

Preface to the Second European Edition

The second European edition of *Microeconomics* builds on and amplifies the features of the first edition and also those of the well-established international edition by Michael L. Katz and Harvey S. Rosen. The defining features of both those texts have been strengthened and retained for this second edition and can be outlined as:

- **Modern topics.** Economists have studied markets for over two hundred years, but several innovations in recent decades have contributed important new insights. For example, traditionally it was assumed that all market participants had perfect certainty about the consequences of their actions. In contrast, modern economics recognizes that the world is pervaded by uncertainty and that this has important consequences for individual behaviour and market outcomes. In this book, uncertainty and other central modern topics, such as game theory and asymmetric information, are given the same central treatment as traditional issues. A new contribution in this edition is the inclusion of a section on auctions in Chapter Seventeen, an area that has been at the forefront of policy when considering the design and implementation of government sales of radio spectrum for mobile technologies across Europe. In addition, understanding of the uncertainty in financial and banking sectors can be gleaned using the techniques and tools outlined in the text.

- **Applications.** The text makes clear the links between microeconomics and the real world, integrating these applications into discussions of theory. As is the case with every academic discipline, the explanation of theory is always made much clearer by the use of relevant and clear examples drawn from the world in which the student is living and is familiar with. Microeconomics is no different from any other subject in this regard. Being able to think like an economist about global issues, such as pollution, climate change and poverty as well as more local issues such as the cost of mobile phones, the costs of undertaking university study and the impact of technology on everyday life, requires students to apply what they know from the abstract to real-world problems. Such application cannot happen simply by presenting theory, as it is clear that many of the more abstract elements of theory can appear to be just that to the student – abstract – and thus apparently of little value to them

in understanding the world around them. Drawing on real-world examples to highlight how theory can help to solve or understand a range of problems is central to a good basis for thinking like an economist.

As with the first edition, there are many examples scattered throughout the book that draw on European experiences, markets and events. The earlier editions of *Microeconomics* have always had this as a major strength, and students have enjoyed this approach. However, it is important that students can relate directly to the examples used. Thus, this European edition matches the clear and rigorous explanations of theories and ideas in previous editions of the book with new, more European-flavoured examples to provide a more relevant context for European students to understand the abstract concepts. On a few occasions, simply changing a good US example to a less obvious European one was not considered sensible and thus the example has been left untouched. However, where equally effective and newer European illustrations have been found, they have been used.

The major new feature in this second edition though is the introduction of separate boxed examples in each chapter that highlight the salient points from the text. By highlighting these examples more clearly and by utilizing articles from newspapers, websites and other publications, the reader should gain a greater insight into the application of economics in areas that at first glance might not appear to be suitable for explanation through economic analysis. These examples range from the choice of degree course to study in French universities, through the sales of music on a “pay as you see fit” basis to the problem of removing chewing gum from our city streets. In each case, the source article is named and students can refer back to the original for fuller details.

- **Modern organization.** In addition to including new subjects, this book has a somewhat novel organizational scheme. Conventionally, input markets are treated at the end of a microeconomics book, long after the basic theories of consumer and firm behaviour have been covered. In contrast, modern economic theory integrates the treatment of commodity and factor markets. Households’ input supplies and commodity demands both derive from the maximization of utility subject to a budget constraint. To drive this point home, both phenomena are discussed in the part of the book devoted to household behaviour. Similarly, business output and input decisions are presented together as joint implications of profit maximization, not as unrelated choices. This treatment provides students with a more coherent view of how the various pieces of a market economy fit together. At the same time, it exhibits the power and versatility of economic tools. The discussion of welfare

economics as soon as the competitive model is completely developed sets the stage for subsequent chapters that explain how various market failures arise, what the consequences are, and the implications for public policy. Discussion of the firm is derived from two rules for finding the profit-maximizing output level that are valid for any profit-maximizing firm. This approach is taken for two reasons. One, by first deriving these rules in their general form, students are able to see the power of economic theory of the firm: it provides a coherent set of basic principles that can be applied in a wide variety of market settings. The unified approach also has the advantage of presenting the student with less to remember – he or she has to learn these concepts only once.

The later chapters then serve to reinforce and amplify the basic themes laid out at the beginning. A final innovation is the inclusion of a separate chapter on game theory. While closely tied to the chapter on oligopoly, the game theory chapter discusses the much broader applicability of game theory to a variety of real-world problems. Because of the time constraints that many instructors face, this chapter has been written so that it can easily be skipped without the loss of continuity.

- **Treatment of costs.** The subject of costs is another area in which this book departs from tradition. The standard treatment of cost is to begin by defining economic costs as opportunity costs; but then, the typical book goes on to define the expenditures on factors of production that are fixed in the short run as “fixed costs” – despite the fact that these expenditures are not *economic costs*. The next step in the standard treatment is to tell students that what they really should care about is short-run variable costs, not short-run total cost. This approach is needlessly confusing and complicated. In this text, the definition of economic cost as opportunity costs is consistently applied. In addition to having the virtue of logical consistency, this approach is simpler than the traditional one. The firm is concerned with its short-run economic cost in the short run, and its long-run economic cost in the long run. It is thus a simple matter to state the rules by which a firm finds its profit-maximizing output level, whether we are talking about the short run or the long run.

- **Pedagogical features.** The chapters are broken up into several numbered sections, each of which develops a major theme and provides instructors an easy way to pick and choose topics for assigning. However, it has long been understood that no matter how clear a book's exposition and organization, passive reading of new material does not lead to its mastery. To facilitate understanding and engagement with the material, Progress Check questions are interspersed throughout the chapters. These are straightforward exercises whose answers appear at the end of the book. A student who is unable to answer a Progress Check question correctly should go back and reread the preceding pages before moving on. More challenging exercises appear at the end of every chapter. These problems encourage students to apply and extend the principles that they have learnt. The only mathematics in the text is algebra and geometry. However, for instructors who would like to use this book in a calculus-based course, two appendices are included (after Chapters 3 and 9) that reinterpret certain key results from the theories of the household and the firm using calculus.

- **Supplementary Support** This edition of the book has the added benefits of more supporting materials than the previous edition, all designed to support both the student and the instructor in their learning and delivery. The major addition is the *Mathematical Supplement* which adds a richer mathematical angle to many of the chapters and to which students can be directed as the instructor sees appropriate. While it does not repeat the materials found within the main text, it does use the same exemplars and types of problem that the text does and as such there is a clear link between the two. As well as the supplement, the website contains a range of further materials that can be used to enrich the learning process, including, where appropriate, links to the original articles contained in the boxed examples, self-test exercises and other useful resources.

About the Authors

Wyn Morgan is an Associate Professor in Economics and a Research Fellow in the Centre for Research in Economic Development and International Trade (CREDIT) in the School of Economics at the University of Nottingham. He was awarded a Lord Dearing Award for Excellence in Teaching and Learning in 1999. By training, he is an applied microeconomist and specializes in research areas related to the food industry,

agricultural policy, and commodity markets as well as futures markets. He has published in a number of journals, including the *Economic Journal*, *Journal of Development Economics* and *World Development*. He was also a co-editor for the *Journal of Agricultural Economics*.

Michael L. Katz is the Edward J. and Mollie Arnold Professor of Business Administration at the University of California at Berkeley. In 1989 and 1993, he received the Earl F. Cheit Outstanding Teaching Award. In 1994 and 1995, he served as the Chief Economist of the US Federal Communications Commission. His articles on standardization, co-operative R&D, technology licensing and agency theory have been published in leading economics journals, including the *American Economic Review*, *Journal of Political Economy* and *Rand Journal of Economics*. He is currently on the editorial board of the *Journal of Economics and Management Strategy*.

Harvey S. Rosen is the John L. Weinberg Professor of Economics and Business Policy at Princeton University. Professor Rosen, a Fellow of the Econometric Society and a Research Associate of the National Bureau of Economic Research, is well known for his contribution to the fields of public finance, labour economics and applied microeconomics. From 1989 to 1991, he served as Deputy Assistant Secretary (Tax Analysis) at the US Treasury. His articles have appeared in such journals as *Econometrica*, *American Economic Review* and *Journal of Political Economy*. He is currently on the editorial boards of the *Journal of Economic Literature*, *Journal of Public Economics* and *Public Finance Quarterly*.