

## Index

- accident prevention, cost–benefit trade-off, 265
- accounting (or book) profits, 258–259
- acquisition utility, 147–148
- addiction, rational, 157–158
- adverse selection, 198–201
- advertising and profitability, hostages in business, 197
- AFC, *see* average fixed cost
- agency problems
  - competition, 280
  - firms', 279–283
  - opportunistic behavior, 280
- airlines
  - frequent-flyer programs, 286–287, 412–414
  - Southwest Airlines, paying for performance, 496
- Alchian, Armen, 298
- Amazon, innovator's dilemma, 447
- antitrust
  - government intervention, 440–442
  - IBM, 440–441
  - Microsoft, 441
  - monopoly power, 440–442
- apartment rents, price controls, 171–172
- Apple
  - innovator's dilemma, 448
  - monopoly power, 379
  - monopoly profits, 459
  - network effects, 160–161
- Ariely, Daniel, free goods, 153–154
- AT&T, price discrimination, 409–410
- ATC, *see* average total cost
- AVC, *see* average variable cost
- average cost, industry differences, 307–329
- average fixed cost (AFC), short-run, 302–303
- average total cost (ATC)
  - long-run, 304–307
  - short-run, 303–304
- average variable cost (AVC), short-run, 303
- “battle of the sexes”, Prisoner's Dilemmas, 79–83
- Blockbuster, 324–325
- bondholders, hostile takeovers, 455
- book (or accounting) profits, 258–259
- books, price discrimination, 405
- break-ups, hostile takeovers, 457–458
- bureaucracy, government, 229–232
- buy-or-make decisions, 287–290
- candle manufacturers' petition, competition, 233–236
- cartels, 429–436
  - duopoly, 430–435
  - employee cartels, 486–488
  - employer cartels, 483–485
  - game theory, 431–436
  - government-supported cartels, 433–434
  - lagged demand, 434
  - monopsonistic labor markets, 483–485, 486–488
  - Nash equilibrium, 431–435
  - price discrimination, 410
  - public-interest theory of monopoly regulation, 436–442
- cash flow, industry maturity and the misuse of cash, 324–327
- Chamberlin, Edward, 420
- Coase, Ronald, 276, 278, 280, 398
- collective goods, 67
- communal goods, 227, *see also* tragedy of the commons
  - free-rider problem, 210–211
  - large groups, 70
- communal property rights, 22–25
  - tragedy of the commons, 22–25
- company towns, opportunistic behavior, 290
- comparative advantage, Prisoner's Dilemmas, 21–24
- competition, *see also* pricing strategies, price discrimination, perfect competition, monopoly power
  - agency problems, 280
  - among buyers and among sellers, 90–91
  - candle manufacturers' petition, 233–236
  - cf. monopoly, 385–386
  - definition, 90

- firms, 197
- governments, efficiency of competition among, 232–236
- international trade, 244–248
- ironic value of creating competition, 197
- meet-the-competition pricing policy, 410–411
- monopolistic competition, 335, 338, 422–426
- non-price competition, 107–109
- teams, 360–361
- competitive market model, efficiency, 105–107
- competitive product markets, 87–133
  - competition among buyers and among sellers, 90–91
  - competitive market process, 88–91
  - market setting, 89–90
- complementary products
  - elasticity of demand, 147
  - supply and demand, 96
- conditional-sum games, 285, *see also* Prisoner's Dilemmas
- conspicuous consumption, law of demand, 149–150
- consumer equilibrium, 132–135
- consumer expenditures, elasticity of demand, 138–139
- consumer responsiveness to price changes, *see* elasticity of demand
- consumer surplus, 349–351
- contracts
  - end of contracts, 312–317
  - last-period problem, 312–317
- cooperation: evolutionary foundations, 62–64
- corporate control, market for, 450–453
- corporations, last-period problem, 318–314
- cost conceptions, 253, 254, 256–259
  - cost of bargains, 258
  - economic loss, 259
  - economic profits, 259
  - explicit costs, 256–257
  - implicit costs, 256–257
  - marginal cost (MC), 259–275
  - normal profit as a cost, 258–259
  - sunk costs, 257–258
- cost-benefit analysis, 54–60
  - discounting, 56–57, 58
  - entrepreneurial risk-taking, 57
  - maximizing satisfaction, 54–60
  - present value (PV), 56–57, 85, 293
  - risk effects, 56–60
  - risk-taking by banks and homeowners, 58–60
  - time effects, 56–60
- cost-benefit trade-off, 263–265
  - accident prevention, 265
- costs
  - limiting the size of firms, 279–283
  - organizational costs changes, 283–285
- costs and benefits, tenure, 269–270
- coupons, price discrimination, 406
- Cournot, Augustin, 333
- creative pricing, 404–410
- debt, industry maturity and the misuse of cash, 324–327
- debt/equity structure, 318–321, *see also*
  - organizational structure, financial structure of firms
  - executive incentives, 318
  - free cash flow problem, 324–327
  - investment vehicles, 319–321
- decentralization
  - government intervention, 215–216
  - large groups, 74
- dedicated investments, 288–290
- demand, *see also* supply and demand, law of demand
  - elasticity of demand, 137–147
  - individual demand, opportunistic behavior, 136–137
  - lagged demand, cartels, 434
  - lagged demand, pricing strategies, 155–156
  - market demand, 136–137
  - Maslow's Hierarchy of Needs, 190–191
  - pricing strategies, 154–159
  - random behavior, 152–153
- democracy
  - inefficiency, 219–225
  - two-party democratic system, 225–243
- destructive incentives, financial sector, 321–322
- discounting, 56–57, 58
- discrimination, *see also* price discrimination
  - personal discrimination, 488–492
  - statistical discrimination, 492–494
- diseconomies of scale, 305–307
- Disney Corporation, externalities, 216
- downsizing, firms, 283–284
- Drucker, Peter, 259
- duopoly, cartels, 430–435
- durable goods monopoly, 398–399
- Dvorak keyboard and QWERTY lock-in, 401–403

## 518 Index

- economic loss, 259
- economic markets versus political markets, 217–219
- economic profits, 259
- economic theories
  - developing and using, 10–11
  - public-interest theory of monopoly regulation, 436–442
  - regulation, 442–443
- economics, scope of, 9–10
- economies of scale, 277, 307
  - diseconomies of scale, 305–307
  - long-run, 347–348
- economies of scope, 287–288
- economists' ways of thinking, 46–47
- education, price floors, 175
- efficiency, 207–210
  - competitive market model, 105–107
  - democracy, 219–225
  - equity, 208
  - government intervention, 209–210
  - governments, competition among, 232–236
  - hostile takeovers, 453–459
  - markets, 105–107, 276–279, 414–416
  - monopoly, 385–386
  - monopoly power, 397, 414–416
  - paternalism, 208–209
  - perfect competition, 351–354
  - rent-seeking, 397
  - takeovers, 453–459
- elasticity of demand, 137–147
  - applications, 142–144
  - complementary products, 147
  - consumer expenditures, 138–139
  - definitions, 137–138
  - determinants, 144–146
  - determinants of price elasticity of demand, 144–146
  - elasticity along a linear demand curve, 141–142
  - elasticity coefficients, 139–142
  - perfectly elastic demand, 144–145
  - price elasticity of demand, 138, 144–146
  - substitutes, 144–145, 147
  - time effects, 145–146
  - water market, 143
- email spam, 239–241
- employee empowerment, incentives, 39–40
- employees
  - firing, retiring, and transferring workers, 314–315
  - laid-off workers, hostile takeovers, 458–459
  - last-period problem, 314–315
  - worker risk, 499–501
  - worker-managed universities and academic politics, 270–273
  - workers as profit centers, 182–183
- employers
  - credible commitments by employers, 122–125
  - employer cartels, 483–485
  - monopsonistic employers, 479–480
- end of contracts, last-period problem, 312–317
- entrepreneurial risk-taking, 57
- entrepreneurs, 4–5
- entrepreneurship, perfect competition, 356–357
- entry barriers, monopoly power, 397
- equilibrium
  - consumer equilibrium, 132–135
  - market equilibrium, 100–101, 351–352
- equity, 208
- evolutionary foundations of cooperation, 62–64
- exchange, Prisoner's Dilemmas, 21
- excise taxes, 142, 167–169
- executive incentives, debt/equity structure, 318
- explicit costs, 256–257
- externalities, 211–216
  - Disney Corporation, 216
  - external benefits, 214–215
  - external costs, 211–213
  - external costs of pollution, 241–257
  - government action, pros and cons, 215–216
  - government intervention, 215–217
  - negative externalities in business, 239–241
  - perfect competition, 353
- farm policy, price floors, 175
- Feldman, Paul, 72
- financial sector
  - destructive incentives, 321–322
  - incentives, 321–322
- financial structure of firms, 324–327, *see also* organizational structure, debt/equity structure
- firms, 318–314
  - agency problems, 279–283
  - competition, 197
  - downsizing, 283–284
  - financial structure of firms, 324–327

## Index

519

- guarantees, 198
- hostages in business, 195–198
- joint ownership, 198
- logos, 196
- market efficiency, 105–107, 276–279
- monopoly power inside firms, 400
- optimally sized firms, 281–283
- organizational costs changes, 283–285
- outsourcing, 284, 449
- profitability and advertising, 197
- size of firms, 275–276, 279–283
- storefronts and fixtures, 196
- tragedy of the commons, 25–26
- first-mover advantage, 358–359
- fixed costs, short-run, 299–302
- Ford Motor Company
  - innovator's dilemma, 447
  - monopoly power, 378–379
- Ford, Henry, overpayment, 114–118
- franchising, 291–294
  - McDonald's restaurants, 292
  - opportunistic behavior, 292
- free cash flow problem, 324–327
- free goods
  - irrationality, 153–154
  - law of demand, 153–154
- free-rider problem, 68, 69, 71, 238–239, 442
  - communal goods, 210–211
- frequent-flyer programs, 286–287
  - price discrimination, 412–414
- fringe benefits, 181–187, 201, *see also*
  - incentives
    - health insurance, 182–183, 185, 186
    - large and small firms, 186–187
    - optimum fringe benefits, 184–186
    - supply and demand for fringe benefits, 183–184
  - workers as profit centers, 182–183
- Galbraith, John Kenneth, 373
- game theory, 13–14
  - “battle of the sexes”, 79–83
  - cartels, 431–436
  - games of trust, 193–199
  - honesty in business, 193–199
  - Nash equilibrium, 431–435
  - Prisoner's Dilemmas, 19–25
- goals, incentives, 39–40
- golf balls, price discrimination, 409
- Google, innovator's dilemma, 445
- government bureaucracy, 229–232
- government intervention, *see also* “Public Choice” economics
  - antitrust, 440–442
  - decentralization, 215–216
  - efficiency, 209–210
  - externalities, 215–217
  - monopoly power, 380, 440–442
  - price discrimination, 412
  - privatization, 215–216
  - pros and cons, 215–216
  - regulation, 222–225
- governments
  - definition, 206
  - efficiency of competition among, 232–236
- government-supported cartels, 433–434
- group behavior, 65–86, *see also* large groups
  - basic propositions, 67
  - economic logic of group behavior, 66–75
  - free-rider problem, 68, 69, 71, 210–211, 238–239, 442
  - logic of group behavior, 65–66
  - Prisoner's Dilemmas, 81–83
  - qualifications to the economic theory, 73–75
  - small groups, 68–70
  - tough bosses, 75–85
- guarantees
  - firms, 198
  - hostages in business, 198
- Hayek, Friedrich A.,
  - competition, 90
  - market prices, 7–8
  - market process, 87
  - monopoly power, 378
- health insurance, xxxvi, 175
  - fringe benefits, 182–183, 185, 186
  - universities, 269
- honesty in business, 191–199
  - game theory, 193–199
  - lemon problem, 192–193
- hostages in business, 195–198
  - firm logos, 196
  - firm profitability and advertising, 197
  - guarantees, 198
  - ironic value of creating competition, 197
  - joint ownership, 198
  - storefronts and fixtures, 196
- hostile takeovers, 449–459
  - bondholders, 455
  - break-ups, 457–458
  - efficiency of takeovers, 453–459
  - laid-off workers, 458–459
  - market for corporate control, 450–453
  - short-run versus long-run profits, 456–457

## 520 Index

- hostile takeovers (*cont.*)
  - takeover mistakes, 455–456
  - winner's curse, 454–455
- housing markets, destructive incentives, 321–322
- human capital, 477
- I, Pencil*, xxxiv, 29–34
  - complicated machinery, 31–32
  - innumerable antecedents, 30–31
  - leave men free, 34
  - no human master-mind, 32–33
  - testimony galore, 33–34
  - vast web of know-how, 32
- IBM
  - antitrust, 440–441
  - innovator's dilemma, 446
  - price discrimination, 408
- Icahn, Carl, 324–325
- imperfect markets, 420–422
- imperfect price discrimination, 392–394
- implicit costs, 256–257
- import quotas, 245–246
- incentives, 35–43, *see also* pay/wages,
  - see also* fringe benefits
  - cost-saving incentives, monopoly effects on, 398
  - debt/equity structure, 318
  - destructive incentives in the financial sector and housing markets, 321–322
  - employee empowerment, 39–40
  - executive incentives, 318
  - financial sector, 321–322
  - goals, 39–40
  - housing markets, 321–322
  - importance, 39–42
  - incentives of indebtedness, 321–322
  - managing through incentives, 35–37
  - mortgage market, 38–39
  - paying for performance, 494–497
  - performance, 35–37, 39, 315, 317, 494–497
  - perverse incentives, 37–39
- income, *see* pay/wages
- index funds, 61
- individual demand, 136–137
- individual supply curve, 267–268
- industry maturity and the misuse of cash, 324–327
- inefficiency, *see also* efficiency
  - democracy, 219–225
  - markets, 106–107
  - monopoly, 385–386, 397
- innovation, perfect competition, 356–357
- innovator's dilemma, 443–448
- input prices, 309
- Intel Inc.,
  - innovator's dilemma, 448
  - price discrimination, 408–409
- international trade, 244–248
  - competition, 244–248
  - import quotas, 245–246
  - tariffs, 22, 245–247
- investment vehicles, debt/equity structure, 319–321
- investments
  - dedicated investments, 288–290
  - spreading risks, 323
- ironic value of creating competition,
  - hostages in business, 197
- irrationality
  - free goods, 153–154
  - law of demand, 150–151
- joint ownership
  - firms, 198
  - hostages in business, 198
- Kant, Immanuel, group behavior, 73
- Kanter, Rosabeth, group behavior, 68–69
- Kirzner, Israel, 89
- Knight, Frank H., social economic process, 130
- knowledge and motives in markets, 217–219
- Kodak
  - innovator's dilemma, 447
  - monopoly power, 378
- labor markets, 464–510, *see also*
  - monopsonistic labor markets
  - demand for and supply of labor, 465–478
  - demand for labor, 466–475
  - equilibrium in the labor market, 471–472
  - labor productivity, 466–475
  - marginal revenue product, 467–475, 487
  - pay/wages, 464–465, 473–477
- labor productivity, 466–475
- labor unions, monopsonistic labor markets, 486–488
- lagged demand
  - cartels, 434
  - pricing strategies, 155–156
- laid-off workers, hostile takeovers, 458–459
- large firms, Prisoner's Dilemmas, 285–287
- large groups, *see also* group behavior
  - communal goods, 70
  - decentralization, 74

## Index

521

- group behavior, 70–75, 81–83
- Prisoner's Dilemmas, 81–83
- qualifications to the economic theory, 73–75
- residual claimants, 81–83
- last-period problem, 311–317
  - employees, 314–315
  - end of contracts, 312–317
  - firing, retiring, and transferring workers, 314–315
  - performance payments, 317
  - profit opportunity, 317
  - selling a business, 315–317
  - solutions, 313–317
  - transferring a business, 315–317
- law of demand, 134–136
  - conspicuous consumption, 149–150
  - free goods, 153–154
  - irrationality, 150–151
  - objections to demand theory, 148–149
  - price changes, 134–136
  - pricing principle, 162–163
- law of diminishing marginal returns, 261–275
- lemon problem, 192–193
- Lessig, Lawrence, tragedy of the anticommons, 28–29
- Liebowitz, Stan, 402–403
- Lincoln Electric's pay system, 503–504
- lock-in, QWERTY keyboard, 401–403
- logos, hostages in business, 196
- long-run
  - average total cost (ATC), 304–307
  - economies of scale, 347–348
  - hostile takeovers, 456–457
  - long-run effect of short-run profits and losses, 346–347
  - marginal cost (MC), 304–307
  - monopolistic competition, 423–424
  - oligopoly, 428–429
  - producing over the long run, 346–348
  - very long run, 310–311, 459–460
- macroeconomics and microeconomics, 12–13
- make-or-buy decisions, 287–290
- mandatory retirement, 120–122
- marginal benefit versus marginal cost, 347–348
- marginal cost (MC), 259–279, 368–369
  - cost-benefit trade-off, 263–265
  - law of diminishing marginal returns, 261–275
  - long run, 304–307
  - marginal benefit versus marginal cost, 347–348
  - marginal product, 262
  - marginal revenue, 266–267, 380–391
  - price, 266–267
  - profit maximization, 266–267
  - rational behavior, 260
  - short run, 300–302
- marginal cost of labor, 485, 487–488
- marginal product, 262
- marginal returns, law of diminishing
  - marginal returns, 261–275
- marginal revenue, 266–267
  - marginal cost (MC), 380–391
- marginal revenue product, labor markets, 467–475, 487
- marginal utility (MU), 131–135
- Margolis, Stephen, 402–403
- market demand, 136–137
- market efficiency, firms, 105–107, 276–279
- market equilibrium
  - perfect competition, 351–352
  - supply and demand, 100–101
- market leadership, 359–360
- market model, 91–114
- market prices
  - Hayek, Friedrich A., 7–8
  - perfect competition, 91, 335, 339–342
  - production decision, 339–342
- market segment, price discrimination by, 392–394
- market shortages, 102–103
- market structures, 334–343
- market supply curve, 267–268, 341, 346
- market surpluses, 101–102
- markets, *see also* labor markets, competitive
  - product markets
    - competitive market model, 105–107
    - corporate control, market for, 450–453
    - definition, 4
    - destructive incentives in the financial sector and housing markets, 321–322
  - economic markets versus political markets, 217–219
  - efficiency, 105–107, 276–279, 414–416
  - emergence, 4–6
  - housing markets, 321–322
  - imperfect markets, 420–422
  - inefficiency, 106–107
  - knowledge and motives, 217–219
  - mortgage market, 38–39, 58–60, 321–322



## 522 Index

- markets (*cont.*)
  - motives and knowledge, 217–219
  - political markets versus economic markets, 217–219
  - pollution rights, 241–257
  - private property rights, 15–16
  - water market, 24, 72, 143, 173–174
- Maslow’s “Hierarchy of Needs”, 187–191
  - demand, 190–191
  - economics and Maslow’s hierarchy, 189–190
- maximizing satisfaction
  - cost–benefit analysis, 54–60
  - rational behavior, 54–60
- maximizing short-run profits, 342–343
- MC*, *see* marginal cost
- McDonald’s restaurants, franchising, 292
- microeconomics and macroeconomics, 12–13
- Microsoft
  - antitrust, 441
  - innovator’s dilemma, 447
  - network effects, 160–162
  - price discrimination, 408
  - Quicken home-finance software, 316
- minimizing short-run losses, 343–345
- minimum wages, 176–181
  - beyond the basic analysis, 179–181
  - monopsonistic labor markets, 485–486
  - political support, 178–179
- money cost, 53–54
- monopolistic competition, 335, 338–339, 422–426
  - long-run, 423–424
  - short-run, 423–426
  - welfare, 425–426
- monopoly
  - natural monopoly, 326–329, 435–436, 438–440
  - pure monopoly, 335, 337–338
- monopoly power, 373–406, *see also* competition
  - antitrust, 440–442
  - applications of monopoly theory, 394–396
  - cf.* competition, 385–386
  - cost-saving incentives, monopoly effects on, 398
  - durable goods monopoly, 398–399
  - efficiency, 397, 414–416
  - entry barriers, 397
  - firms, inside, 400
  - government intervention, 380, 440–442
  - government, monopoly in, 400
  - inefficiency of monopoly, 385–386, 397
  - limits, 377–380
  - monopolies in “goods” and “bads”, 396
  - monopoly effects on cost-saving incentives, 398
  - monopoly inefficiency from “rent-seeking”, 397
  - monopoly profits, 387–389
  - origins, 375–377
  - price controls under monopoly, 394–395
  - price discrimination, 389–394
  - public-interest theory of monopoly regulation, 436–442
  - redistributional effects of monopoly, 397–398
  - regulation, 436–443
  - taxing monopoly profits, 395
  - total cost of monopoly power, 397–398
- monopoly profits, 387–389
  - Apple, 459
  - taxing, 395
  - very long run, 459–460
- monopsonistic labor markets, 478–494
  - cartels, 483–485, 486–488
  - cost of labor, 480–488
  - employee cartels, 486–488
  - employer cartels, 483–485
  - marginal cost of labor, 485, 487–488
  - minimum wages, 485–486
  - monopoly power for workers through unions, 486–488
  - monopsonistic employers, 479–480
  - monopsonistic hiring decision, 482–483
  - monopsony power through collusion, 483–485
  - unions, 486–488
- Moore, Gordon E., 78
- moral hazard, 198–201
- mortgage market
  - destructive incentives in the financial sector and housing markets, 321–322
  - meltdown, 38–39
  - risk-taking by banks and homeowners, 58–59
  - risk-taking by banks and the mortgage crisis, 59–60
- motives and knowledge in markets, 217–219
- Motorola, paying for performance, 496
- MU*, *see* marginal utility

## Index

523

- Nash equilibrium, 431–435
- natural monopoly, 435–436
  - regulation, 438–440
- negative externalities in business, 239–241
- network effects, 157, 158–159
  - Apple, 160–161
  - Microsoft, 160–162
  - software networks, 159–162
- network goods, pricing strategies, 155
- non-price competition, 107–109
- normal profit as a cost, 258–259
  
- Obama, President, overtime pay, 477–478
- oligopoly, 335, 339, 426–429
  - oligopolist as price leader, 427–428
  - oligopolist in the long run, 428–429
- opportunistic behavior
  - agency problems, 280
  - company towns, 290
  - dedicated investments, 288–290
  - franchising, 292
- opportunity cost, 53–54
- organizational structure, 275–276, *see also*
  - financial structure of firms, *see also*
  - debt/equity structure
- outsourcing, firms, 284, 449
- overpayments
  - Henry Ford's overpayment, 114–118
  - to prevent misuse of firm resources, 118
  - underpayment, 119–120
- overtime pay, 477–478
  
- paternalism, 208–209
- pay/wages, *see also* piece-rate pay, *see also*
  - overpayments, *see also* mandatory
  - retirement, *see also* incentives
- differences among markets, 475–476, 488–490
- differences among workers, 476–477, 488–490
- human capital, 477
- income changes, 146–147
- income changes, prices of related goods, 146–147
- labor markets, 464–465
- lax work demands as a fringe benefit, 475
- Lincoln Electric's pay system, 503–504
- minimum wages, 176–181, 485–486
- monopsonistic labor markets, 485–486
- nonmonetary benefits, 473–474
- overtime pay, 477–478
- paying for performance, 494–497
  - paying teams, 364–368
  - two-part pay systems, 504–507
- paying for performance, 494–497
  - Motorola, 496
  - Southwest Airlines, 496
- Payne, James, definition of government, 206
- perfect competition, 90–91, 334–342
  - efficiency, 351–354
  - entrepreneurship, 356–357
  - externalities, 353
  - income and wealth differences, 353
  - innovation, 356–357
  - market equilibrium, 351–352
  - market prices, 91, 335
  - production decision, 339–342
  - surpluses and shortages, 353
  - unreal nature of perfect competition, 354–356
- perfect price discrimination, 391–392
- perfectly elastic demand, 144–145
- performance and incentives, 35–37, 39, 494–497
- performance payments
  - last-period problem, 317
  - paying for performance, 494–497
- personal discrimination, 488–492
- piece-rate pay, 36, 496, 497–503
  - changing the piece rate, 501–503
  - Lincoln Electric's pay system, 503–504
  - worker risk, 499–501
- pipelines, dedicated investments, 288–290
- political markets versus economic markets, 217–219, *see also* "Public Choice"
  - economics, *see also* government
  - intervention
  - rent-seeking, 222–225
- political models, 236–237
- pollution, external costs, 241–257
- PPF (production possibilities frontier), 51–53
- present value (PV), 56–57, 85, 293
- price ceilings, 170–174
- price changes, 134–136, *see also* elasticity of demand
  - law of demand, 134–136
- price controls, 170–181
  - apartment rents, 171–172
  - minimum wages, 176–181
  - price ceilings, 170–174
  - price floors, 175–181
  - rationing, 172–173
  - under monopoly, 394–395
  - water market, 173–174



## 524 Index

- price discrimination, *see also* pricing
  - strategies, competition
  - after-Christmas sales, 405
  - AT&T, 409–410
  - books, 405
  - cartels, 410
  - coupons, 406
  - frequent-flyer programs, 412–414
  - golf balls, 409
  - government intervention, 412
  - hardback and paperback books, 405
  - IBM, 408
  - imperfect price discrimination, 392–394
  - in practice, 404–410
  - Intel, 408–409
  - meet-the-competition pricing policy, 410–411
  - Microsoft, 408
  - monopoly power, 389–394
  - most-favored-customer pricing policy, 412
  - perfect price discrimination, 391–392
  - price discrimination by market segment, 392–394
  - price discrimination through time, 405
  - prices and functionality, 407–409
  - Starbucks, 414
  - theater pricing, 406–407
  - unadvertised prices, 409–410
- price elasticity of demand, 138, *see also* elasticity of demand
  - determinants, 144–146
- price floors, 175–181
  - business world, 175
  - education, 175
  - farm policy, 175
  - minimum wages, 176–181
- price searchers, 337–338, 355
- price takers, 335–337, 355
- prices of related goods, income changes, 146–147
- pricing principle, law of demand, 162–163
- pricing strategies, 374, *see also* price discrimination, competition
  - creative pricing, 404–410
  - demand characteristics, 154–159
  - lagged demand, 155–156
  - network goods, 155
  - oligopolist as price leader, 427–428
- principal–agent problems, 279–283
- Prisoner’s Dilemmas, 19–25
  - absolute advantage, 21
  - “battle of the sexes”, 79–83
  - comparative advantage, 21–24
  - enforcement and trade, 20–25
  - exchange, 21
  - group behavior, 81–83
  - large firms, 285–287
  - large groups, 81–83
  - overcoming Prisoner’s Dilemmas through tough bosses, 75–85
  - residual claimants, 81–83
  - solutions, 20–25
  - tough bosses, 76–85
  - workplace, 76–79
- private goods, 67
- private property rights, 14–22
  - emergence, 16–22
  - markets, 15–16
- privatization, government intervention, 215–216
- producer surplus, 349–351
- product improvement with supply and demand, 110
- production costs, 98, 106, 212, 275–276
- production decision
  - market prices, 339–342
  - perfect competition, 339–342
  - producing over the long run, 346–348
- production possibilities frontier (PPF), 51–53
- profit
  - accounting (or book) profits, 258–259
  - advertising and profitability, 197
  - creative pricing, 404
  - economic loss, 259
  - economic profits, 259
  - monopoly profits, 387–389, 395, 459–460
  - normal profit as a cost, 258–259
- profit maximization
  - deviations from, 255
  - marginal cost (MC), 266–267
  - maximizing short-run profits, 342–343
  - minimizing short-run losses, 343–345
- profitability and advertising, hostages in business, 197
- property rights
  - private, 14–22
  - workplace, 34–35
- protectionism, *see* international trade
- “Public Choice” economics, 219–225
  - regulation, 219–225
  - rent-seeking, 222–225
- public goods, 210–211
  - in business, 237–239

- public-interest theory of monopoly
  - regulation, 436–442
- pure monopoly, 335, 337–338
- PV, *see* present value
- queues, 111–114
- Quicken home-finance software, 316
- QWERTY keyboard: a case of “lock-in”?, 401–403
- random behavior and demand, 152–153
- rational addiction, 157–158
- rational behavior, 130–131
  - acting individuals, 48–49
  - assumptions, 47–48, 49–50
  - cooperation: evolutionary foundations, 62–64
  - cost-benefit analysis, 54–60
  - defining, 49–50
  - marginal cost (MC), 260
  - maximizing satisfaction: cost-benefit analysis, 54–60
  - opportunistic behavior, 280
  - rational decisions, 50–54
  - rationality, 48–50
  - what rational behavior does not mean, 60–61
- rational consumption, 131–135
  - marginal utility (MU), 131–135
- rational decisions, 50–54
  - choice, 50–53
  - cost, 53–54
  - make-or-buy decisions, 287–290
  - presumptions, 50
- rationing, 172–173
- Read, Leonard, 29–30
- regulation
  - antitrust, 440–442
  - economic theory of regulation, 442–443
  - government intervention, 222–225
  - monopoly power, 436–443
  - natural monopoly, 438–440
  - “Public Choice” economics, 219–225
  - public-interest theory of monopoly
    - regulation, 436–442
  - rent-seeking, 222–225
- remuneration, *see* pay/wages
- rent-seeking
  - monopoly inefficiency, 397
  - political markets versus economic markets, 222–225
  - “Public Choice” economics, 222–225
  - regulation, 222–225
- residual claimants, 14
  - large groups, 81–83
  - Prisoner’s Dilemmas, 81–83
- resources, allocation, 6–9
- retirement, mandatory retirement, 120–122
- Ricardo, David, 464
- risk
  - entrepreneurial risk-taking, 57
  - investments, 323
  - risk-taking by banks and homeowners, 58–59
  - risk-taking by banks and the mortgage crisis, 59–60
  - spreading risks, 323
  - worker risk, piece-rate pay, 499–501
- risk cost, 54
- risk effects, cost-benefit analysis, 56–60
- Roberts, John, 445–446, 447
- Rubin, Paul, cooperation, 62
- Savings and Loan (S&L) crisis, 321–322
- scale economies, *see* economies of scale
- scarcity, 7–9
- scope
  - economies of scope, 287–288
  - of economics, 9–10
- selling a business, last-period problem, 315–317
- short-run
  - average fixed cost (AFC), 302–303
  - average total cost (ATC), 303–304
  - average variable cost (AVC), 303
  - fixed costs, 299–302
  - hostile takeovers, 456–457
  - long-run effect of short-run profits and losses, 346–347
  - marginal cost (MC), 300–302
  - maximizing short-run profits, 342–343
  - minimizing short-run losses, 343–345
  - monopolistic competition, 423–426
  - total costs, 299–302
  - variable costs, 299–302
- shortages and surpluses, perfect competition, 353
- size of firms, 275–276, 279–283
- small groups, group behavior, 68–70
- Smith, Adam, 253
- software networks, 159–162
- Southwest Airlines, paying for performance, 496
- spam, email, 239–241

## 526 Index

- Spydrs, 61
- Starbucks, price discrimination, 414
- statistical discrimination, 492–494
- storefronts and fixtures, hostages in
  - business, 196
- substitutes, elasticity of demand, 144–145, 147
- sunk costs, 257–258, 369
- supply and demand, 91–114, *see also* demand
  - changes in combination of features, 109–110
  - changes in demand and supply, 104–105
  - competitive market model, 105–107
  - complementary products, 96
  - demand, describing, 91–99
  - fringe benefits, 183–184
  - individual supply curve, 267–268
  - labor, 465–478
  - market equilibrium, 100–101
  - market model, 91–114
  - market shortages, 102–103
  - market supply curve, 267–268, 341, 346
  - market surpluses, 101–102
  - non-price competition, 107–109
  - product improvement, 110
  - queues, 111–114
  - supply, describing, 96–106
- surpluses and shortages, perfect competition, 353
- takeovers, hostile, *see* hostile takeovers
- tariffs, 22, 245–247
- tax, 167–170
  - excise taxes, 142–143, 167–169
- taxing monopoly profits, 395–396
- teams, 360–368
  - competing cost-effectively through efficient teams, 360–361
  - paying teams, 364–368
  - team production, 361–363
  - team size, 364
- tenure, 268–275, *see also* universities
  - as a tournament, 274–275
  - costs and benefits, 269–270
  - why people in business don't have tenure, 273–275
  - worker-managed universities and academic politics, 270–273
- theater pricing, price discrimination, 406–407
- theories, economic, *see* economic theories
- time effects
  - cost–benefit analysis, 56–60
  - elasticity of demand, 145–146
- total costs, short-run, 299–302
- Toyota, 290
- trade, international, *see* international trade
- tragedy of the anticommons, 27–34
  - Lessig, Lawrence, 28–29
- tragedy of the commons, 22–25
  - communal property rights, 22–25
  - firms, 25–26
  - solutions, 25–26
  - voluntary organizations and firms, 25–26
  - water market, 24
- transaction utility, 147–148
- transferring a business, last-period problem, 315–317
- trust, *see also* honesty in business
  - games of trust, 193–199
- two-part pay systems, 504–507
  - one-time bonuses versus annual raises, 506–507
- two-party democratic system, 225–243
  - central tendency, 225–243
  - median voter preferences, 225–243
  - simple-majority voting rule, 227–243
- unadvertised prices, price discrimination, 409–410
- underpayment, 119–120, *see also* overpayments
- unions, labor, monopsonistic labor markets, 486–488
- universities, *see also* tenure
  - health insurance, 269
  - worker-managed universities and academic politics, 270–273
- utility, 48
  - acquisition utility, 147–148
  - marginal utility (*MU*), 131–135
  - transaction utility, 147–148
- variable costs, short-run, 299–302
- very long run, 310–311
  - monopoly profits, 459–460
- voluntary organizations, tragedy of the commons, 25–26
- wages/pay, *see* pay/wages
- Walmart, innovator's dilemma, 446–447

|                                            |                                            |
|--------------------------------------------|--------------------------------------------|
| water market, 72                           | Wilson, Woodrow, 373                       |
| elasticity of demand, 143                  | winner's curse, hostile takeovers, 454–455 |
| price controls, 173–174                    | worker risk, piece-rate pay, 499–501       |
| tragedy of the commons, 24                 | workers, <i>see</i> employees              |
| Welch, Jack, 79                            | workplace Prisoner's Dilemmas, 76–79       |
| welfare, monopolistic competition, 425–426 | workplace property rights, 34–35           |
| Wilson, James Q., cooperation, 63          |                                            |