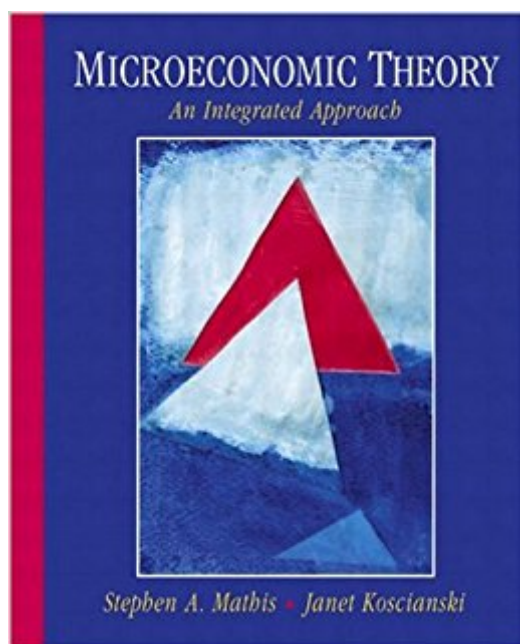


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# Microeconomic Theory: An Integrated Approach



## Synopsis

This book, which focuses on the fundamentals of microeconomic theory, presents an integrated approach to solving decision-making problems. Concepts are developed by using several tools: words, graphs, mathematics, and real-world examples; this allows the reader to solve many models and problems by forming actual numerical solutions, providing an understanding of the underlying principles these solutions represent. The book is organized into 6 broad-based topical areas: a review of basic calculus techniques, including univariate and multivariate functions; theory of the consumer, including utility theory, consumer optimization, market demand curves, and demand related elasticities; theory of the firm, including short and long run production; market structures, including perfect competition, monopoly, and oligopoly; input markets, including demand for and supply of labor, and capital markets; and general equilibrium analysis. For those needing to analyze decision-making processes of their business, including agents, consumers, entrepreneurs, suppliers of resources, investors, and policy-makers.

## Book Information

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**MAKING THE CONNECTION with Concepts, Math, and Graphs!** You won't find detached mathematical explanations buried in the footnotes or appendices in this text! **Microeconomic Theory: An Integrated Approach** gets right to the heart of microeconomic theory by integrating broad-based fundamental principles with basic calculus and real world applications. The authors have paid extraordinary attention to presenting theoretical microeconomic concepts with words,

graphs, mathematics, and real world examples. Each method of presentation is carefully developed and closely coordinated with the others. Key concepts are first developed on an intuitive level. They are then demonstrated with vivid mathematical and graphical examples (with solutions). Finally, real world examples show the application of theory. This Integrated Approach will highlight the broad applicability of microeconomics to a wide range of decision-making problems.

Microeconomic theory is one of the most important courses taken by economics and business students. We base this contention on the fact that microeconomics consists of analyzing the rational decision-making processes of many types of agents, including consumers, entrepreneurs, suppliers of resources, investors, and even government policy makers. This broad applicability of microeconomics to many types of decision-making problems endows this subject with special significance. Although many of the details associated with specific problems are supplied by other subject areas, microeconomics provides the framework and techniques for solving these problems. For this reason, the approach we use to present microeconomics focuses on constructing and analyzing fundamental models. By emphasizing broad-based underlying principles, students can analyze a wider variety of real-world problems than is possible by using an approach that dwells on overly specific microeconomic problem or puzzles. A full and broad understanding of microeconomics is greatly facilitated by applying several tools of analysis. Accordingly, we develop concepts using verbal intuition, graphics, and calculus, carefully integrating these facets of microeconomic analysis throughout our text. Both the focus on fundamental principles and the integration of basic calculus throughout the text distinguish our approach from so many others. We bring in the calculus, not to complicate the analysis, but rather to simplify it. Using basic tools of calculus, we are able to demonstrate to students how to solve many models and problems by generating actual numerical solutions. We believe this approach is much more effective than merely presenting concepts in a survey manner. Furthermore, we demonstrate how calculus reinforces the graphical analysis, and in so doing, we can help students understand what the graphical solutions actually represent. It has been our experience that, without the underlying mathematics, students often view graphs as mere pictures to be memorized. Students need only a basic understanding of differential calculus in order to use this text. As we have observed over the years, most students have little difficulty performing basic calculus operations. Rather, their difficulty often lies in synchronizing not only the calculus, but also the graphics, with specific microeconomic concepts. We believe we have solved this problem by integrating calculus throughout the text, directly connecting it with each microeconomic concept, rather than presenting it in detached appendices or

footnotes. **AUDIENCE** The basic concepts covered in this text are central both to a course in intermediate microeconomics and to first-year graduate courses for MBA or master's-level economics programs. To give professors some flexibility regarding the level at which some material is covered, we have placed the dagger symbol before those sections that contain advanced analyses. Students should already be familiar with many of the basic principles covered in our text, for they are common to all levels of microeconomic theory. In this text, we often ask readers to recall certain material from their principles of microeconomics course, with the expressed intent to remind students of key concepts covered in their introductory microeconomics course which we examine at a higher analytical level in this book. **AN INTEGRATED APPROACH** We have subtitled our book "An Integrated Approach" to signal our extraordinary attention to presenting theoretical microeconomic concepts with words, graphs, mathematics, and real-world examples. Each method of presentation is carefully and closely coordinated with the others. By its very nature, mathematics is a very succinct and precise means of expressing economic concepts. Accordingly, we have made extensive use of calculus throughout this text in order to demonstrate to students that mathematics can actually simplify the way they express microeconomic theories and solve economic problems. To ensure that students truly comprehend the topics in our text, we include several numerical examples in each chapter and solve them step by step. Our book encourages students to get "down and dirty" with microeconomic theory by motivating them to sit down with pencil and paper and solve real microeconomic problems. Through these problems students can immediately test their understanding of key topics, since they can check their answers with the solutions appearing in the text. We also include numerous real-world applications in an effort to relate the microeconomic concepts we cover in the text to actual events. These applications are based on articles published in a variety of well-known business and economics publications such as The Wall Street Journal, The Economist, Business Week, and Fortune. Finally, throughout this text we make frequent references to topics we covered in previous sections or chapters. By doing so, we establish cross-references of important, interrelated topics as they are developed. We believe this process helps the reader to get the "big picture" and thereby avoid seeing the chapters as separate, unrelated entities. These cross-references also facilitate the student's ability to return to specific sections and review prerequisite concepts when necessary. Throughout this book, key terms are presented in bold when they are first introduced. They are also listed with their page references at the end of each chapter, as well as in the Glossary at the end of the book. **ORGANIZATION** We have broadly divided the topics covered in this text into six major areas: preliminary mathematical techniques, theory of the consumer, theory of the firm, market structures, input markets, and

general equilibrium analysis. Specifically, in Chapters 1 and 2 we develop the essential mathematical tools used throughout this book. In Chapter 1 we review the rules of derivatives for both univariate and multivariate functions, and we develop the method for optimizing univariate functions. In Chapter 2 we expand our discussion of optimization, focusing on unconstrained and constrained optimization of multivariate functions. We also carefully develop the Lagrangian multiplier method and demonstrate its use in modeling rational decision making by consumers and firms in the presence of constraints. Following this mathematical review, the next five chapters concentrate on the economic behavior of consumers. In Chapter 3 we establish the foundations of consumer choice by developing utility functions and the related concepts of marginal utility and indifference curves. In an appendix to Chapter 3 (available at the website for this text at [www.prenhall.com/mathis](http://www.prenhall.com/mathis) ), we modify the traditional consumer choice model to incorporate the effect of risk on the consumer's decision-making process. In Chapter 4 we extend our analysis of consumer theory by introducing the concept of a budget constraint. Using the Lagrangian multiplier method introduced in Chapter 2, we demonstrate how to solve the consumer's constrained utility maximization problem both mathematically and graphically. In Chapter 5 we use the results of this process to establish relationships between the quantity demanded of a good and key economic variables such as the own-price of the good, the price of a related good, and the consumer's level of income. We further analyze these relationships in Chapter 6 where we derive the market demand curve for a good by aggregating the individual demand curves developed in Chapter 5. In Chapter 7 we examine the concept of elasticity and apply it to the market demand function in terms of own-price, cross-price, and income elasticities of demand. In addition to discussing the theoretical, graphical, and mathematical analyses of elasticity, we also explore a variety of real-world applications of elasticity measures. A major change in topics occurs in Chapter 8; in this and the following four chapters, we develop the theory of the firm. Initially, we examine the behavior of the firm from a short-run perspective by introducing a production function containing only one variable input. In Chapter 9 we relax this assumption by allowing all inputs used by the firm in the production of its output to vary, thereby shifting the analysis of firm behavior from a short-run to a long-run perspective. In Chapter 10 we apply the Lagrangian multiplier method to the theory of the firm to demonstrate how constrained optimization techniques can be applied to various production decisions faced by profit-maximizing firms. The concepts comprising production theory, in both the short run and the long run, provide the foundation for analyzing firm's costs of production in these distinct time periods. After we establish the critical connections between production theory and cost theory in Chapter 11, we direct our attention to the graphical and mathematical analysis of various

types of cost functions for firms operating in the long run. In Chapter 12, we derive several short-run costs of production and analyze the various interrelationships among these costs both within and across time periods. Beginning in Chapter 13 and continuing through Chapter 19, our attention shifts from the pure theory of the firm to the behavior of firms operating within various types of market structures. Specifically, in Chapter 13 we discuss the characteristics of perfectly competitive market structures and develop short-run models of perfectly competitive firm behavior. In Chapter 14 we direct our analysis to the behavior of perfectly competitive firms in the long run. We also analyze the performance results obtained from these models, regarding output, price, cost, and profit, for the individual firm and the market as a whole, and from a broader social perspective. In Chapter 15 we similarly analyze monopolistic market structures. This analysis is followed in Chapter 16 by our comparison of the economic performance results regarding price, output, cost, and profit associated with a monopolistic market to those obtained under perfectly competitive market conditions. In Chapter 17 we discuss oligopolistic market structures in terms of their specific firm and market characteristics, as well as their economic performance. We also analyze the traditional models of oligopoly using game theory in Chapter 18. We conclude our study of market structures in Chapter 19 with our analysis of monopolistic competition. After examining the behavior of firms within four distinct market structures, Chapters 20, 21, and 22 discuss input markets. Specifically, we analyze labor and capital markets, focusing on the derivation of market supply and demand curves for both inputs, and the determination of input prices in these markets. Finally, we devote Chapters 23 and 24 to the topic of general equilibrium analysis. In many ways, Chapters 23 and 24 may be regarded as capstone chapters inasmuch as they incorporate information regarding consumer equilibrium which we developed in Chapters 3 and 4 with concepts related to producer equilibrium which we discussed in Chapters 9 and 10. We also examine issues regarding the efficiency of perfectly competitive markets, along with the inefficiency of monopolized markets using a general equilibrium framework.

**ANCILLARIES** Accompanying our text is an ancillary package containing an Instructor's Manual and Study Guide. The Instructor's Manual includes chapter summaries, solutions to end-of-chapter exercises appearing in the text, and additional problems to assist professors in creating their exams. Students can access answers to selected exercises at the website for this text at [www.prenhall.com/mathis](http://www.prenhall.com/mathis). The Study Guide contains chapter summaries, key terms, and additional exercises, along with their solutions. We have written all of the ancillary items ourselves, thus ensuring accuracy and a very close coordination between these materials and our textbook.

Good condition, no notes, no damage. I don't know what I need to say. It looks like a new book

Last semester, I had to take a graduate level economics course having never even taken intermediate economics. (My program has weird requirements.) The book used in the class was Varian's Microeconomic Analysis. I can't say whether that was a good or bad book for someone with much more preparation. But for me, it was totally incomprehensible since I hadn't come across any of that stuff before. On the recommendations of others, I checked out Nicholson's book, hoping it would give me the background needed to just pass the class. I found Nicholson's book to be disappointing, with many derivations stuck in footnotes. I should, however, mention, that the Nicholson copy I was given was of an older edition, so I'm not sure if the newer editions are better. Anyway, I was feeling so desperate and by chance came across this book in the library. That day, my semester took a huge turn for the better. I finally could solve optimization problems! I finally understood the derivation of the Slutsky equation! Mathis and Kocianski explain everything SO clearly. Furthermore, they give you "cookbook recipes" for how to solve many of the problems you're likely to get on exams and homeworks. The problems I had to solve for homework and on exams were much more complicated, but the complicated part was in the details. The basic process to solve the problems was actually the same as the examples in the Mathis book. Once you master that process with Mathis's examples, you can generalize it to harder and more complicated problems. Mathis and Kocianski also show you how the problem of the consumer is not unlike the problem of the firm, and problems of general equilibrium simply combine the two. In other words, they do a great job of showing the bigger picture while still teaching you the math involved. Speaking of the math, this book requires calculus, unlike most intermediate textbooks. Yet the material is so clearly presented that I find the derivations to be easier to follow than in many intermediate textbooks. Furthermore, the authors don't unnecessarily complicate things by overloading on notation.

This is a very special book. Nowadays, most introductory textbooks on microeconomics teach intuitions and models that are carefully designed to avoid the use of even basic calculus as much as possible. This is not necessarily a bad thing because most college students don't have much calculus. However, for those that have even a basic understanding of calculus, there is a lot to be gained by studying basic microeconomics using mathematical tools. This is the rare introductory text specifically designed to teach using calculus. This is refreshing and can be quite exciting for advanced high school students, undergraduates, and even masters candidates who would like to

use math to be introduced to utility theory, consumer optimization, market demand curves, demand elasticities, short and long run production issues, firm optimization, short and long run costs of production, market structures including monopoly, issues related to input markets, and equilibrium analysis. Really, the use of math here does aid understanding. The writing is clear, the illustrations are helpful, and the equations are quite understandable even if you only have calc 1 in your repertoire. Take a look, I think you will like it and get real value from it.

When I took intermediate microeconomics I was assigned Microeconomics by Hal Varian, which from what I gather is the predominate book used by professors, however it shouldn't be. This book is a far better handling of intermediate micro than is the Varian book, or any others that I've seen for that matter. Most undergraduate books that I have seen shy away from using calculus to explain the theories, which is really unfortunate because calculus makes this fascinating field far less cumbersome and much more accessible. The first two chapters on reviewing calculus for economics are great and really help clarify the relevance of calculus to economics. I find that utilizing calc makes microeconomics a much easier field to understand and this book does that very well. The only complaint is that I have noticed a few errors here and there, like mislabeled graphs or a few misreferences to the wrong graphical explanations, but it is easy enough to realize from the context, it would be nice if these weren't there, but overall this is the best book for microeconomic theory I have seen.

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