Contents

A 1.2 Underlying Assumptions of the Ordinary Least Squares (OLS) Regression Model 26
A 1.3 Evaluation of OLS Regression Models 27
A 1.4 Point and Interval Estimates 34
A 1.5 Multiple Linear Regression 35

2 Characteristics of the Government and Private Nonprofit Sectors 38

2.1 Introduction 39
2.2 Property Rights 39
2.3 Public Goods 40
2.4 Types of Not-for-profit (NFP) Firm 43
Application 2.1 “Public or Private?” and “Going Public” 43
Application 2.2 Are State Universities Being Privatized? 45
Application 2.3 Philanthropy Panel Study on U.S. Household Contributions 47
Application 2.4 The British Broadcasting Corporation as an Example of Nationalization and Potential Privatization 51
2.5 Uniqueness of the Government and Nonprofit Sectors 52
2.6 External Differences 53
2.7 Internal Differences 55
2.8 Sources of Revenue 60
Application 2.5 Intergovernmental Mental Health Funding Affects Who Is Treated and How 61
Application 2.6 Budgeting When Pledges Don’t Show Up or Are Delayed 66
2.9 Grants versus Purchase of Service Contracting 68
2.10 Types of Expenditures 69
2.11 Interaction between Sectors 70
Concluding Notes 72
Key Terms 73
Suggested Readings 73
End of Chapter Exercises 74

Part II Consumer Theory and Public Goods 77

3 Demand and Supply 79

3.1 Introduction 79
3.2 Consumer Demand 80
3.3 Individual and Market Demand 82
3.4 Determinants of Demand 83
3.5 Supply 86
3.6 Firm and Market Supply 86
3.7 Determinants of Supply 88
3.8 Equilibrium of Demand and Supply 89
3.9 Price as a Rationing Device 91
3.10 Changes in Supply and/or Demand 93
   Application 3.1 Supply, Demand, and University Tuition 95
3.11 Consumer and Producer Surplus 96
3.12 Deadweight Loss and Economic Welfare 100
3.13 Price Controls 102
   Application 3.2 The Minimum Wage as a Price Floor 104
   Application 3.3 Santa Monica Rent Control 106
3.14 The Uniqueness of Demand for Public Goods 107
Concluding Notes 109
Key Terms 110
Suggested Readings 111
End of Chapter Exercises 111

4 Estimating Client Choice 115
4.1 Introduction 116
4.2 Indifference Curves and Budget Constraints 116
4.3 Maximizing Utility 119
4.4 Sensitivity of Demand: Elasticity Concepts 122
4.5 Price Elasticity of Demand 122
   Application 4.1 Can Regression Analysis Help Fill the Football Stadium? 124
4.6 Demand, Price Elasticity, and Total Revenue 125
4.7 A Note on Price Elasticity of Supply 127
4.8 Income Elasticity of Demand 127
4.9 Cross-elasticity of Demand 128
4.10 Three Elasticity Applications in the NFP Sectors 129
4.11 Using Elasticities to Analyze Tax Burdens 130
4.12 Forecasting Clients and Revenue 133
4.13 Types of Forecasts 134
   Application 4.2 Forecasting Daily Demand for Natural Gas 136
4.14 Using Data to Estimate Client Demand and Revenue 136
   Application 4.3 Using Quantitative Analysis to Estimate Elasticity and Forecast Demand: A Study of Zoo and Aquarium Attendance 137
   Application 4.4 The Demand for Nurses 138
Concluding Notes 144
Key Terms 145
Suggested Readings 145
End of Chapter Exercises 146

5 Market Failure and Public Choice 151
5.1 Introduction 151
5.2 Characteristics of Market Failure 153
   Application 5.1 Making the Case for National Parks in Terms of Market Failure 153
Contents

5.3 Information Asymmetry 155
5.4 Market Externalities 156
5.5 Correcting Market Failure with Taxes and Subsidies 159
5.6 Correcting Market Failure with Not-for-profit Firms 160
   Application 5.2 A Case Study Based on Nonprofit and
   For-profit Hospital Treatment of Altruistic Administrators 164
5.7 Potential for Government and Nonprofit Failure 168
   Application 5.3 Defining Property Rights to Limit
   Externalities in Chinese State Owned Enterprises (SOEs) 171
5.8 Collective Decision-making and Public Choice 173
   Concluding Notes 178
   Key Terms 179
   Suggested Readings 179
   End of Chapter Exercises 180

Part III Production Theory and Public Administration 185

6 Production and Costs 187

6.1 Introduction 187
6.2 Modeling Production 188
6.3 A Production Function with One Variable Input 189
   Application 6.1 Substituting Capital for Labor at the Post Office 193
6.4 Three Stages of Production 195
6.5 Value to the Firm of Increased Inputs 196
6.6 Cost Theory 198
   Application 6.2 Quantitative Analysis Helps Allocate
   Overhead per Job 198
   Application 6.3 Government Competitive Sourcing:
   Minimum Costs versus Best Values 202
6.7 Costs in the Short Run 207
6.8 Costs in the Long Run 215
6.9 Using Quantitative Analysis to Estimate Cost Functions 217
6.10 The Cost Disease 218
   Concluding Notes 219
   Key Terms 220
   Suggested Readings 220
   End of Chapter Exercises 221

7 Market Structure in Government and Nonprofit Industries 225

7.1 Introduction 225
7.2 The Role of Competition in the Government and
   Nonprofit Sectors 227
   Application 7.1 Profit-seeking Competition in Higher Education 228
7.3 Perfect Competition in Not-for-profit Industries 230
   Application 7.2 Not All Nonprofits Survive: Some Merge 239