# Contents

<table>
<thead>
<tr>
<th>Contents</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Publishing</td>
<td>xv</td>
</tr>
<tr>
<td>Preface</td>
<td>xvi</td>
</tr>
<tr>
<td>Student Resources Flowchart</td>
<td>xx</td>
</tr>
<tr>
<td>Lecturer Resources Flowchart</td>
<td>xxi</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>xxii</td>
</tr>
<tr>
<td>Publisher's Acknowledgements</td>
<td>xxiii</td>
</tr>
</tbody>
</table>

## Part A  INTRODUCTION

### Why Economics is Good for You
- What is economics?  
- Puzzles and stories  
- Applying the principles

### 1 Economics and Economies
- 1.1 What do economists study?  
- 1.2 Different economic systems  
- 1.3 The nature of economic reasoning

### Boxes
- 1.1 What's the latest economics news?  
- 1.2 Looking at macroeconomic data  
- 1.3 The opportunity costs of studying  
- 1.4 Scarcity and abundance  
- 1.5 Command economies  
- 1.6 Adam Smith (1723-90)  
- 1.7 Ceteris paribus

## Part B  FOUNDATIONS OF MICROECONOMICS

### 2 Supply and Demand
- 2.1 Demand  
- 2.2 Supply  
- 2.3 Price and output determination  
- 2.4 The control of prices

### Boxes
- 2.1 The demand for lamb  
- 2.2 UK house prices

### 2.3 Stock market prices  
### 2.4 Underground (or shadow) markets

## Part C  MICROECONOMIC THEORY

### 4 Background to Demand
- 4.1 Marginal utility theory
- 4.2 Indifference analysis
- 4.3 Demand under conditions of risk and uncertainty
- 4.4 Behavioural economics

### Boxes
- 4.1 Using calculus to derive a marginal utility function
- 4.2 The marginal utility revolution: Jevons, Menger, Walras
- 4.3 Taking account of time
- 4.4 Love and caring
- 4.5 Consumer theory: a further approach
- 4.6 Problems with insurance markets
- 4.7 Nudging people
- 4.8 Is economics the study of selfish behaviour?

### 5 Background to Supply
- 5.1 The short-run theory of production
- 5.2 Costs in the short run
CONTENTS

5.3 The long-run theory of production 144
5.4 Costs in the long run 154
5.5 Revenue 158
5.6 Profit maximisation 162

Boxes
5.1 Malthus and the dismal science of economics 134
5.2 Diminishing returns in the bread shop 137
5.3 The relationship between averages and marginals 138
5.4 The relationship between TPP, MPP and APP 138
5.5 The fallacy of using historic costs 140
5.6 Cost curves in practice 143
5.7 The Cobb-Douglas production function 149
5.8 Minimum efficient scale 156
5.9 Using calculus to find the maximum profit output 165
5.10 The logic of logistics 167

6 Profit Maximising under Perfect Competition and Monopoly 170
6.1 Alternative market structures 171
6.2 Perfect competition 172
6.3 Monopoly 181
6.4 The theory of contestable markets 188

Boxes
6.1 Concentration ratios 173
6.2 Is perfect best? 174
6.3 E-commerce and market structure 178
6.4 Breaking Sky’s monopoly on live football coverage 185
6.5 X inefficiency 186
6.6 Cut-throat competition 187
6.7 Airline deregulation in the USA and Europe 190

7 Profit Maximising under Imperfect Competition 193
7.1 Monopolistic competition 194
7.2 Oligopoly 197
7.3 Game theory 209
7.4 Price discrimination 214

Boxes
7.1 Selling ice cream as a student 195
7.2 Increasing concentration 199
7.3 OPEC 202
7.4 Buying power 208
7.5 The prisoners’ dilemma 211
7.6 What’s the train fare to London? 215
7.7 Peak-load pricing 215
7.8 Just the ticket? 218

8 Alternative Theories of the Firm 221
8.1 Problems with traditional theory 222
8.2 Behavioural theories 224
8.3 Alternative maximising theories 228
8.4 Multiple aims 238
8.5 Pricing in practice 240

Boxes
8.1 What do you maximise? 223
8.2 The US sub-prime housing crisis 226
8.3 When is a theory not a theory? 228
8.4 Enron 234
8.5 Merger activity 236
8.6 Stakeholder power? 238
8.7 How do companies set prices? 242
8.8 How firms increase profits by understanding ‘irrational’ consumers 244

9 The Theory of Distribution of Income 246
9.1 Wage determination under perfect competition 247
9.2 Wage determination in imperfect markets 256
9.3 Capital and profit 268
9.4 Land and rent 278

Boxes
9.1 Labour as a factor of production 248
9.2 Using indifference curve analysis to derive the individual’s supply curve of labour 250
9.3 Immigration and the UK labour market 251
9.4 Life at the mill 257
9.5 The rise and decline of the labour movement in the UK 260
9.6 How useful is marginal productivity theory? 261
9.7 Equal pay for equal work? 262
9.8 Flexible labour markets and the flexible firm 264
9.9 Behaviour at work 266
9.10 Stocks and flows 271
9.11 The economics of non-renewable resources 280

Part D MICROECONOMIC POLICY

10 Inequality, Poverty and Policies to Redistribute Income 284
10.1 Inequality and poverty 285
10.2 Taxes, benefits and the redistribution of income 296

Boxes
10.1 Poverty in the past 293
10.2 Minimum wage legislation 295
10.3 The Laffer curve 303
10.4 Tax cuts and incentives 304
10.5 UK tax credits 309
10.6 Reducing inequality 310
10.7 What the future holds 311

11 Markets, Efficiency and the Public Interest 314
11.1 Efficiency under perfect competition 315
11.2 The case for government intervention 323
11.3 Forms of government intervention 333
11.4 Cost–benefit analysis 340
11.5 Government failure and the case for the market 348