

GLOBAL  
EDITION



# Foundations of Microeconomics

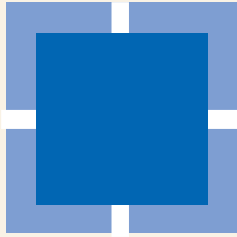
SEVENTH EDITION

Robin Bade • Michael Parkin



ALWAYS LEARNING

PEARSON



# FOUNDATIONS OF MICROECONOMICS

delivers a complete, hands-on learning system designed around active learning.

## A Learning-by-Doing Approach

The **Checklist** that begins each chapter highlights the key topics covered and the chapter is divided into sections that directly correlate to the Checklist.

The **Checkpoint** that ends each section provides a full page of practice problems to encourage students to review the material while it is fresh in their minds.

Each chapter opens with a question about a central issue that sets the stage for the material.



Why does tuition keep rising?

## Demand and Supply

4

CHAPTER CHECKLIST

When you have completed your study of this chapter, you will be able to

- 1 Distinguish between quantity demanded and demand, and explain what determines demand.
- 2 Distinguish between quantity supplied and supply, and explain what determines supply.
- 3 Explain how demand and supply determine price and quantity in a market, and explain the effects of changes in demand and supply.

MyEconLab Big picture

### CHECKPOINT 4.1

Distinguish between quantity demanded and demand, and explain what determines demand.

#### Practice Problems

The following events occur one at a time in the market for cell phones:

- The price of a cell phone falls.
  - Producers announce that cell-phone prices will fall next month.
  - The price of a call made from a cell phone falls.
  - The price of a call made from a land-line phone increases.
  - The introduction of camera phones makes cell phones more popular.
1. Explain the effect of each event on the demand for cell phones.
  2. Use a graph to illustrate the effect of each event.
  3. Does any event (or events) illustrate the law of demand?

MyEconLab Study Plan 4.1  
Key Terms Quiz  
Solutions



### EYE on TUITION

Why Does Tuition Keep Rising?

Tuition has increased every year since 1980 and at the same time, enrollment has steadily climbed. Figure 1 shows these facts. The points tell us the levels of enrollment (x-axis) and tuition (y-axis, measured in 2010 dollars) in 1981, 1991, and each year from 2001 to 2010. We can interpret the data using the demand and supply model

In a given year, other things remain the same, but from one year to the next, some things change. The population has grown, incomes have increased, jobs that require more than a high-school diploma have expanded while jobs for high-school graduates have shrunk, and government subsidized student loans programs have expanded.

described. In 2001, demand was  $D_{01}$  and supply was  $S$ . The market was in equilibrium with 16 million students enrolled paying an average tuition of \$15,000. By 2010, demand had increased to  $D_{10}$ . At the tuition of 2001, there would be a severe shortage of college places, so tuition rises. In 2010, the market was in equilibrium

**Eye On** boxes apply theory to important issues and problems that shape our global society and individual decisions.

## Confidence-Building Graphs

use color to show the direction of shifts and detailed, numbered captions guide students step-by-step through the action.

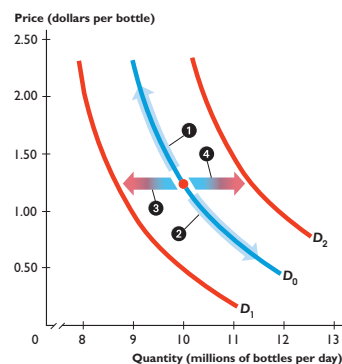
100% of the figures are animated in MyEconLab, with step-by-step audio narration.

FIGURE 4.4

Change in Quantity Demanded Versus Change in Demand

MyEconLab Animation

- 1 **A decrease in the quantity demanded**  
The quantity demanded decreases and there is a movement up along the demand curve  $D_0$  if the price of the good rises and other things remain the same.
- 2 **A decrease in demand**  
Demand decreases and the demand curve shifts leftward (from  $D_0$  to  $D_1$ ) if
  - The price of a substitute falls or the price of a complement rises.
  - The price of the good is expected to fall.
  - Income decreases.\*
  - Expected future income or credit decreases.
  - The number of buyers decreases.



- 2 **An increase in the quantity demanded**  
The quantity demanded increases and there is a movement down along the demand curve  $D_0$  if the price of the good falls and other things remain the same.
- 3 **A decrease in demand**  
Demand decreases and the demand curve shifts leftward (from  $D_0$  to  $D_1$ ) if
  - The price of a substitute falls or the price of a complement rises.
  - The price of the good is expected to fall.
  - Income decreases.\*
  - Expected future income or credit decreases.
  - The number of buyers decreases.
- 4 **An increase in demand**  
Demand increases and the demand curve shifts rightward (from  $D_0$  to  $D_2$ ) if
  - The price of a substitute rises or the price of a complement falls.
  - The price of the good is expected to rise.
  - Income increases.
  - Expected future income or credit increases.
  - The number of buyers increases.

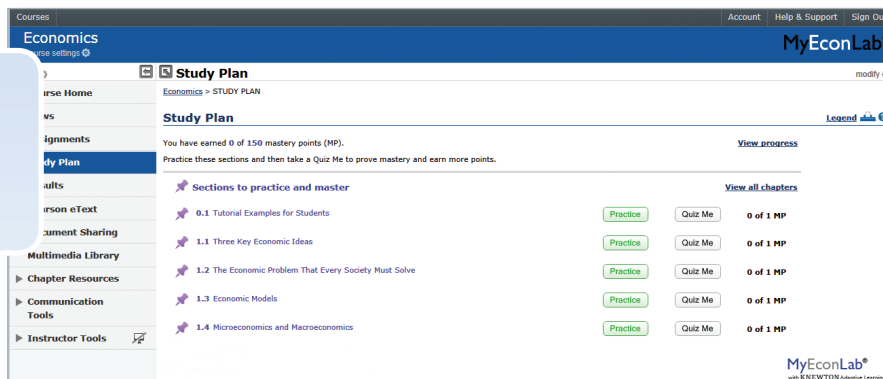
\* Bottled water is a normal good.

# MyEconLab<sup>®</sup> Provides the Power of Practice

Optimize your study time with **MyEconLab**, the online assessment and tutorial system. When you take a sample test online, **MyEconLab** gives you targeted feedback and a personalized Study Plan to identify the topics you need to review.

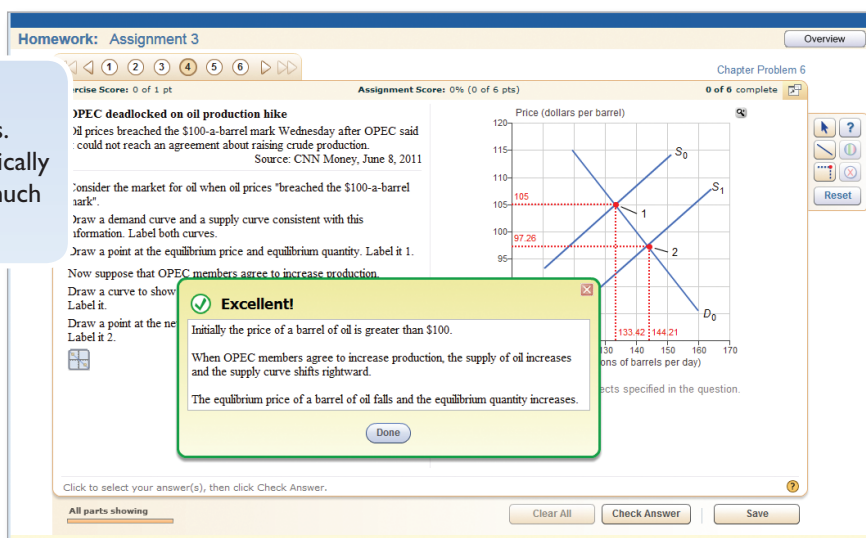
## Study Plan

The Study Plan shows you the sections you should study next, gives easy access to practice problems, and provides you with an automatically generated quiz to prove mastery of the course material.



## Unlimited Practice

As you work each exercise, instant feedback helps you understand and apply the concepts. Many Study Plan exercises contain algorithmically generated values to ensure that you get as much practice as you need.



## Learning Resources

Study Plan problems link to learning resources that further reinforce concepts you need to master.

- **Help Me Solve This** learning aids help you break down a problem much the same way as an instructor would do during office hours. Help Me Solve This is available for select problems.
- **eText links** are specific to the problem at hand so that related concepts are easy to review just when they are needed.
- A **graphing tool** enables you to build and manipulate graphs to better understand how concepts, numbers, and graphs connect.

# MyEconLab<sup>®</sup>

Find out more at [www.myeconlab.com](http://www.myeconlab.com)



# Current News Exercises

Posted weekly, we find the latest microeconomic and macroeconomic news stories, post them, and write multi-part exercises that illustrate the economic way of thinking about the news.

**Homework: News** Overview

Exercise Score: 0 of 1 pt Assignment Score: 0% (0 of 4 pts) \*9/30/13: Free trade in China 0 of 4 complete

**Economics in the News**  
September 30, 2013  
Read the news article, [China to launch mysterious free trade zone in Shanghai](#), and then answer the following questions.

2. Why is free trade beneficial? Who wins? Does anyone lose? Free trade is beneficial because it \_\_\_\_\_ win and \_\_\_\_\_ from free trade.

- A lowers the world price; Producers; consumers lose
- B generates a tariff revenue; Consumers; governments lose
- C increases exports; Both consumers and producers; governments lose
- D does not create a deadweight loss; Both consumers and producers win; nobody loses

3. Graphical Analysis.  
The launch of the free trade zone in Shanghai could be a game changer for China's economy  
Considering that France exports wine into China:  
Click a line or point to select it.

2 parts remaining

Clear All Check Answer Save

**Graphical Analysis:** Price (dollars per litre) vs. Quantity of French wine (thousands of litres per day). The graph shows a downward-sloping demand curve  $D_0$  and an upward-sloping supply curve  $S_0$ . A horizontal line labeled "World price" is drawn at a price of 218.05. The equilibrium quantity is 3.7. A red dot is placed at the intersection of  $S_0$  and the world price line.

# Interactive Homework Exercises

Participate in a fun and engaging activity that helps promote active learning and mastery of important economic concepts.

Pearson's experiments program is flexible and easy for instructors and students to use. For a complete list of available experiments, visit [www.myeconlab.com](http://www.myeconlab.com).

**Market for Cranberries** 1 of 4

Free Market

Play to start this round.

WTP: \$12.00 You are a Buyer

Bid: \$

**CURRENT BIDS AND ASKS**

Your Bid: \$11.50 Highest Bid: \$ Lowest Ask: \$

**Round 1**  
Your WTP: \$12.00  
Transaction Price: \$11.50  
Average Transaction Price: \$11.75  
Total Transactions: 8

**TOTAL RESULTS**

Round	Role	WTP	Cost	Bid	Ask	Price	Gain
1	Buyer	\$12.00		\$11.50		\$11.50	\$0.50

Total Gain: \$0.50

Legend: Lowest Ask Highest Bid Sellers Buyers Transaction Your Transaction



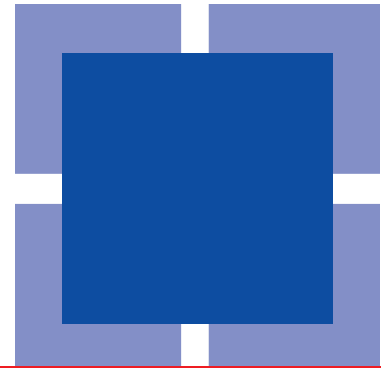
Foundations of

# MICROECONOMICS

Robin Bade

Michael Parkin

*University of Western Ontario*



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**To Erin, Tessa, Jack, Abby, and Sophie**





## About the Authors



**Robin Bade** was an undergraduate at the University of Queensland, Australia, where she earned degrees in mathematics and economics. After a spell teaching high school math and physics, she enrolled in the Ph.D. program at the Australian National University, from which she graduated in 1970. She has held faculty appointments at the University of Edinburgh in Scotland, at Bond University in Australia, and at the Universities of Manitoba, Toronto, and Western Ontario in Canada. Her research on international capital flows appears in the *International Economic Review* and the *Economic Record*.

Robin first taught the principles of economics course in 1970 and has taught it (alongside intermediate macroeconomics and international trade and finance) most years since then. She developed many of the ideas found in this text while conducting tutorials with her students at the University of Western Ontario.



**Michael Parkin** studied economics in England and began his university teaching career immediately after graduating with a B.A. from the University of Leicester. He learned the subject on the job at the University of Essex, England's most exciting new university of the 1960s, and at the age of 30 became one of the youngest full professors. He is a past president of the Canadian Economics Association and has served on the editorial boards of the *American Economic Review* and the *Journal of Monetary Economics*. His research on macroeconomics, monetary economics, and international economics has resulted in more than 160 publications in journals and edited volumes, including the *American Economic Review*, the *Journal of Political Economy*, the *Review of Economic Studies*, the *Journal of Monetary Economics*, and the *Journal of Money, Credit, and Banking*. He is author of the best-selling textbook, *Economics* (Addison-Wesley), now in its Eleventh Edition.

Robin and Michael are a wife-and-husband team. Their most notable joint research created the Bade-Parkin Index of central bank independence and spawned a vast amount of research on that topic. They don't claim credit for the independence of the new European Central Bank, but its constitution and the movement toward greater independence of central banks around the world were aided by their pioneering work. Their joint textbooks include *Macroeconomics* (Prentice-Hall), *Modern Macroeconomics* (Pearson Education Canada), and *Economics: Canada in the Global Environment*, the Canadian adaptation of Parkin, *Economics* (Addison-Wesley). They are dedicated to the challenge of explaining economics ever more clearly to a growing body of students.

Music, the theater, art, walking on the beach, and five grandchildren provides their relaxation and fun.