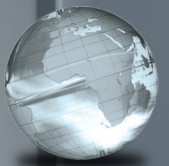


GLOBAL
EDITION



Economics for Managers

THIRD EDITION

Paul G. Farnham

ALWAYS LEARNING

PEARSON

Third
Edition

Economics for Managers

Global Edition

Paul G. Farnham

Georgia State University

PEARSON

Boston Columbus Indianapolis New York San Francisco Upper Saddle River
Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montréal Toronto
Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

Economics for Managers, Global Edition

Table of Contents

Cover

Title

Copyright

Contents

Preface

About the Author

Part 1 Microeconomic Analysis

Chapter 1 Managers and Economics

CASE FOR ANALYSIS: Micro- and Macroeconomic Influences on the Global Automobile Industry

Two Perspectives: Microeconomics and Macroeconomics

Microeconomic Influences on Managers

Markets

Managerial Rule of Thumb: Microeconomic Influences on Managers

Macroeconomic Influences on Managers

Factors Affecting Macro Spending Behavior

Managerial Rule of Thumb: Macroeconomic Influences on Managers

Summary

Key Terms

Exercises

Application Questions

Chapter 2 Demand, Supply, and Equilibrium Prices

CASE FOR ANALYSIS: Demand and Supply in the Copper Industry

Demand

Nonprice Factors Influencing Demand

Demand Function

Demand Curves

Change in Quantity Demanded and Change in Demand

Individual Versus Market Demand Curves

Linear Demand Functions and Curves

Mathematical Example of a Demand Function

Managerial Rule of Thumb: Demand Considerations

Supply

Table of Contents

- Nonprice Factors Influencing Supply
- Supply Function
- Supply Curves
- Change in Quantity Supplied and Change in Supply
- Mathematical Example of a Supply Function

Summary of Demand and Supply Factors

Managerial Rule of Thumb: Supply Considerations

Demand, Supply, and Equilibrium

- Definition of Equilibrium Price and Equilibrium Quantity
- Lower-Than-Equilibrium Prices
- Higher-Than-Equilibrium Prices
- Mathematical Example of Equilibrium
- Changes in Equilibrium Prices and Quantities
- Mathematical Example of an Equilibrium Change

Summary

Key Terms

Exercises

Application Questions

Chapter 3 Demand Elasticities

CASE FOR ANALYSIS: Demand Elasticity and Procter & Gambles Pricing Strategies

Demand Elasticity

Price Elasticity of Demand

- The Influence of Price Elasticity on Managerial Decision Making
- Price Elasticity Values
- Elasticity and Total Revenue

Managerial Rule of Thumb: Estimating Price Elasticity

Determinants of Price Elasticity of Demand

- Number of Substitute Goods
- Percent of Consumers Income Spent on the Product
- Time Period

Numerical Example of Elasticity, Prices, and Revenues

- Calculating Price Elasticities
- Numerical Example
- The Demand Function
- Other Functions Related to Demand
- Calculation of Arc and Point Price Elasticities
- Price Elasticity Versus Slope of the Demand Curve
- Demand Elasticity, Marginal Revenue, and Total Revenue

Vertical and Horizontal Demand Curves

- Vertical Demand Curves

Table of Contents

Horizontal Demand Curves

Income and Cross-Price Elasticities of Demand

Income Elasticity of Demand

Managerial Rule of Thumb: Calculating Income Elasticity

Cross-Price Elasticity of Demand

Elasticity Estimates: Economics Literature

Elasticity and Chicken and Agricultural/Food Products

Elasticity and Beer

Water Demand

Elasticity and the Tobacco Industry

Elasticity and Health Care

Tuition Elasticity in Higher Education

Managerial Rule of Thumb: Price Elasticity Decision Making

Elasticity Issues: Marketing Literature

Marketing Study I: Tellis (1988)

Marketing Study II: Sethuraman and Tellis (1991)

Marketing Study III: Hoch et al. (1995)

Marketing Study Update

Managerial Rule of Thumb: Elasticities in Marketing and Decision Making

Summary

Appendix 3A Economic Model of Consumer Choice

Key Terms

Exercises

Application Questions

Chapter 4 Techniques for Understanding Consumer Demand and Behavior

CASE FOR ANALYSIS: The Use of New Technology to Understand and Impact Consumer Behavior

Understanding Consumer Demand and Behavior: Marketing Approaches

Expert Opinion

Consumer Surveys

Test Marketing and Price Experiments

Analysis of Census and Other Historical Data

Unconventional Methods

Evaluating the Methods

Managerial Rule of Thumb: Marketing Methods for Analyzing Consumer Behavior

Consumer Demand and Behavior: Economic Approaches

Relationship Between One Dependent and One Independent Variable: Simple Regression Analysis

Relationship Between One Dependent and Multiple Independent Variables: Multiple Regression Analysis

Other Functional Forms

Demand Estimation Issues

Managerial Rule of Thumb: Using Multiple Regression Analysis

Table of Contents

Case Study of Statistical Estimation of Automobile Demand

Managerial Rule of Thumb: Using Empirical Consumer Demand Studies

Relationships Between Consumer Market Data and Econometric Demand Studies

Case Study I: Carnation Coffee-mate

Case Study II: Carnation Evaporated Milk

Case Study III: The Demand for Cheese in the United States

Managerial Rule of Thumb: Using Consumer Market Data

Summary

Key Terms

Exercises

Application Questions

Chapter 5 Production and Cost Analysis in the Short Run

CASE FOR ANALYSIS: Production and Cost Analysis in the Fast-Food Industry

Defining the Production Function

The Production Function

Fixed Inputs Versus Variable Inputs

Short-Run Versus Long-Run Production Functions

Managerial Rule of Thumb: Short-Run Production and Long-Run Planning

Productivity and the Fast-Food Industry

Model of a Short-Run Production Function

Total Product

Average Product and Marginal Product

Relationships Among Total, Average, and Marginal Product

Economic Explanation of the Short-Run Production Function

Real-World Firm and Industry Productivity Issues

Other Examples of Diminishing Returns

Productivity and the Agriculture Industry

Productivity and the Automobile Industry

Productivity Changes Across Industries

Model of Short-Run Cost Functions

Measuring Opportunity Cost: Explicit Versus Implicit Costs

Accounting Profit Measures Versus Economic Profit Measures

Managerial Rule of Thumb: The Importance of Opportunity Costs

Definition of Short-Run Cost Functions

Fixed Costs Versus Variable Costs

Relationships Among Total, Average, and Marginal Costs

Relationship Between Short-Run Production and Cost

Other Short-Run Production and Cost Functions

Managerial Rule of Thumb: Understanding Your Costs

Empirical Evidence on the Shapes of Short-Run Cost Functions

Table of Contents

Econometric Estimation of Cost Functions
Survey Results on Cost Functions
Constant Versus Rising Marginal Cost Curves
Implications for Managers

Summary

Key Terms

Exercises

Application Questions

Chapter 6 Production and Cost Analysis in the Long Run

CASE FOR ANALYSIS: The iPhone in China

Model of a Long-Run Production Function

Input Substitution

Model of a Long-Run Cost Function

Derivation of the Long-Run Average Cost Curve

Economies and Diseconomies of Scale

Factors Creating Economies and Diseconomies of Scale

Other Factors Influencing the Long-Run Average Cost Curve

The Minimum Efficient Scale of Operation

Long-Run Average Cost and Managerial Decision Making

Summary

Appendix 6A Isoquant Analysis

Key Terms

Exercises

Application Questions

Chapter 7 Market Structure: Perfect Competition

CASE FOR ANALYSIS: Competition and Cooperative Behavior in the Potato Industry

The Model of Perfect Competition

Characteristics of the Model of Perfect Competition

Model of the Industry or Market and the Firm

The Short Run in Perfect Competition

Long-Run Adjustment in Perfect Competition: Entry and Exit

Adjustment in the Potato Industry

Long-Run Adjustment in Perfect Competition: The Optimal Scale of Production

Managerial Rule of Thumb: Competition Means Little Control Over Price

Other Illustrations of Competitive Markets

Competition and the Agricultural Industry

Competition and the Broiler Chicken Industry

Competition and the Red-Meat Industry

Competition and the Milk Industry

Table of Contents

Competition and the Trucking Industry

Managerial Rule of Thumb: Adopting Strategies to Gain Market Power in Competitive Industries

Summary

Appendix 7A Industry Supply

Key Terms

Exercises

Application Questions

Chapter 8 Market Structure: Monopoly and Monopolistic Competition

CASE FOR ANALYSIS: Changing Market Power for Eastman Kodak Co.

Firms with Market Power

The Monopoly Model

Comparing Monopoly and Perfect Competition

Sources of Market Power: Barriers to Entry

Managerial Rule of Thumb: Using Lock-In as a Competitive Strategy

Changes in Market Power

Measures of Market Power

Antitrust Issues

Managerial Rule of Thumb: Understanding Antitrust Laws

Monopolistic Competition

Characteristics of Monopolistic Competition

Short-Run and Long-Run Models of Monopolistic Competition

Examples of Monopolistically Competitive Behavior

Managerial Rule of Thumb: Maintaining Market Power in Monopolistic Competition

Summary

Key Terms

Exercises

Application Questions

Chapter 9 Market Structure: Oligopoly

CASE FOR ANALYSIS: Oligopoly Behavior in the Airline Industry

Case Studies of Oligopoly Behavior

The Airline Industry

The Soft Drink Industry

The Doughnut Industry

The Parcel and Express Delivery Industry

Oligopoly Models

Noncooperative Oligopoly Models

The Kinked Demand Curve Model

Game Theory Models

Table of Contents

Strategic Entry Deterrence

Predatory Pricing

Cooperative Oligopoly Models

Cartels

Tacit Collusion

Managerial Rule of Thumb: Coordinated Actions

Summary

Key Terms

Exercises

Application Questions

Chapter 10 Pricing Strategies for the Firm

CASE FOR ANALYSIS: Airline Pricing Strategies: Will They Start Charging for the Use of the Lavatories?

The Role of Markup Pricing

Marginal Revenue and the Price Elasticity of Demand

The Profit-Maximizing Rule

Profit Maximization and Markup Pricing

Business Pricing Strategies and Profit Maximization

Markup Pricing Examples

Managerial Rule of Thumb: Markup Pricing

Price Discrimination

Definition of Price Discrimination

Theoretical Models of Price Discrimination

Price Discrimination and Managerial Decision Making

Marketing and Price Discrimination

Macroeconomics and Pricing Policies

Summary

Key Terms

Exercises

Application Questions

Part 2 Macroeconomic Analysis

Chapter 11 Measuring Macroeconomic Activity

CASE FOR ANALYSIS: Measuring Changes in Macroeconomic Activity: Implications for Managers

Measuring Gross Domestic Product (GDP)

The Circular Flow in a Mixed, Open Economy

Managerial Rule of Thumb: Spending Patterns

National Income Accounting Systems

Characteristics of GDP

Table of Contents

Real Versus Nominal GDP

Alternative Measures of GDP

Other Important Macroeconomic Variables

Price Level Measures

Measures of Employment and Unemployment

Managerial Rule of Thumb: Price Level and Unemployment

Major Macroeconomic Policy Issues

What Factors Influence the Spending Behavior of the Different Sectors of the Economy?

How Do Behavior Changes in These Sectors Influence the Level of Output and Income in the Economy?

Can Policy Makers Maintain Stable Prices, Full Employment, and Adequate Economic Growth over Time?

How Do Fiscal, Monetary, and Balance of Payments Policies Influence the Economy?

What Impact Do These Macro Changes Have on Different Firms and Industries?

Managerial Rule of Thumb: Competitive Strategies and the Macro Environment

Summary

Key Terms

Exercises

Application Questions

Chapter 12 Spending by Individuals, Firms, and Governments on Real Goods and Services

CASE FOR ANALYSIS: Mixed Signals on the U.S. Economy in Summer 2012

Framework for Macroeconomic Analysis

Focus on the Short Run

Analysis in Real Versus Nominal Terms

Treatment of the Foreign Sector

Outline for Macroeconomic Analysis

The Components of Aggregate Expenditure

Personal Consumption Expenditure

Gross Private Domestic Investment Expenditure

Government Expenditure

Net Export Expenditure

Aggregate Expenditure and Equilibrium Income and Output

Aggregate Expenditure

Equilibrium Level of Income and Output

Effect of the Interest Rate on Aggregate Expenditures

Summary

Appendix 12A Numerical Example of Equilibrium and the Multiplier

Appendix 12B Algebraic Derivation of the Aggregate Expenditure Function

Key Terms

Exercises

Application Questions

Chapter 13 The Role of Money in the Macro Economy

Table of Contents

CASE FOR ANALYSIS: The Chairmans Quandary

Money and the U.S. Financial System

Definition of Money

Measures of the Money Supply

Depository Institutions and the Fractional Reserve Banking System

The Central Bank (Federal Reserve)

Tools of Monetary Policy

Managerial Rule of Thumb: Federal Reserve Policy

Equilibrium in the Money Market

The Supply of Money

The Demand for Money

Equilibrium in the Money Market

Change in the Supply of Money

Change in the Demand for Money

Overall Money Market Changes

Summary

Appendix 13A Monetary Tools and the Market for Bank Reserves

Key Terms

Exercises

Application Questions

Chapter 14 The Aggregate Model of the Macro Economy

CASE FOR ANALYSIS: What Role for Inflation?

The Model of Aggregate Demand and Supply

The Aggregate Demand Curve

Fiscal and Monetary Policy Implementation

The Aggregate Supply Curve

Using the Aggregate Model to Explain Changes in the Economy from 2007 to 2008 and from 2011 to 2012

Impact of Macro Changes on Managerial Decisions

Measuring Changes in Aggregate Demand and Supply

Managerial Rule of Thumb: Judging Trends in Economic Indicators

Summary

Appendix 14A Specific and General Equations for the Aggregate Macro Model

Key Terms

Exercises

Application Questions

Chapter 15 International and Balance of Payments Issues in the Macro Economy

CASE FOR ANALYSIS: Uncertainty in the World Economy in 2012

Exchange Rates

Managerial Rule of Thumb: Currency Exchange Rates

Table of Contents

Equilibrium in the Open Economy

U.S. International Transactions in 2011 (Balance of Payments)

The Current Account

The Financial Account

Revenue or T-Account

Deriving the Foreign Exchange Market

The Demand for and Supply of Dollars in the Foreign Exchange Market

Equilibrium in the Foreign Exchange Market

Managerial Rule of Thumb: The Foreign Exchange Market

Exchange Rate Systems

Flexible Exchange Rate System

Fixed Exchange Rate System

The Effect on the Money Supply

Sterilization

Policy Examples of International Economic Issues

The U.S. Economy, 1995-2000

The U.S. Economy, 2007-2008 and 2010-2012

Effects of the Euro in the Macroeconomic Environment

Euro Macro Environment Effects on Managerial Decisions

Southeast Asia: An Attempt to Maintain Fixed Exchange Rates

Macro and Managerial Impact of the Chinese Yuan Since 2003

Policy Effectiveness with Different Exchange Rate Regimes

Summary

Appendix 15A Specific and General Equations for the Balance of Payments

Key Terms

Exercises

Application Questions

Part 3 Integration of the Frameworks

Chapter 16 Combining Micro and Macro Analysis for Managerial Decision Making

CASE FOR ANALYSIS: Strong Headwinds for McDonalds

Microeconomic and Macroeconomic Influences on McDonalds and the Fast-Food Industry

Shifting Product Demand

Oligopolistic Behavior

Strategies to Offset Shifting Demand

Cost-Cutting Strategies

Innovations for Different Tastes

Drawing on Previous Experience

2012 and Beyond: A Focus on China and Other Emerging Markets

Economic and Political Issues

Table of Contents

Responses of Other Fast-Food Competitors

Calorie Counts on Menus

Macroeconomic Influences on the Fast-Food Industry in 2011 and 2012

Summary: Macro and Micro Influences on the Fast-Food Industry

Appendix 16A Statistical Estimation of Demand Curves

Exercises

Application Questions

Solutions to Even-Numbered Problems

Glossary

Index