

MICROECONOMICS



DARON ACEMOGLU | DAVID LAIBSON | JOHN A. LIST



Third Edition Global Edition

MICROECONOMICS

Microeconomics, Global Edition

Table of Contents

\sim				
(;	0	V	16	ŗ

Half Title

Title Page

Copyright

Dedication

About the Authors

Brief Contents

Contents

Preface

Acknowledgments

Global Edition Acknowledgments

Microeconomics: Flexibility Chart

Part I: Introduction to Economics

Chapter 1: The Principles and Practice of Economics

1.1 The Scope of Economics

Economic Agents and Economic Resources

Definition of Economics

Positive Economics and Normative Economics

Microeconomics and Macroeconomics

- 1.2 Three Principles of Economics
- 1.3 The First Principle of Economics: Optimization

Trade-offs and Budget Constraints

Opportunity Cost

Cost-Benefit Analysis

Evidence-Based Economics: Is Facebook free?

1.4 The Second Principle of Economics: Equilibrium

The Free-Rider Problem

- 1.5 The Third Principle of Economics: Empiricism
- 1.6 Is Economics Good for You?

Summary

Key Terms



Ωı	iest	io	ns

Evidence-Based Economics Problems

Problems

Chapter 2: Economic Science: Using Data and Models to Understand the World

2.1 The Scientific Method

Models and Data

An Economic Model

Evidence-Based Economics: How much more does a worker with a 4-year college degree earn compared to a worker with a high school degree?

Means and Medians

Argument by Anecdote

2.2 Causation and Correlation

The Red Ad Blues

Causation Versus Correlation

Choice & Consequence: Spend Now and Pay Later?

Experimental Economics and Natural Experiments

Evidence-Based Economics: What is the return to education?

2.3 Economic Questions and Answers

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Appendix: Constructing and Interpreting Charts and Graphs

A Study about Incentives

Experimental Design

Describing Variables

Cause and Effect

Appendix Key Terms

Appendix Problems

Chapter 3: Optimization: Trying to Do the Best You Can

3.1 Optimization: Trying to Choose the Best Feasible Option

Choice & Consequence: Do People Actually Choose the Best Feasible Option?

3.2 Optimization Application: Renting the Optimal Apartment

Before and After Comparisons

3.3 Optimization Using Marginal Analysis

Marginal Cost

Evidence-Based Economics: How does location affect the rental cost of housing?

Summary

Key Terms



Questions

Evidence-Based Economics Problems

Problems

Chapter 4: Demand, Supply, and Equilibrium

4.1 Markets

Competitive Markets

4.2 How Do Buyers Behave?

Demand Curves

Willingness to Pay

From Individual Demand Curves to Aggregated Demand Curves

Building the Market Demand Curve

Shifting the Demand Curve

Evidence-Based Economics: How much more gasoline would people buy if its price were lower?

4.3 How Do Sellers Behave?

Supply Curves

Willingness to Accept

From the Individual Supply Curve to the Market Supply Curve

Shifting the Supply Curve

4.4 Supply and Demand in Equilibrium

Curve Shifting in Competitive Equilibrium

Letting The Data Speak: Technological Breakthroughs Drive Down the Equilibrium Price of Oil

Letting The Data Speak: The Day Oil Became Garbage

4.5 What Would Happen If the Government Tried to Dictate the Price of Gasoline?

Choice & Consequence: The Unintended Consequences of Fixing Market Prices

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Part II: Foundations of Microeconomics

Chapter 5: Consumers and Incentives

5.1 The Buyer's Problem

What You Like

Prices of Goods and Services

How Much Money You Have to Spend

Choice & Consequence: Absolutes Versus Percentages

5.2 Putting It All Together

Price Changes

Letting The Data Speak: Does \$6 + \$1 Always = \$7?

Income Changes



5.3 From the Buyer's Problem to the Demand Curve

5.4 Consumer Surplus

An Empty Feeling: Loss in Consumer Surplus When Price Increases

Evidence-Based Economics: Would a smoker guit the habit for \$100 per month?

5.5 Demand Elasticities

The Price Elasticity of Demand

The Cross-Price Elasticity of Demand

The Income Elasticity of Demand

Letting The Data Speak: Should McDonald's Be Interested in Elasticities?

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Appendix: Representing Preferences with Indifference Curves: Another Use of the Budget

Constraint

Appendix Questions

Appendix Key Terms

Chapter 6: Sellers and Incentives

6.1 Sellers in a Perfectly Competitive Market

6.2 The Seller's Problem

Making the Goods: How Inputs Are Turned into Outputs

The Cost of Doing Business: Introducing Cost Curves

The Rewards of Doing Business: Introducing Revenue Curves

Putting It All Together: Using the Three Components to Do the Best You Can

Choice & Consequence: Maximizing Total Profit, Not Per-Unit Profit

6.3 From the Seller's Problem to the Supply Curve

Price Elasticity of Supply

Shutdown

Choice & Consequence: Marginal Decision Makers Ignore Sunk Costs

6.4 Producer Surplus

6.5 From the Short Run to the Long Run

Long-Run Supply Curve

Choice & Consequence: Visiting a Car Manufacturing Plant

6.6 From the Firm to the Market: Long-Run Competitive Equilibrium

Firm Entry

Firm Exit

Zero Profits in the Long Run

Economic Profit Versus Accounting Profit

Letting The Data Speak: The Effect of Uber Driver Entry in the Long Run

Evidence-Based Economics: How would an ethanol subsidy affect ethanol producers?



Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Appendix: When Firms Have Different Cost Structures

Chapter 7: Perfect Competition and the Invisible Hand

7.1 Perfect Competition and Efficiency

Social Surplus

Pareto Efficiency

- 7.2 Extending the Reach of the Invisible Hand: From the Individual to the Firm
- 7.3 Extending the Reach of the Invisible Hand: Allocation of Resources Across Industries

Letting The Data Speak: Adam Smith Visits the White House

7.4 Prices Guide the Invisible Hand

Deadweight Loss

Evidence-Based Economics: Do companies like Uber make use of the invisible hand?

The Command Economy

Choice & Consequence: FEMA and Walmart After Katrina

The Central Planner

Choice & Consequence: Command and Control at Kmart

7.5 Equity and Efficiency

Evidence-Based Economics: Can markets composed of only self-interested people maximize the overall well-being of society?

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 8: Trade

8.1 The Production Possibilities Curve

Calculating Opportunity Cost

8.2 The Basis for Trade: Comparative Advantage

Specialization

Absolute Advantage

Choice & Consequence: An Experiment on Comparative Advantage

The Price of the Trade

8.3 Trade Between States

Choice & Consequence: Should LeBron James Paint His Own House?

Economy-Wide PPC



Comparative Advantage and Specialization Among States

8.4 Trade Between Countries

Determinants of Trade Between Countries

Exporting Nations: Winners and Losers

Letting The Data Speak: Fair Trade Products

Importing Nations: Winners and Losers Where Do World Prices Come From?

Determinants of a Country's Comparative Advantage

8.5 Arguments Against Free Trade

National Security Concerns

Fear of Globalization

Environmental and Resource Concerns

Infant Industry Arguments

The Effects of Tariffs

Choice & Consequence: Tariffs Affect Trade Between Firms

Evidence-Based Economics: Will free trade cause you to lose your job?

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 9: Externalities and Public Goods

9.1 Externalities

A Broken Invisible Hand: Negative Externalities
A Broken Invisible Hand: Positive Externalities

Pecuniary Externalities

Choice & Consequence: Coronavirus Vaccination: Positive Externalities in Spots You Never Imagined

9.2 Private Solutions to Externalities

Private Solution: Bargaining

The Coase Theorem

Private Solution: Doing the Right Thing

9.3 Government Solutions to Externalities

Government Regulation: Command-and-Control Policies

Evidence-Based Economics: How did the government lower the number of earthquakes in Oklahoma?

Government Regulation: Market-Based Approaches

Corrective Taxes

Corrective Subsidies

Letting The Data Speak: How to Value Externalities

Letting The Data Speak: Pay as You Throw: Consumers Create Negative Externalities Too!

9.4 Public Goods

Government Provision of Public Goods



Choice & Consequence: The Free-Rider's Dilemma

Private Provision of Public Goods

9.5 Common Pool Resource Goods

Choice & Consequence: Tragedy of the Commons

Choice & Consequence: The Race to Fish

Evidence-Based Economics: How can the Queen of England lower her commute time to Wembley Stadium?

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 10: The Government in the Economy: Taxation and Regulation

10.1 Taxation and Government Spending in the United States

Where Does the Money Come From?

Why Does the Government Tax and Spend?

Choice & Consequence: The Government Budget Constraint
Letting The Data Speak: Understanding Federal Income Tax Brackets

Letting The Data Speak: Reducing Inequality the Scandinavian Way

Taxation: Tax Incidence and Deadweight Losses

Choice & Consequence: The Deadweight Loss Depends on the Tax

10.2 Regulation

Direct Regulation

10.3 Government Failures

The Direct Costs of Bureaucracies

Corruption

Underground Economy

Choice & Consequence: Can Market Regulation Save Rhinos from Extinction?

10.4 Equity Versus Efficiency

10.5 Consumer Sovereignty and Paternalism

The Debate

Evidence-Based Economics: What is the optimal size of government?

Letting The Data Speak: The Efficiency of Government Versus Privately Run Expeditions

Choice & Consequence: Taxation and Innovation

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 11: Markets for Factors of Production

11.1 The Competitive Labor Market



The Demand for Labor

11.2 The Supply of Labor: Your Labor- Leisure Trade-Off

Labor Market Equilibrium: Supply Meets Demand

Labor Demand Shifters

Choice & Consequence: Producing Web Sites and Computer Programs

Letting the Data Speak: Get Your Hot Dogs Here!

Factors That Shift Labor Supply

Letting The Data Speak: Do Wages Really Go Down If Labor Supply Increases?

11.3 Wage Inequality

Differences in Human Capital

Differences in Compensating Wage Differentials

Choice & Consequence: Paying for Worker Training

Discrimination in the Job Market

Changes in Wage Inequality over Time

Choice & Consequence: Compensating Wage Differentials

Letting The Data Speak: Broadband and Inequality

11.4 The Market for Other Factors of Production: Physical Capital and Land

Letting The Data Speak: The Top 1 Percent Share and Capital Income

Evidence-Based Economics: Is there discrimination in the labor market?

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Appendix: Monopsony in the Labor Market

Part III: Market Structure

Chapter 12: Monopoly

12.1 Introducing a New Market Structure

12.2 Sources of Market Power

Legal Market Power

Natural Market Power

Control of Key Resources

Choice & Consequence: Barriers to Entry Lurk Everywhere

Economies of Scale

12.3 The Monopolist's Problem

Revenue Curves

Price, Marginal Revenue, and Total Revenue

12.4 Choosing the Optimal Quantity and Price

Producing the Optimal Quantity

Setting the Optimal Price

How a Monopolist Calculates Profits



Does a Monopoly Have a Supply Curve?

12.5 The Broken Invisible Hand: The Cost of Monopoly

12.6 Restoring Efficiency

Three Degrees of Price Discrimination

Letting The Data Speak: Third-Degree Price Discrimination in Action

12.7 Government Policy Toward Monopoly

The Microsoft Case

Price Regulation

Evidence-Based Economics: Can a monopoly ever be good for society?

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 13: Game Theory and Strategic Play

13.1 Simultaneous-Move Games

Best Responses and the Prisoners' Dilemma

Dominant Strategies and Dominant Strategy Equilibrium

Games without Dominant Strategies

13.2 Nash Equilibrium

Finding a Nash Equilibrium

Choice & Consequence: Work or Surf?

13.3 Applications of Nash Equilibria

Tragedy of the Commons Revisited

Zero-Sum Games

13.4 How Do People Actually Play Such Games?

Game Theory in Penalty Kicks

Evidence-Based Economics: Is there value in putting yourself in someone else's shoes?

13.5 Extensive-Form Games

Backward Induction

First-Mover Advantage, Commitment, and Vengeance

Evidence-Based Economics: Is there value in putting yourself in someone else's shoes in extensive-form games?

Choice & Consequence: There Is More to Life Than Money

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 14: Oligopoly and Monopolistic Competition



14.1 Two More Market Structures

14.2 Oligopoly

The Oligopolist's Problem

Oligopoly Model with Homogeneous Products

Doing the Best You Can: How Should You Price to Maximize Profits?

Oligopoly Model with Differentiated Products

Letting The Data Speak: Airline Price Wars

Collusion: Another Way to Keep Prices High

Letting The Data Speak: Apple Versus Samsung

Letting The Data Speak: To Cheat or Not to Cheat: That Is the Question

Choice & Consequence: Collusion in Practice

14.3 Monopolistic Competition

The Monopolistic Competitor's Problem

Doing the Best You Can: How a Monopolistic Competitor Maximizes Profits

Letting The Data Speak: Why Do Some Firms Advertise and Some Don't?

How a Monopolistic Competitor Calculates Profits

Long-Run Equilibrium in a Monopolistically Competitive Industry

14.4 The Broken Invisible Hand

Regulating Market Power

14.5 Summing Up: Four Market Structures

Letting the Podcast Speak: A Surprising Duopoly: Democrats and Republicans

Evidence-Based Economics: How many firms are necessary to make a market competitive?

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Part IV: Extending the Microeconomic Toolbox

Chapter 15: Trade-offs Involving Time and Risk

15.1 Modeling Time and Risk

15.2 The Time Value of Money

Future Value and the Compounding of Interest

Borrowing Versus Lending

Present Value and Discounting

15.3 Time Preferences

Time Discounting

Preference Reversals

Choice & Consequence: Failing to Anticipate Preference Reversals

Evidence-Based Economics: Do people exhibit a preference for immediate gratification?

15.4 Probability and Risk



Roulette Wheels and Probabilities

Independence and the Gambler's Fallacy

Letting The Data Speak: Roulette Wheels and Elections

Expected Value

Extended Warranties

Choice & Consequence: Is Gambling Worthwhile?

15.5 Risk Preferences

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 16: The Economics of Information

16.1 Asymmetric Information

Hidden Characteristics: Adverse Selection in the Used Car Market

Hidden Characteristics: Adverse Selection in the Health Insurance Market

Market Solutions to Adverse Selection: Signaling

Choice & Consequence: Are You Earning a Signal Right Now?

Evidence-Based Economics: Why do new cars lose considerable value the minute they are driven off the lot?

Choice & Consequence: A Tale of a Tail

16.2 Hidden Actions: Markets with Moral Hazard

Letting The Data Speak: Moral Hazard on Your Bike

Market Solutions to Moral Hazard in the Labor Market: Efficiency Wages

Letting the Podcast Speak: Tackling Adverse Selection and Moral Hazard in the Workplace

Market Solutions to Moral Hazard in the Insurance Market: "Putting Your Skin in the Game"

Letting The Data Speak: Designing Incentives for Teachers

Evidence-Based Economics: Why is private health insurance so expensive?

16.3 Government Policy in a World of Asymmetric Information

Government Intervention and Moral Hazard

The Equity-Efficiency Trade-off

Crime and Punishment as a PrincipallAgent Problem

Letting The Data Speak: Moral Hazard Among Job Seekers

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 17: Auctions and Bargaining

17.1 Auctions

Types of Auctions

Open Outcry: English Auctions



Letting The Data Speak: To Snipe or Not to Snipe?

Open Outcry: Dutch Auctions
Sealed Bid: First-Price Auctions
Sealed Bid: Second-Price Auctions
The Revenue Equivalence Theorem

Evidence-Based Economics: How should you bid in an eBay auction?

17.2 Bargaining

What Determines Bargaining Outcomes?
Bargaining in Action: The Ultimatum Game

Bargaining and the Coase Theorem

Evidence-Based Economics: Who determines how the household spends its money?

Letting The Data Speak: Sex Ratios Change Bargaining Power Too

Summary

Key Terms

Questions

Evidence-Based Economics Problems

Problems

Chapter 18: Social Economics

18.1 The Economics of Charity and Fairness

The Economics of Charity

Letting The Data Speak: Do People Donate Less When It's Costlier to Give?

Letting The Data Speak: Why Do People Give to Charity?

The Economics of Fairness

Letting The Data Speak: Dictators in the Lab

Evidence-Based Economics: Do people care about fairness?

18.2 The Economics of Trust and Revenge

The Economics of Trust

The Economics of Revenge

Choice & Consequence: Does Revenge Have an Evolutionary Logic?

Letting the Podcast Speak: Sorry! I Should Apologize, but How?

18.3 How Others Influence Our Decisions

Where Do Our Preferences Come From?

The Economics of Peer Effects

Letting The Data Speak: Is Economics Bad for You?

Following the Crowd: Herding

Letting The Data Speak: Your Peers Affect Your Waistline Choice & Consequence: Are You an Internet Explorer?

Summary

Key Terms

Questions

Evidence-Based Economics Problems



Problems

Endnotes

Glossary

Credits

Index