

Price Theory and Its Uses

Third Edition

Donald S. Watson



same author

Theory in Action

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Printed in the U.S.A.

Library of Congress Catalog Card Number: 72-172248

ISBN: 0-395-13342-4

PREFACE TO THE THIRD EDITION

The third edition of this intermediate text on price theory retains the main features of the second, along with its organization. The many changes, most of them small, are intended to heighten clarity and interest. Several passages have been completely rewritten. Among the new material are nearly two dozen short illustrations and applications of the theory. In keeping with recent tendencies in economic literature, somewhat more emphasis falls on the concept of utility, its extensions, and its uses.

I owe much to the instructors and students who have written to me with criticisms and suggestions. In particular, I have benefited from the constructive comments of M. O. Clement of Dartmouth College, Edward Coen of the University of Minnesota, and Thomas G. Moore of Michigan State University. At The George Washington University, I had advice from C. Edward Galbreath and C. Y. Hsieh, as well as from James T. Bennett, who thoroughly reviewed the mathematical notes. The remaining errors are mine alone.

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PREFACE TO THE SECOND EDITION

Though it differs from the first edition in numerous small ways, the second edition of this text on intermediate price theory is still the same book. The changes are intended as improvements in clarity, organization, and coverage. The objective continues to be the presentation at the appropriate level of rigor of the most important topics for the one-semester course in intermediate price theory and the demonstration to students of the relevance and uses of price theory.

Price theory's concepts and methods of analysis furnish a way of thinking that is helpful in many kinds of business problems, in the appraisal of economic policies of government, and in serious thought on the meaning of private enterprise in the world today. Much, though of course not all, of the theory that is used and useful in the analysis of practical problems belongs to the intermediate rather than to the advanced level. The many short applications of price theory in this book are always, however, subordinate to the exposition of the theory itself.

The changes in the second edition comprise some reorganization of the materials, substantial rewriting of several sections of the book, many additions and minor deletions, and the inclusion of two new topics. One of these is a discussion of shadow prices in linear programming. The other is the analysis of a two-sector model of economic efficiency and welfare. This edition regroups the materials on oligopoly and on balance shortens them a little.

Changes in organization include the insertion of supply and market price in the second chapter, whose main subject is demand. Among other things this makes possible an earlier and better discussion of sur-

price elasticity of demand. The indifference curves for the household as both a buyer and a seller are now in the same chapter. The chapter on modern utility theory now comes just before the theory of the firm. My own teaching experience showed the desirability of beginning linear programming with the problem of the optimum product mix, rather than with that of the minimum-cost diet. All of the materials on competitive pricing in the short run are now in one chapter.

Many of the diagrams are redrawn. Some new ones are added. Gone are a few that turned out to be visual hindrances to understanding, rather than aids.

Many persons gave me much help in the preparation of the second edition. I did not, however, follow all of the suggestions and thus I bear the responsibility for the errors that remain. I am indebted to Hugh E. Joyce, Jr., of Houghton Mifflin Company; he made available to me full-length criticisms by Edward Coen of the University of Minnesota, James H. Rosse of Stanford University, and Frederic M. Scherer of the University of Michigan. Hugh Joyce also mobilized more corrections and advice from Richard V. Clemence of Wellesley College; M. O. Clement of Dartmouth College; Mary M. Crawford of Indiana University; Lloyd J. Elliott of Oglethorpe College; Herbert Geyer of Hunter College; John S. Henderson of Georgia State College; Stephan Hoenack of the University of California, Berkeley; John H. Niedercorn of San Fernando State College; Alfred G. Smith, Jr. of the University of South Carolina; Samuel L. Thorndike, Jr. of the University of Wisconsin, Milwaukee; and Harold R. Williams of Kent State University. At The George Washington University I had help from Mary A. Holman, Everett H. Johnson, George M. Lady, Henry Solomon, Charles T. Stewart, Jr., S. Scott Sutton, and Robert C. Willson. Criticisms were also offered to me by John M. Kuhlman of the University of Missouri, H. Ellsworth Steele of Auburn University, and by Margot W. Zener. Students at several other colleges and universities wrote to me; their constructive suggestions were most welcome. And for her cooperation I owe my wife a special debt of thanks.

DONALD STEVENSON WATSON

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Part One

Introduction

1	Introduction	3 (12)
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Part Two

The Theory of Demand

2	Demand, Supply, and Market Price	15 (24)
3	Price Elasticity	39 (24)
4	Neoclassical Utility and Consumer Demand	63 (24)
5	Indifference-Curve Analysis	87 (36)
6	More Topics in the Theory of Demand	123 (16)
7	Modern Utility Theory	139 (18)
	Appendix to Part Two—Mathematical Notes	157 (12)

Part Three

The Theory of the Firm

8	The Firm and Its Decisions	169 (14)
9	The Theory of Production	183 (20)
10	Choices of Inputs and Outputs	203 (14)
11	Cost Functions	217 (20)
12	Linear Programming	237 (18)
	Appendix to Part Three—Mathematical Notes	255 (10)

Part Four	Competitive Pricing	
13	Short-Run Prices in Pure Competition	265 (26) 2
14	Long-Run Prices in Pure Competition	291 (18) 2
15	General Equilibrium and Economic Welfare	309 (28) 3
	Appendix to Part Four—Mathematical Notes	337 (8) 1
Part Five	Monopoly Pricing	
16	Monopoly Prices	345 (26) 2
17	Price Discrimination	371 (18) 2
	Appendix to Part Five—Mathematical Notes	388 (5) 1
Part Six	Pricing in Imperfect Competition	
18	Monopolistic Competition	393 (20) 2
19	Oligopoly—Some Classical Models	413 (18) 2
20	Oligopoly—Some Modern Models	431 (18) 2
	Appendix to Part Six—Mathematical Notes	449 (8) 1
Part Seven	Incomes as Prices	
21	Prices of Factors of Production	457 (22) 2
22	Wages	479 (16) 2
	Appendix to Part Seven—Mathematical Note	495 (2) 1
Index		497

I INTRODUCTION

I INTRODUCTION