

CHAPTER

1

An Overview of the *Study Guide* and Chapter 1

Study guides that accompany textbooks are usually written as an afterthought by someone who has little connection to the textbook that is supposed to be supported by the study guide. I think it is for this reason that most study guides are not terribly helpful — and, I am told, they are not widely used by students.

This *Study Guide* is different in that it was written by me (the author) at the same time as the textbook was being written. It is therefore completely integrated into the textbook and based entirely on material that is introduced there. To be more precise, the textbook not only provides an initial introduction to the material but also serves as a launching pad for you to engage more directly with the material. It is really only through such a more direct engagement that you will begin to internalize the various concepts — and the *Study Guide* provides some structure around which to build that engagement.

Study Guide Overview

Here are the main ways to use the *Study Guide* for Chapters 2 through 29 as you proceed:

1. Each chapter begins with a quick **bullet point overview** of the main concepts in the corresponding textbook chapter. This essentially provides a 1 minute review highlighting the big ideas.
2. **Detailed explanations to within-chapter-exercises** are then provided for every within-chapter exercise. These exercises were constructed to help you absorb the material as you read the text — and my own students have done considerably better on exams when I have provided them with answers to these questions. So I am making them generally available here.
3. The odd-numbered end-of-chapter exercises in the textbook are marked with a (†) that indicates solutions to those exercises are provided in the *Study Guide*. Each chapter of the *Study Guide* therefore contains these **selected end-of-chapter exercise solutions**.

4. Finally, each chapter has a short conclusion that offers some hopefully **helpful hints**.

Most of the *Study Guide* is, as you will see, taken up by explanations of within-chapter and end-of-chapter exercises. My hope is that you will turn to these after attempting them on your own. I think the best way to approach the within-chapter exercises is to do them as you read the text — or as you listen to the animated graphs in the eReader corresponding to the relevant sections of the text. This way you confront the main ideas immediately — and they will stick with you much more easily.

Chapter 1 Overview

Chapter 1 differs from the other chapters in the book in that it serves primarily as a big-picture introduction to the field of microeconomics (and to the structure of the textbook). As a result, there are no within-chapter or end-of-chapter exercises. Still, there are a few points worth highlighting:

1. Economics is much broader than most people think — it is (largely) a **science** in the sense that it attempts to predict, and it does so by constructing **models** that treat individuals as trying to **do the best they can given their circumstances**.
2. Economics does not stop at analyzing individual behavior but is furthermore interested in how individual behavior results in **social consequences** that we capture in the notion of an **equilibrium**.
3. Economists use models — simplified versions of reality — to capture the essence of real-world situations. Such models are usually meant to predict in the simplest possible way — making **simplicity of models a virtue**.
4. **Positive economists** restrict themselves to using their tool kit to *predict* outcomes of different institutional incentives; **normative economists** use their tool kit to furthermore *judge* these outcomes. But the line between positive and normative economics can get blurry — as in the case of **efficiency** predictions that are often interpreted as normative prescriptions.
5. When viewing the world through the economist's lens, we will find that
 - a) It isn't always (or even usually) the case that there must be a loser if there is a winner;
 - b) "Good" people can behave "badly" if their incentives are sufficiently perverse; and
 - c) The existence of (an economic) order does not necessary imply that the order was created by anyone — it could have emerged spontaneously.