits Consumers	461
The Expansion Path	435	Allocative Efficiency	463
		Conclusion	463
PART 5: Market Structure and Firm Strategy			
Chapter 12: Firms in Perfectly Competitive Markets	438	Chapter 13: Monopolistic Competition: The Competitive Model in a More Realistic Setting	472
Perfect Competition in Farmers' Markets	439	Starbucks: The Limits to Growth through Product Differentiation	473
12.1 Perfectly Competitive Markets	441	13.1 Demand and Marginal Revenue for a Firm in a Monopolistically Competitive Market	474
A Perfectly Competitive Firm Cannot Affect the Market Price	441	The Demand Curve for a Monopolistically Competitive Firm	474
The Demand Curve for the Output of a Perfectly Competitive Firm	442	Marginal Revenue for a Firm with a Downward-Sloping Demand Curve	474
Don't Let This Happen to You: Don't Confuse the Demand Curve for Farmer Parker's Wheat with the Market Demand Curve for Wheat	442		

13.2 How a Monopolistically Competitive Firm Maximizes Profit in the Short Run	476	14.3 Sequential Games and Business Strategy	511
Solved Problem 13.2: Does Minimizing Cost Maximize Profit at Apple?	478	Deterring Entry	511
13.3 What Happens to Profits in the Long Run?	479	Solved Problem 14.3: Is Deterring Entry Always a Good Idea?	512
How Does the Entry of New Firms Affect the Profits of Existing Firms?	479	Bargaining	513
Don't Let This Happen to You: Don't Confuse Zero Economic Profit with Zero Accounting Profit	480	14.4 The Five Competitive Forces Model	515
Making the Connection: The Rise and Decline and Rise of Starbucks	482	Competition from Existing Firms	515
Is Zero Economic Profit Inevitable in the Long Run?	482	The Threat from Potential Entrants	515
Solved Problem 13.3: Can It Be Profitable to Be the High-Price Seller?	483	Competition from Substitute Goods or Services	515
13.4 Comparing Monopolistic Competition and Perfect Competition	484	The Bargaining Power of Buyers	516
Excess Capacity under Monopolistic Competition	484	The Bargaining Power of Suppliers	516
Is Monopolistic Competition Inefficient?	484	Making the Connection: Can We Predict Which Firms Will Continue to Be Successful?	516
How Consumers Benefit from Monopolistic Competition	485	Conclusion	517
Making the Connection: Peter Thiel, e-Cigarettes, and the Monopoly in Monopolistic Competition	486	 Chapter 15: Monopoly and Antitrust Policy	 524
13.5 How Marketing Differentiates Products	486	A Monopoly on Lobster Dinners in Maine?	525
Brand Management	487	15.1 Is Any Firm Ever Really a Monopoly?	526
Advertising	487	Making the Connection: Is Google a Monopoly?	526
Defending a Brand Name	487	15.2 Where Do Monopolies Come From?	527
13.6 What Makes a Firm Successful?	488	Government Action Blocks Entry	528
Making the Connection: Is Being the First Firm in the Market a Key to Success?	488	Making the Connection: Does Hasbro Have a Monopoly on Monopoly?	528
Conclusion	489	Control of a Key Resource	530
 Chapter 14: Oligopoly: Firms in Less Competitive Markets	 498	Making the Connection: Are Diamond Profits Forever? The De Beers Diamond Monopoly	530
Competition in the Video Game Console Market	499	Network Externalities	531
14.1 Oligopoly and Barriers to Entry	500	Natural Monopoly	531
Barriers to Entry	501	Solved Problem 15.2: Can a Seafood Restaurant Be a Natural Monopoly?	532
14.2 Using Game Theory to Analyze Oligopoly	503	15.3 How Does a Monopoly Choose Price and Output?	534
A Duopoly Game: Price Competition between Two Firms	503	Marginal Revenue Once Again	534
Firm Behavior and the Prisoner's Dilemma	504	Profit Maximization for a Monopolist	534
Don't Let This Happen to You: Don't Misunderstand Why Each Firm Ends Up Charging a Price of \$399	505	Solved Problem 15.3: Finding the Profit-Maximizing Price and Output for a Cable Monopoly	536
Solved Problem 14.2: Is Same-Day Delivery a Prisoner's Dilemma for Wal-Mart and Amazon?	505	Don't Let This Happen to You: Don't Assume That Charging a Higher Price Is Always More Profitable for a Monopolist	537
Making the Connection: Is There a Dominant Strategy for Bidding on eBay?	506	15.4 Does Monopoly Reduce Economic Efficiency?	538
Can Firms Escape the Prisoner's Dilemma?	507	Comparing Monopoly and Perfect Competition	538
Making the Connection: With Price Collusion, More Is Not Merrier	508	Measuring the Efficiency Losses from Monopoly	538
Cartels: The Case of OPEC	509	How Large Are the Efficiency Losses Due to Monopoly?	540
		Market Power and Technological Change	540
		15.5 Government Policy toward Monopoly	541
		Antitrust Laws and Antitrust Enforcement	541
		Making the Connection: Did Apple Violate the Law in Pricing e-Books?	542
		Mergers: The Trade-off between Market Power and Efficiency	543
		The Department of Justice and FTC Merger Guidelines	544
		Regulating Natural Monopolies	546
		Conclusion	547

Chapter 16: Pricing Strategy	554	17.3 Equilibrium in the Labor Market	588
Getting into Walt Disney World: One Price Does Not Fit All	555	The Effect on Equilibrium Wages of a Shift in Labor Demand	589
16.1 Pricing Strategy, the Law of One Price, and Arbitrage	556	Making the Connection: Will Your Future Income Depend on Which Courses You Take in College?	590
Arbitrage	556	The Effect on Equilibrium Wages of a Shift in Labor Supply	591
Solved Problem 16.1: Is Arbitrage Just a Rip-Off? Why Don't All Firms Charge the Same Price?	557	Making the Connection: Veterinarians Fall Victim to Demand and Supply	592
16.2 Price Discrimination: Charging Different Prices for the Same Product	558	17.4 Explaining Differences in Wages	592
Don't Let This Happen to You: Don't Confuse Price Discrimination with Other Types of Discrimination	558	Don't Let This Happen to You: Remember That Prices and Wages Are Determined at the Margin	594
The Requirements for Successful Price Discrimination	559	Making the Connection: Technology and the Earnings of "Superstars"	594
Solved Problem 16.2: How Apple Uses Price Discrimination to Increase Profits	560	Compensating Differentials	595
Airlines: The Kings of Price Discrimination	561	Discrimination	596
Making the Connection: How Colleges Use Yield Management	563	Solved Problem 17.4: Is Passing "Comparable Worth" Legislation a Good Way to Close the Gap between Men's and Women's Pay?	597
Perfect Price Discrimination	563	Making the Connection: Does Greg Have an Easier Time Finding a Job Than Jamal?	598
Price Discrimination across Time	565	Labor Unions	601
Can Price Discrimination Be Illegal?	565	17.5 Personnel Economics	602
Making the Connection: The Internet Leaves You Open to Price Discrimination	566	Should Workers' Pay Depend on How Much They Work or on How Much They Produce?	602
16.3 Other Pricing Strategies	567	Making the Connection: Raising Pay, Productivity, and Profits at Safelite AutoGlass	603
Odd Pricing: Why Is the Price \$2.99 Instead of \$3.00?	567	Other Considerations in Setting Compensation Systems	604
Why Do McDonald's and other Firms Use Cost-Plus Pricing?	568	17.6 The Markets for Capital and Natural Resources	604
Making the Connection: Cost-Plus Pricing in the Publishing Industry	569	The Market for Capital	604
Why Do Some Firms Use Two-Part Tariffs?	570	The Market for Natural Resources	605
Conclusion	573	Monopsony	606
		The Marginal Productivity Theory of Income Distribution	607
		Conclusion	607
PART 6: Labor Markets, Public Choice, and the Distribution of Income		Chapter 18: Public Choice, Taxes, and the Distribution of Income	616
Chapter 17: The Markets for Labor and Other Factors of Production	580	Should the Government Use the Tax System to Reduce Inequality?	617
Who Is Zack Greinke and Why Is He Being Paid \$147 Million?	581	18.1 Public Choice	618
17.1 The Demand for Labor	582	How Do We Know the Public Interest? Models of Voting	618
The Marginal Revenue Product of Labor	582	Government Failure?	620
Solved Problem 17.1: Hiring Decisions by a Firm That Is a Price Maker	584	Is Government Regulation Necessary?	622
The Market Demand Curve for Labor	585	18.2 The Tax System	622
Factors That Shift the Market Demand Curve for Labor	585	An Overview of the U.S. Tax System	623
17.2 The Supply of Labor	586	Progressive and Regressive Taxes	624
The Market Supply Curve of Labor	587	Making the Connection: Which Groups Pay the Most in Federal Taxes?	625
Factors That Shift the Market Supply Curve of Labor	588	Marginal and Average Income Tax Rates	625

The Corporate Income Tax	626	Showing the Income Distribution with a Lorenz Curve	637
International Comparison of Corporate Income Taxes	626	Problems in Measuring Poverty and the Distribution of Income	638
Evaluating Taxes	627	Solved Problem 18.4: Are Many People in the United States Stuck in Poverty?	640
18.3 Tax Incidence Revisited: The Effect of Price Elasticity	629	Income Distribution and Poverty around the World	641
Don't Let This Happen to You: Don't Confuse Who Pays a Tax with Who Bears the Burden of the Tax	629	Conclusion	642
Making the Connection: Do Corporations Really Bear the Burden of the Federal Corporate Income Tax?	630	Glossary	649
Solved Problem 18.3: The Effect of Price Elasticity on the Excess Burden of a Tax	631	Company Index	654
18.4 Income Distribution and Poverty	632	Subject Index	657
Measuring the Income Distribution and Poverty	632	Credits	669
Explaining Income Inequality	633	Chapter Features Chart	670
Making the Connection: What Explains the 1 Percent?	636		