Brief Overview

Microeconomics in Context
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PART I: THE CONTEXT FOR ECONOMIC ANALYSIS

Part I lays out the fundamental issues and introduces fundamental terms, definitions, actors and assumptions. In contrast to other books, efficiency is not taken as the sole goal of economics, nor are markets treated as the sole arena of economic activity.

Chapter 1: Economic Activity in Context
This chapter, largely verbal in form, introduces students to the study of economics as a human endeavor in the service of increasing well-being.

1. Your Starting Point
2. The Goals of Economic Activity
   Positive questions. Normative questions.
   2.1 Intermediate and Final Goals
      Commentary: Goals Beyond Efficiency
   2.2 Components of Well-being
      Commentary: Goals Beyond Survival
   2.3 Economics and Well-being
3. The Issues that Define Economics
   3.1 The Four Essential Economic Activities
      Resource maintenance, Production, Distribution, Consumption
   3.2 The Three Basic Economic Questions
      What? How? For Whom?
4. Modes of Economic Organization
   4.1 Customary economic organization
   4.2 Consensual economic organization
   4.3 Administrative economic organization
Chapter 2: Economic Actors and Organizations
This chapter discusses the rationality and motivations of individuals within the context of the social organizations. This chapter describes how economic activities take place within and among three major sectors of the economy: the core sector of household and community groups, the public purpose sector of governments and non-profits, and the business sector of for-profit firms. Unlike standard texts that, for example, treat only (idealized) firms as producers, our approach takes seriously household, community, government and non-profit contributions to production. Likewise, all these organizations are described as taking part in resource maintenance, production, distribution, and consumption. We discuss how organization by custom, consent, administration and exchange shape social relations within and among the three sectors. Descriptive information is supplemented by statistics, when available.

1. Thinking about Economic Actors and Organizations
   1.1 The Relation of Economics and Business
   1.2 Individual Economic Actors and Organizations

2. Motivation and Behavior
   Purposive behavior.
   2.1 Intrinsic and Extrinsic Motivations
      Incentives.
      Commentary: Normative Interpretations of Motivations
   2.2 Self-Interest, Altruism, and the Common Good
   2.3 Behavior: Habit, Constraint, or Choice?
   2.4 Information and Rationality
      Rational choice. Satisficing.
   2.5 Optimization vs. Bounded Rationality
   2.6 Now or Later?
      High and low “time discount rates”

3. The Three Sectors
   3.1 The Core Sector
   3.2 The Public Purpose Sector
      Public Goods
   3.3 The Business Sector
      Innovation. Market power.
      Commentary: Are Big or Small Businesses More Important?

4. Interactions Among the Three Sectors
   4.1 Core and Business Interactions
   4.2 Core and Public Purpose Interactions
PART II: THE FOUR ECONOMIC ACTIVITIES: RESOURCE MAINTENANCE, PRODUCTION, DISTRIBUTION, AND CONSUMPTION

Part II examines each of the economic activities in turn. More conventional texts tend to be organized around sections treating “production and the firm” and “consumption and the household,” ignoring, for example, the productive activities that take place within households, and the crucial activities of governments. This is not suitable for our treatment, since we recognize that all four economic activities take place in all three sectors. The addition of resource maintenance to the usual list of economic activities (production, distribution, and consumption) is an innovation that allows for a far more direct and adequate treatment of environmental concerns, and of social and human capital, than can be found in competing textbooks.

Nonetheless, the majority of the concepts presented in this Part should look very familiar to most teachers of microeconomics. Investment, depreciation, opportunity costs, diminishing returns, marginal analysis and the like are treated at length. Formal neoclassical trade theory, consumer theory and producer theory are presented, partly in the text and partly in appendices. These appendices can be assigned in whole or in part, or skipped, according to the needs of the curriculum (in terms of student ability and Introductory/Intermediate divisions) and interests of the instructor—later chapters, such as supply and demand, do not depend on mastery of appendix material.

While we believe it makes sense to present the broad sweep of activities described in these chapters before looking more closely at markets, an instructor who prefers to get more quickly in to supply and demand analysis could assign Chapters 9 and 10 (from Part III) before Part II, with no loss in continuity.

Chapter 3: Capital Stocks and Resource Maintenance
It makes logical sense to start a discussion of economic activity with an examination of the resources available to society, and how these change over time, especially as they are affected by economic activity. The discussion of natural capital is crucial for discussions of environmental sustainability. We avoid using the term “physical capital” to mean machinery, which we call “produced capital” instead, since natural capital and some forms of the other types of capital are also physical in form. In describing human capital and social capital, we bring into this
introductory text subjects that are just now moving from the cutting edge of economic research into the mainstream (such as the attention given to human capital and technology in endogenous growth theory, and to norms of trust and reciprocity in game theory and experimental economics). Most other texts still neglect such topics. The chapter includes, near the end, a commentary on the important concept of opportunity cost, foreshadowing the more extensive treatment that takes place in the following chapter.

1. The Nature of Capital Stocks
   1.1 Stocks vs. Flows
      *Stock-Flow Diagram.*
   1.2 Increases and Decreases in Capital Stocks
   1.3 The Five Forms of Capital
      *NK, PK, NK, SK, FK. Physical Capital. Intangible Capital.*
2. The Evolution of Capital
3. Natural Capital (NK)
   3.1 Renewable and Nonrenewable NK
      News Story: Panel Tells Bush Global Warming is Getting Worse
   3.2 Technology and NK
4. Produced Capital (PK)
   4.1 Fixed Produced Capital
      *Physical Investments. Depreciation.*
   4.2 Inventories
   4.3 PK and Productivity
      Examples from History: PK and NK Compared (*Industrial Revolution*)
5. Human Capital (HK)
   Labor.
   5.1 Physical Human Capital
   5.2 Intangible Human Capital
      *Labor Productivity.*
6. Social Capital (SK)
   6.1 Technology
      *Embodied. Disembodied.*
   6.2 Social Organization
      News Story: The Ties that Lead to Prosperity
7. Financial Capital (FK)
   7.1 Equity Finance
   7.2 Debt Finance
      *Loan. Principal. Interest.*
      Commentary: The important concept of opportunity cost
   7.3 A Note on Terminology
8. Sustaining Capital Stocks
Chapter 4: Production I: Costs

Much of the material in this chapter will look very standard to teachers of Microeconomics. The ideas of diminishing returns, tradeoffs, and marginal calculations are introduced, using clear verbal analysis, examples, and simple graphs (including the familiar Production Possibility Frontier). A review of graphing techniques is woven into the text, for the less-mathematical students. Novel elements include (1) attention to externalities throughout (2) a greater emphasis on verbal explanation and examples, as contrasted to algebraic treatment, and (3) a description of individuals’ motivations as producers, including intrinsic motivations to be active and creative. The appendix can be assigned in whole or in part, or skipped, according to the needs of the curriculum and interests of the instructor.

1. Society’s Production Possibilities
   1.1 The Production Process
   Intermediate and final goods.
   1.2 Abundance and Scarcity

2. Economic Tradeoffs: Society’s Production Possibilities Frontier
   2.1 Tradeoffs Between Two Outputs
   Commentary: Military expenditure -- the opportunity cost
   2.2 Tradeoffs Over Time
   Technological progress.

3. Economic Costs
   3.1 Accounting Costs vs. Opportunity Costs
   Economic costs.
   3.2 Transaction Costs
   3.3 Internal and External Costs
   3.4 Costs and Productive Efficiency
   Technical Efficiency
   3.5 Social Costs and Efficiency

4. The “Production Function”
   4.1 Thinking about Inputs and Outputs
   Commentary: The “Capital and Labor” Confusion
   4.2 Graphing the Relation between Inputs and Outputs
   Direct and inverse relationships. Calculating slopes.
   4.3 Production in the Short Run
   Fixed and variable inputs. Capacity constraint. Limiting factor. Diminishing, constant, and increasing marginal returns.
   4.4 Costs in the Short Run
   Fixed and variable costs. Increasing, constant, and decreasing marginal costs.
   4.5 Production and Costs in the Long Run
   Long run average cost. Economies and diseconomies of scale.
   News Story: Hospital Network Could Be Split Up
   4.6 Technology Choice
   Input substitution.

Appendix: A Formal Model of Producer Costs
   A1. The Assumptions
Chapter 5: Production II: Decisions
In this chapter, the previous discussion of production costs is connected to a discussion of benefits and methods of decision-making. Novel aspects of this chapter include (1) the use of household and government, as well as business, examples of production decisions (2) the treatment of many frontier issues in economic research (such as path dependence) using verbal explanations and examples accessible to the beginning student, and (3) a discussion the limits on production imposed by financial capital constraints. The appendix can be assigned in whole or in part, or skipped, according to the needs of the curriculum and interests of the instructor.

1. Goals and Decision-Making
   1.1 Goals and Economic Benefits from Production
      *Internal and External Benefits.*
   1.2 Weighing Costs and Benefits

2. Marginal Thinking
   2.1 Comparing Marginal Benefits and Costs
   2.2 Marginal Thinking: The Example of Profit Maximization
      *The marginal revenue = marginal cost rule*
   2.3 The Assumption Underlying Reliance on Marginal Thinking: Convexity

3. Discrete Decision-Making
   3.1 Comparing Discrete Decisions and Marginal Thinking
   3.2 Multiple Equilibria, Lumpiness, and Increasing Returns
   3.3 Bringing in History: Sunk Costs
   3.4 More Considerations from History: Path Dependence and Switching Costs
   3.5 Bringing in Social Context: Network Externalities
      *Commentary: QWERTY*

4. Financial Capital as an Input to Production

Appendix: A Formal Theory of Producer Behavior with Convexity and Perfect Competition
   A1. The Assumptions
   A2. A Detailed Look at Revenue, Cost, and Profit
   A3. Profit Maximization
   A4. Total Revenue, Cost and Profit as Areas
   A5. Response to Variations in Output Price

Chapter 6: Distribution: Exchange and Transfer
This chapter contains the standard “gains from trade” story. However, it also discusses potential drawbacks of exchange relations, and shows how transfer relations are an indispensable part of a functioning economy. The chapter includes discussion of income inequality, making this book unlike the many texts that relegate this topic to late chapters (that may not be covered in class). The appendix can be assigned in whole or in part, or skipped, according to the needs of the curriculum and interests of the instructor.
Chapter 7: Consumption and The Consumer Society

This chapter takes a broader view than most textbooks, including topics such as poverty, excessive consumption, the rise of consumer society, and the effect of media advertising, in addition to the introduction of budget lines and a verbal discussion of utility theory. Indifference curve analysis is presented in an appendix, and may be assigned in whole or in part, or skipped with no loss in continuity.

1. Consumption: Final Use
   1.1 The “Sovereign” Consumer?
   1.2 Who Are the Consumers?

2. Consumer Behavior: The Marketing View
2.1 The Decision-Making Process
2.2 Consumer Motivation and Behavior
   \emph{Psychological and sociological research. Reference points and reference groups.}

3. Consumer Behavior: The Utility Theory View
   3.1 The Budget Line
   3.2 Utility
   3.3 Marginal Thinking in Consumer Decision-Making
   3.4 Deriving the Rule for Utility Maximization
   3.5 Further Developments and Complications

4. The Consumer Society
   4.1 The Birth of Consumer Society
   4.2 Workers Become Consumers
   4.3 Institutions of Consumer Society
      \emph{Advertising. Consumer credit.}

5. Consumption and Well-Being
   5.1 Old Utility Theory, New Utility Theory, and Capabilities
   5.2 Inadequate Consumption: Poverty
      \emph{Relative and absolute deprivation.}
   5.3 Excessive and Mis-Directed Consumption: “Affluenza”? 
   5.4 The Ecological Impact of Consumption

Appendix: A Formal Theory of Consumer Behavior
   A.1 The Assumptions
   A.2 The Budget Line and Its Slope
   A.3 Indifference Curves
   A.4 Utility Maximization
   A.5 Response to Variations in Price

\textbf{PART III: A CLOSER LOOK AT MARKETS}

This Part focuses in on one mode of distribution – markets – since these permeate contemporary
economic life, and have been a major focus of standard microeconomics. An instructor will find in
this section all the usual main topics of microeconomic textbooks, but presented in a more real-
world, qualified, and enriched manner. If desired, instructors might present Chapters 9 and 10
from this Part before Part II, with no loss of continuity.

\textbf{Chapter 8: Market Institutions}

While most textbooks treat markets as spontaneous natural occurrences, this chapter delves into
the shared understandings, goals, expectations and “rule of the game,” embodied in legal systems
and cultural beliefs, that provide the foundation for markets. The approach is largely verbal and
historical.

1. The Meaning of Markets
   1.1 Markets as Places to Buy and Sell
   1.2 Markets as Social Institutions
   1.3 “The Market” as Pure Exchange
2. The Development and Expansion of Markets
   2.1 The Industrial Revolution
   2.2 The Case of England
      Commentary: Some Market Beginnings
   2.3 Industrial and Market Culture

3. Institutional Requirements of Markets
   3.1 Individualist Institutions of Property and Decision-Making
      *Private property.*
   3.2 Social Institutions of Trust
      *Implicit and explicit contracts.*
   3.3 Infrastructure for the Smooth Flow of Goods and Information
      *Money. Information.*

4. Markets and Well-Being

5. Types of Markets
   5.1 What is Sold?
   5.2 How Are Prices Determined?
   5.3 What Time Period is Covered?
      *Spot. Futures. Long-term contracts.*
   5.5 Markets in the Simple Mechanical Model

Chapter 9: Supply and Demand

*Probably the core chapter of the book for most users, this chapter presents standard supply and demand analysis as a mental device for gaining insight into real-world patterns of price and quantity fluctuation. The theory is carefully built up using a simple thought experiment, and then applied, with ample explanation, to real world data about oil markets. Innovations, vis a vis other textbooks, include (1) explicit treatment of equilibrium as an idealized (rather than actual) state, in a world of myriad pressures and time-consuming adjustments (2) discussion of market “shortage” vs. human-need “inadequacy.”*

1. Prices and Quantities
   *Empirical, theoretical, and historical methods. Time-Series Data.*

2. The Theory of Supply
   2.1 The Supply Schedule and Curve
      *Individual supply. Market supply. Movement along the curve.*
   2.2 Changes in Supply
      *Shift of the curve.*
   2.3 Supply by Businesses as Producers
      *Non-price determinants of supply.*

3. The Theory of Demand
   3.1 The Demand Schedule and Curve
      *Effective demand. Individual demand. Market demand. Movement along the curve.*
   3.2 Changes in Demand
Chapter 10: Working with Supply and Demand

Continuing from the previous chapter, this chapter examines more issues through the lens of supply and demand. Treatments of elasticity and surplus are standard, although the examples diverge somewhat from those common in other books. The rent control discussion, for example, illustrates how different assumptions about supply elasticity affect the relative size of efficiency and redistributive effects.

1. How Much Money Will Sales Bring In?
2. The Price Elasticity of Demand
   2.1 Price Inelastic Demand
   2.2 Price Elastic Demand
   2.3 Elasticity and Slope
   
   Perfect elasticity. Perfect inelasticity.
   
   News Story: Companies & Markets: Drug Firms Under Fire At World Trade Meeting
   
   2.4 A Mathematical Approach
   
   Math Box: Calculating Percentage Changes
3. The Price Elasticity of Supply
4. Income, Price and Buyer Behavior
   4.1 Income Elasticity of Demand
   
   Normal goods. Inferior goods.
   
   4.2 Income and Substitution Effects of a Price Change
5. Short-Run vs. Long-Run Elasticities
6. Looking at Equity and Efficiency
Chapter 11: Markets Power and Market Structures

While the efficiency effects of market power were explained verbally at the end of the previous chapter, this chapter focuses more closely on the standard models of perfect and imperfect competition.

1. What is Market Power?
   1.1 Differing Perspectives on Market Power and Competition
   1.2 The Traditional Treatment of Market Power

2. Perfect Competition
   2.1 The Conditions of Perfect Competition
   2.2 Examples of Perfect Competition?
   2.3 Profit Maximization under Perfect Competition
   2.4 Perfect Competition and Long-Run Efficiency

3. Pure Monopoly: One Seller
   3.1 The Conditions of Monopoly
      Barriers to entry. Natural monopoly.
   3.2 Examples of Monopoly
      Commentary: The Issues in U.S. vs. Microsoft
   3.3 Profit Maximization for a Monopolist
   3.4 Monopoly and Inefficiency
   3.5 Can Monopoly be Efficient?

4. Monopolistic Competition
   4.1 The Conditions of Monopolistic Competition
   4.2 Examples of Monopolistic Competition
   4.3 Profit Maximization with Monopolistic Competition
   4.4 Monopolistic Competition and Long-Run Efficiency

5. Oligopoly
   5.1 The Conditions of Oligopoly
   5.2 Examples of Oligopoly
      Concentration ratio.
      News Story: GM, Ford, DaimlerChrysler Sales Fall as Japan, Europe Gain
   5.3 Oligopoly and the Behavior of Firms
      Game theory. Collusion. Kinked demand curve.
   5.4 Is Oligopoly Rampant?

6. Summary and a Final Note

Appendix: A Formal Analysis of Market Structures
   A1. The Assumptions
   A2. Perfect Competition
   A3. Monopoly
A4. Monopolistic Competition

Chapter 12: Markets for Labor

This chapter presents standard analysis of labor markets, combined with serious consideration of market power, discrimination, and non-market alternative uses of time, all at an elementary level.

1. Thinking about Markets for Labor
   1.1 Labor as an Input to Production
   1.2 Labor Productivity
2. Individual Decisions and Paid Labor Supply
   2.1 The Opportunity Costs of Paid Employment
   2.2 The Benefits of Paid Employment
   2.3 The Individual Paid Labor Supply Curve
      \textit{Upwards-sloping supply. Backwards-bending supply.}
3. Supply and Demand at the Market Level
   3.1 Market Labor Supply
   3.1 Market Labor Demand
   3.2 Market Adjustment
4. Explaining Variations in Wages
   4.1 Human Capital
      \textit{Employer-specific. General.}
   4.2 Market Power
      \textit{Monopsony. Oligopsony. Bilateral Monopoly.}
      News Story: Recording Artists Sue, Aiming to Rock Industry
   4.3 Compensating Wage Differentials
      Commentary: Do “Warm Feelings” Substitute for Wages?
   4.4 Worker Motivation
      \textit{Monitoring costs. Efficiency wages. Morale. Wage contours. Dual labor markets.}
   4.5 Discrimination
      \textit{Wage discrimination. Occupational segregation.}
      News Story: MIT Women Win a Fight Against Bias: In Rare Move, School Admits Discrimination
5. Labor in the Simple Mechanical Model
   5.1 Labor Supply
   5.2 Labor Demand
      \textit{Marginal revenue product. Marginal factor cost.}

Appendix: A Formal Model of a Firm’s Hiring Decision in Perfect Competition

Chapter 13: Markets for Other Resources

Like other books, this text contains discussions of factor markets. Unlike other books (1) market value and well-being value are discussed and contrasted (2) the human condition of real uncertainty about the future is given serious discussion (especially with regard to the environment and investment) and (3) social capital is included, both as something marketed and as something which may be undermined by overly narrow market thinking.
1. Valuing Capital Stocks
   1.1 The Value of Capital: A Simple Case with Certainty
      Math Box: The Present Value of Future Funds
   1.2 Varying Returns, Varying Costs, and Risk
   1.3 A Tougher Complication: Uncertainty
   1.4 Market Value
2. Markets for Produced, Natural, and Social Capital
   2.1 Produced Capital in the Simple Mechanical Model
      Marginal revenue product. Marginal factor cost.
   2.2 Should Natural Capital be Treated Differently?
      Coase Theorem.
   2.3 Social Capital and Markets
      Accounting goodwill.
3. Markets for Financial Capital
   3.1 When Businesses Need Financial Capital
   3.2 The Bond Market
   3.3 The Stock Market
      Commentary: Reading Financial Market Reports
   3.4 Households and Governments as Borrowers
   3.5 The Supply of Financial Capital
   3.6 A Last Note on Financial Capital Markets
      News Story: Investors Dump Stock Funds for Shelter of Bonds

PART IV: A CLOSER LOOK AT ECONOMIC ORGANIZATIONS

Like other books, this one takes a closer view of three major economic actors, but unlike other books, these are not identified as consumer/household, producer/firm, and government-as-interferer-in-markets. Instead, this text gives serious attention to household production, community organizations, the internal organization of firms, the infrastructure-creating and social coordination activities of government, and the non-profit sector.

Chapter 14: The Core Sector: Households and Communities
This chapter discusses the functions of the core sector, and especially elaborates on problems in the area of family and community caring work. In addition, models of household decision-making are explained.

1. Households and Communities as Organizations
   1.1 The Functions of the Core Sector
      Commentary: Valuing Core Sector Activities
   1.2 Getting Information on Core Sector Activities
      Definitions of households and families. Time use surveys.
2. The Core Sector in Historical Perspective
   2.1 Pre-Industrial Economies
2.2 “Outside” of the Economy?
   “Cult of domesticity.” “The family” as “non-economic.”
2.3 Shifting the Boundaries
   Growth in female paid LFP, service sector.
2.4 A Crisis in Care?
   Commentary: Bowling Alone?

3. “Work/Family” Challenges
3.1 Employer Policies
3.2 Government Policies
   Family and Medical Leave Act. Cross-country comparisons.
3.3 Distributing The Costs of Care

4. Theories of Household Behavior
4.1 The “Glued Together” Family
4.2 The Dictatorship Theory
   Commentary: “Missing Women”
4.3 Specialization and Exchange
4.4 Bargaining
4.5 What is Missing

Chapter 15: The Business Sector: For-Profit Firms
This chapter presents a history of changes in the organization and scale of business organization, and a discussion of the goals, responsibilities, and internal organization of for-profit businesses. While the view is broader than that given in most textbooks, including discussions of ethics, stakeholders, and dual sectors, it also includes standard topics such as principal-agent questions and economies of scope.

1. Businesses as Organizations
   1.1 The Legal Organization and Ownership of Firms
   1.2 How Large are the Largest Firms?
2. The Evolution of Big Business
   2.1 The Second Industrial Revolution
   2.2 Technology and Economies of Scale
      Horizontal integration.
   2.3 Diverse Products: Economies of Scope
   2.4 Avoiding Transactions Costs
      Vertical integration.
   2.5 Continuing Trends in Corporate Growth
      Conglomerate. Multinational corporation.
3. The Goals of Firms
   3.1 Shareholders and Profit?
      Shareholder theory.
   3.2 Stakeholders and Diverse Interests?
      Stakeholder theory.
      Commentary: The Founding Principles of the Johnson & Johnson Company
   3.3 Principal-Agent Problems
Chapter 16: The Public Purpose Sector: Governments and Non-Profits

This chapter describes the roles of government and non-profits--and international organizations of governments and non-profits--in creating infrastructure, setting standards, producing goods and services, and distributing society's opportunities and products. A section on the history of these organizations shows how they were created in response to specific problems. The regulation of trade is discussed in both national and international contexts. Public purpose organizations are portrayed neither naively, as purely public-serving, nor cynically, as totally driven by private self-interest, but rather as complex organizations in their own right.

1. Public Purpose Organizations and Their Functions
   1.1 The Regulatory Function
      Commentary: Can a Market be an “Open Access Resource”? 
   1.2 The Direct Provision Function
2. Types of Public Purpose Organizations
   2.1 Government Organizations
   2.2 Domestic Non-Profit Organizations
      Commentary: Two New York Non-profits with a Focus on Government
   2.3 International Organizations
3. The Public Purpose Sector in Historical Perspective
   3.1 Social Welfare
      Progressive Era. War on Poverty.
   3.2 Regulation of Monopolies and Trade Practices
      News Story: EU Penalties on US Goods Approved
   3.3 Regulation of Financial Markets
      Securities and Exchange Commission. Generally Accepted Accounting Principles
   3.4 Environmental Protection
      Commentary: Public Purpose Organizations and the Kyoto Protocol
   3.5 Is Government Too Big?
      News Story: Boston Beer Pulls Ad After Complaints
4. Theories of Organizational Behavior
   4.1 The Theory of Pure Public Service
   4.2 The Theory of Pure Special-Interest “Capture” 
      “Public choice” theory.
PART V: ECONOMIC OUTCOMES AND ECONOMIC IDEOLOGY

These last two chapters contain special topics that can broaden a student’s understanding of the economic world and of the political use of neoclassical reasoning. They are put into a last Part, however, because they may not be assignable within the time constraints of a term. Sections of the final chapter, in particular, may be beyond the ability level of some students.

Chapter 17: The Variety of Economic Systems
While the book as a whole gives considerable space to discussion of markets as a dominant form of national economic organization, this chapter balances that emphasis. It examines how systems can be more, or less, based on markets (as contrasted to custom, consent, or administration) and how various real-world systems compare in their well-being outcomes.

1. Comparing Economic Systems
   1.1 Modes of Organization: An Elaboration
   1.2 Patterns of Ownership
      Commentary: Common Property Resources

2. Varieties of Capitalism and Socialism
   2.1 Classifying Capitalist Systems
      Laissez-faire and administrative capitalism.
   2.2 Classifying Socialist Systems
      Market and administrative socialism.

3. Comparative Systems in Historical Perspective
   3.1 The Anglo-American Experience of Laissez-Faire Capitalism
      Privatization. Deregulation.
   3.3 Capitalism and Social Democracy in Western Europe
   3.3 Industry and Government in Japan and the Newly Industrializing Economies
   3.4 Russia and The Transition Economies
   3.4 China: From Administrative to Market Socialism
   3.6 Economies in Less Industrialized Countries
      Colonial rule.

4. Comparing Economic Performance
   4.1 Average Incomes
   4.2 Health and Literacy
   4.3 Sustainability

Chapter 18: Market Systems and Normative Claims
Most competing textbooks take it as given that markets provide the best of all possible worlds, because they look at outcomes only in terms of economic efficiency, and downplay factors such as externalities. This chapter demonstrates the fragility of the arguments underlying free-market ideology, while at the same time acknowledging the positive role that markets can play in achieving well-being. While this chapter is written in a clear and non-mathematical way, the outline of the free-market argument and the brief introduction to the various schools of economics contained in
this chapter require a certain degree of sophistication on the part of the student. The student is challenged to think somewhat philosophically about economic theories and the structure of knowledge.

1. Why Discuss Normative Claims?
   1.1 Debating the Merits of Systems
   1.2 Theory and Ideology
      Neoclassical economics. Free market ideology.
2. The Theory Behind the “Free Market” Argument
   2.1 The Set-Up: The Idealized World
   2.2 The Normative Standard: Pareto Efficiency
   2.3 The Result: “Markets are Best”
      General equilibrium. First fundamental theorem of welfare economics.
   2.4 The Policy Prescription: Don’t “Interfere”
   2.5 Variations in Neoclassical Thinking
      Imperfect information. New institutionalist economics.
   2.6 Precision vs. Accuracy, Once Again
3. Contextual Economics: Into the Future
   3.1 Varieties of Economic Thought
      Ecological. Feminist.
   3.2 A Point to Ponder: Intergenerational Equity
   3.3 A Point to Ponder: Individuals and Society
4. Last Words
   Strengths and weaknesses of markets.

Glossary
Index (not yet included)