CONTENTS

PREFACE  VIII

PART 1: THE ECONOMIC CHALLENGE

CHAPTER 1: ECONOMICS: THE CORE ISSUES  2
The Economy Is Us  3
Scarcity: The Core Problem  4
Opportunity Costs  6
Production Possibilities  7
Three Basic Decisions  12
The Mechanisms of Choice  13
What Economics Is All About  18
Summary  21
Appendix: Using Graphs  22

THE ECONOMY TOMORROW:
Harnessing the Sun  20

IN THE NEWS
Jobless Workers Outnumber Manufacturing Workers  11

WORLD VIEW
Chronic Food Shortage Shows Despite Efforts
by North Korea to Hide It  10
Rocket Launch Cost Enough to End Famine
in North Korea for a Year  10
Market Reliance vs. Government Reliance?  15
Index of Economic Freedom  16

CHAPTER 2: THE U.S. ECONOMY:
A GLOBAL VIEW  30
What America Produces  31
How America Produces  35
For Whom America Produces  38
Summary  41

THE ECONOMY TOMORROW:
Ending Global Poverty  41

WORLD VIEW
Comparative Output (GDP)  31
GDP per Capita around the World  32
The Education Gap between Rich and
Poor Nations  35
Income Share of the Rich  40

CHAPTER 3: SUPPLY AND DEMAND  45
Market Participants  46
The Circular Flow  47
Demand  48
Supply  54
Equilibrium  59
Market Outcomes  63
Summary  66

THE ECONOMY TOMORROW:
Deadly Shortages: The Organ Transplant
Market  64

IN THE NEWS
Walmart Slashes Galaxy S4 Prices  51
Seafood Prices Rise after BP Oil Spill  58
The Real March Madness: Ticket Prices  61

WORLD VIEW
Downed Malaysian Jet Causes Oil Spike  63

CHAPTER 4: THE ROLE OF GOVERNMENT  70
Market Failure  71
Growth of Government  78
Taxation  80
Government Failure  83
Summary  86

THE ECONOMY TOMORROW:
“Right”-Sizing Government?  84

IN THE NEWS
Firefighters Watch as Home Burns to
the Ground  73
Perpetuating Poverty: Lotteries Prey
on the Poor  82
Persistent Doubts about Government
Waste  84

WORLD VIEW
Israel’s “Iron Dome” Frustrates Hamas  71
Secondhand Smoke Kills 600,000 People
a Year  75

PART 2: PRODUCT MARKETS:
THE BASICS

CHAPTER 5: CONSUMER CHOICE  92
Determinants of Demand  93
The Demand Curve  95
Market Demand  99
Consumer Surplus  99
THE ECONOMY TOMORROW:
Microsoft and Google: Bullies or Geniuses?  230

IN THE NEWS
Live Nation and Ticketmaster Announce
   Merger Agreement  221
U.S. Sues over Drug’s Price Hike  223
Ticketmaster Rolls Out “Dynamic” Pricing  224
Intel’s Concessions Settle Antitrust Suit  226
Jury Awards $26 Million for Suppressed
   Technology  227
US FTC Enables Boeing–Lockheed ‘Monopoly’  228
A Sirius Mistake? FCC Approves XM–Sirius Merger  229
Feds Probe Google Dominance  233

WORLD VIEW
Russia’s Sable Monopoly Persists  216

CHAPTER 11: OLIGOPOLY  237
Market Structure  238
Oligopoly Behavior  241
The Kinked Demand Curve  245
Game Theory  247
Oligopoly vs. Competition  249
Coordination Problems  251
Barriers to Entry  253
Summary  259

THE ECONOMY TOMORROW:
Antitrust Enforcement  256

IN THE NEWS
Pop Culture: RC Goes for the Youth Market  244
Major Airlines Match Southwest’s Fare Cuts  246
Major U.S. Airlines Roll Back Latest Fare Hike  246
Coke and Pepsi May Call Off Pricing Battle  249
Eliminating the Competition with Low Prices  253
Frito-Lay Eats Up Snack-Food Business  254
Joe Camel Acquires Newport  255

WORLD VIEW
Putting Size in Global Perspective  241
OPEC Agrees to Maintain Its Oil Output Ceiling at
   30 Million Barrels per Day  250

CHAPTER 12: MONOPOLISTIC COMPETITION  284
Structure  265
Behavior  267
Summary  275

THE ECONOMY TOMORROW:
No Cease-Fire in Advertising Wars  273

IN THE NEWS
What’s Behind Starbucks’ Price Hike?  266
Selling “Pure Water”: A $Billion Scam?  268
Fast-Food Rivals Suit Up for Breakfast War  269
Premium Coffee Shops May Be Nearing
   Saturation Point  272
The Cola Wars: It’s Not All Taste  273

WORLD VIEW
The Best Global Brands  275

PART 4: REGULATORY ISSUES
CHAPTER 13: NATURAL MONOPOLIES:
(DE)REGULATION?  280
Antitrust vs. Regulation  281
Natural Monopoly  281
Regulatory Options  283
The Costs of Regulation  286
Deregulation in Practice  289
Summary  296

THE ECONOMY TOMORROW:
Deregulate Everything?  295

IN THE NEWS
Sleep Rules Raise Trucking Costs  288
The JetBlue Effect  292
Financial Woes Heating Up  295

CHAPTER 14: ENVIRONMENTAL
PROTECTION  300
The Environmental Threat  301
Pollution Damages  303
Market Incentives  304
Market Failure: External Costs  306
Regulatory Options  309
Balancing Benefits and Costs  313
Summary  318

THE ECONOMY TOMORROW:
Capping CO₂ Emissions  317

IN THE NEWS
Kaua’i Beach among Most Polluted  302
Air Pollution Kills  304
Cut the Power to Save the Fish?  306
White House Report Says Benefits of EPA Rules Far
   Outweigh Costs  314
Recycling Wastes Money  315
New Rules Would Cut Thousands of Coal Jobs  316
A “War on Coal”?  318
WORLD VIEW
Polluted Cities 301
Paying to Pollute 312

CHAPTER 15: THE FARM PROBLEM 322
Destabilizing Forces 323
The First Farm Depression, 1920–1940 326
U.S. Farm Policy 327
The Second Farm Depression, 1980–1986 332
Summary 335

THE ECONOMY TOMORROW:
Farmers on the Dole 333

IN THE NEWS
Com Acres Expected to Soar in 2007; USDA Says
Ethanol, Export Demand Lead to Largest Planted Area
in 63 Years 326
Farm Subsidies Ripe for Reform 335

WORLD VIEW
EU Farm Subsidies 330

PART 5: FACTOR MARKETS:
BASIC THEORY
CHAPTER 16: THE LABOR MARKET 340
Labor Supply 341
Market Supply 344
Labor Demand 345
A Firm’s Hiring Decision 350
Market Equilibrium 353
Choosing among Inputs 355
Summary 359

THE ECONOMY TOMORROW:
Capping CEO Pay 358

IN THE NEWS
More Than 1,000 Line Up at A.C. Job Fair 341
Challenging Work and Corporate Responsibility Will Lure
MBA Grads 342
Marlins Sign Stanton to Record $325 Million
Contract 351
Obama Calls for $10.10 Minimum Wage 355

WORLD VIEW
Your Money or Your Life 344

CHAPTER 17: LABOR UNIONS 364
The Labor Market 365
Labor Unions 366
The Potential Use of Power 367
The Extent of Union Power 370
Employer Power 372
Collective Bargaining 376
The Impact of Unions 379
Summary 381

THE ECONOMY TOMORROW:
Merging to Survive 381

IN THE NEWS
The GM–UAW Deal 367
A Win for the Graduate(s) 373
Judge Rejects Deal to Settle Silicon Valley Hiring
Collusion Case 374
Caterpillar vs. the UAW 377

WORLD VIEW
Union Membership 371
Walmart Shuts Quebec Store as Union Closes In 378

CHAPTER 18: FINANCIAL MARKETS 385
The Role of Financial Markets 386
The Present Value of Future Profits 387
The Stock Market 391
The Bond Market 397
Summary 401

THE ECONOMY TOMORROW:
Venture Capitalists—Financing Tomorrow’s
Products 400

IN THE NEWS
Alibaba IPO Sets Record 393
Where Do Start-Ups Get Their Money? 401

PART 6: DISTRIBUTIONAL ISSUES
CHAPTER 19: TAXES: EQUITY VERSUS
EFFICIENCY 406
What Is Income? 407
The Size Distribution of Income 407
The Federal Income Tax 409
Payroll, State, and Local Taxes 415
Taxes and Inequality 417
What Is Fair? 418
Summary 421

THE ECONOMY TOMORROW:
A Flat Tax? 420

IN THE NEWS
The Obamas’ Taxes 413