Intermediate Microeconomics and Its Application 13th edition Nicholson Solutions Manual

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Chapter 1: Two Basic Economic Models

Purpose and Organization of the Chapter

This chapter provides an introduction to the book by showing why economists use simplified models. The chapter begins with a few definitions of economics and then turns to a discussion of such models. Development of Marshall's analysis of supply and demand is the main example used here, and this provides a review for students of what they learned in introductory economics. The notion of how shifts in supply or demand curves affect equilibrium prices is highlighted. The chapter also reminds students of the production possibility frontier concept and shows how it illustrates opportunity costs. The chapter concludes with a discussion of how economic models might be verified. A brief description of the distinction between positive and normative analysis is also presented.

Lecture and Discussion Suggestions

We have found that a useful way to start the course is with one (or perhaps two) lectures on the historical development of microeconomics together with some current examples. For example, many students find economic applications to the natural world fascinating and some of the economics behind Application 1.1, might be examined. Application 1.6: Economic Confusion provides normative distinction and to tell a few economic jokes (if your supply of such jokes is running low – see Additional Resources). In terms of explicit content, some time should be spent on reminding students about how supply and demand curves work since these concepts underlie most of microeconomics. Especially important is to make sure that students understand that these curves show firms' and consumers' reactions to all possible prices. That is, the independent variable is on the vertical axis. Far more on the problems raised by this approach is provided in Chapter 2.

Cengage Supplements

The following product-level supplements provide additional information that may help you in preparing your course. They are available in the Instructor Resource Center.

- Test Bank
- PowerPoint slides

Chapter Objectives

The following objectives are addressed in this chapter:

01.01 Develop and analyze two basic economic models:

- The Production Possibility Frontier (PPF)
- The Supply-Demand Model

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01.02 Explain how to use the PPF to break down six basic economic principles.

01.03 Understand how you can apply microeconomics to analyze all types of problems.

01.04 Explain how the interaction of buyers and sellers determines a good's price.

01.05 Explain different ways in which economists verify theoretical models.

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What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

- Chapter 1 is now a standalone chapter. The mathematical material from what was previously an appendix to the chapter, now forms the basis for Chapter 2.
- An extended Application 1.3 examines video streaming and cord-cutting, suggesting the importance of dynamism in the economy.
- A new Application 1.4 shows how a simple supply and demand model can explain pricing of eggs during the COVID-19 lockdowns.
- A revised set of Review Questions focus more explicitly on the basic two models introduced in the chapter.

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Additional Resources

The most accessible introduction to the history of economics remains Robert Heilbroner's *The Worldly Philosophers* (Seventh Edition) Touchstone, 1999.

This one-minute video does a nice job of introducing most elements of supply and demand analysis in a cartoon format: https://www.youtube.com/watch?v=720uyg0Dd_M

There are many websites featuring economic jokes. A good one is https://upjoke.com/economist-jokes.

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Solutions to End of Chapter Problems

Chapter 1 has no end of chapter problems. Problems involving both the production possibility frontier and simple supply and demand curves can be found at the end of Chapter 2.

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