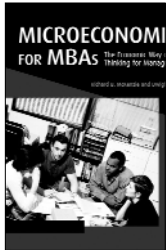


*Microeconomics for MBAs:  
The Economic Way of  
Thinking for Managers*

By Richard B. McKenzie and Dwight R. Lee. 2006. Cambridge University Press. 716 pages, \$80.00, hardcover.



*Microeconomics for MBAs* is a unique textbook that should interest not only business educators but practicing business economists. When you open this book, it is

shockingly different from the other introductory books about managerial economics, price theory, or microeconomics. There are very few graphs and virtually no equations. This book presents various ways of using economics to think through problems using both standard and unique approaches. Business economists will benefit from reading the book because it will not only refresh old ideas, it will also introduce new ideas and get the economic juices flowing again.

The first quote in the book is Bastiat's famous: "There is one difference between a bad economist and a good one: the bad one confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those that must be foreseen." As economists, we are always looking for secondary, hidden, unexpected, and other market reactions. However conventional it is to economists, alerting MBA students to search for the hidden and unexpected is likely to be a new idea for them.

One of many examples of how markets react is an unconventional view of "meet the competition" or "guaranteed lowest" pricing. The conventional wisdom is that when a

retailer offers to meet any competitor's price that is a pro-competitive policy leading to lower prices and promoting competition. McKenzie and Lee make strong arguments that just the opposite is true. They argue that the policy leads to higher prices, and as other firms mimic the strategy it becomes more effective. It is one of the few strategies that has this effect. I am sure the example leads to spirited classroom discussions and thinking about how markets work. Certainly, that is one thing MBAs students should be doing rather than thinking of theoretical graphs.

Nevertheless, there are enough graphs so that teachers who are accustomed to them will not be frightened away. All of the standard consumer and producer supply and demand relations are presented in conventional but interesting ways. Long- and short-run costs along with various market structures like pure competition, imperfect competition, monopolistic competition, oligopoly, and cartels are covered with graphs along familiar lines. In addition, there are sections on many new topics, like Nash equilibrium, principal-agent problems, and network economics that will interest younger faculty members and introduce students to modern topics.

One of the modern topics that is frequently used is game theory and the Prisoner's Dilemma. The concept is introduced as a standard police interrogation technique where suspects are separated and offered a deal. If one confesses, that suspect gets a reduced sentence; but each is also warned that if the other confesses and he does not, his sentence will be much more stringent. The job for each is to determine, without communication, how well the other will

stand-up to the pressure. Of course, as the number of crime partners increase, the more difficult it becomes for each one. Business economists who have taken recent graduate courses are usually amazed at how broadly this analysis can be applied and how complex it can become. Our authors emphasize the broad nature of the application and mercifully minimize the complications. The Prisoner's Dilemma concept is applied to cartel cheating, externalities, international trade, the health care crisis, property rights, employee shirking, how to handle customer returns, and more.

In the customer policy area, the concept is that what is good for one customer (confessing in the prisoner dilemma) may be bad for the group. Here the book covers a wide range of actual return policies from Wal-Mart, Blockbuster, Best Buy, L.L Bean, and others that were modified in the light of the issues presented. The discussion here is actually much wider and covers topics like charging more for a hotel room to improve the quality of guests, imposing higher fees for MBA programs, retail price maintenance, and instituting strenuous duties for parents of students in private academies. The section is provocatively titled, "The Value of 'Mistreating' Customers."

The authors are economists who do in fact teach MBAs as their occupation. Both have endowed chairs, Professor McKenzie at the University of California, Irvine and Professor Lee at the University of Georgia. The topics and examples they present are obviously the result of careers of thinking about applied economics and how to present the ideas to adult MBAs. The book comes with a DVD in which personal tutorials on some of

the concepts (like the Prisoner's Dilemma) are presented. It is not a slick light show with fancy audiovisual presentations. It is what I would expect students to find if they went into the office and said, "Prof, would you go over that again, please?"

The book has its own Web page at [www.cambridge.org/mckenzie](http://www.cambridge.org/mckenzie), and each author has personal pages, McKenzie at [www.merge.uci.edu/~mckenzie](http://www.merge.uci.edu/~mckenzie) and Lee at [www.terry.uga.edu/~dlee](http://www.terry.uga.edu/~dlee). The links provide additional teaching and learning materials, as well as insights into the authors' activities and work.

The list of the quoted or referenced economists is a who's who in the field; and the quoted or referenced business luminaries, both scholars and patricians, is equally impressive. The topics selected as applications are up-to-date and range from public policy in health care, anti-trust, and communications, to reasons for not fully compensating new hires for their added housing expenses, economics of email spam related to the tragedy of the commons, and why firms exist (à la Coase). The book contains two classics, Leonard Reed's "I, Pencil" and Bastiat's satirical case for free trade, "A Petition."

An interesting feature of the book for business economists is that it presents management and economics as two coequal elements. Economics is not something that is a staff function or a theoretical adjuvant to real world business. Economics is presented as equal to planning, organizing, staffing, controlling, and directing—that is, part of the every day job of business people. As another example, the book also considers human behavior as an important element in economic decision making and, along with other ideas, discusses Maslow's hierarchy of needs and demand, not so much for its own sake, but to discuss issues on the student's own turf. You can almost see the authors

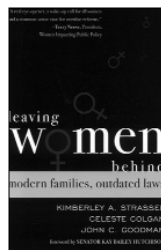
explaining that real business economists understand the material that MBAs know and have as sophisticated a view of human behavior as the ones covered in their human resources class.

Today, we have many managers who are generalists but see themselves as fundamentally viewing business via the perspective of a function like finance, marketing, or personnel. This book could generate a new breed of generalists that understand business economics as a way of viewing management. The book deserves wide adoption because of its creativity and unique approach to business, economics, and management.

Gerald L. Musgrave  
*Economics America, Inc.*

### ***Leaving Women Behind: Modern Families, Outdated Laws***

*By Kimberley A. Strassel, Celeste Colgan, and John C. Goodman.  
2006. Rowman and Littlefield  
Publishers. 232 pages, \$21.95, cloth.*



Everyone who cares about public policy toward women should read *Leaving Women Behind* by Kimberley Strassel of the *Wall Street Journal* with Celeste Colgan and John Goodman of the National Center for Policy Analysis, ([www.leavingwomenbehind.com](http://www.leavingwomenbehind.com)). It is an eye-opening summary of the dramatic transformation of women and the United States economy.

Between 1950 and 2000, the labor force participation rate of women between 25 and 55 years of age more than doubled, with the

result that over 75 percent of this group is now in the labor market. At the beginning of this transformation, fewer than 12 percent of mothers with children under age six worked; today the fraction exceeds 60 percent. Along with this rise in women working has been the demise of the one-earner family, which now constitutes only one-third of married couples.

This remarkable transformation naturally challenges traditional views of home and family, and the debate over these views has echoed through U.S. society. But it also challenges our perception of economic roles. How should we think about "workers," "taxpayers," and "retirees" in light of the broader role of women? The authors highlight the impact of federal law designed to accommodate a full-time worker with a stay-at-home spouse:

- Women are less likely to qualify for employer-provided benefits because they are more likely to work part time.
- Women move between jobs and even in and out of the labor force more frequently than men, so they suffer from traditional policies that reward life-long jobs (for example vesting in a pension plan).
- Dual-earner couples face unnecessary, duplicate employee benefits that essentially "waste" part of the efforts of women's work.
- Women face high marginal tax rates, even if they earn the minimum wage, when a wife is taxed at her husband's tax rate.

The examples go on and on. The authors document the ill effects of outdated policies on women's decisions to work or not, for child care, to save and invest, to purchase health care, and to choose education. How did this happen? It is a

legacy of ignoring the fact that women are perfectly capable of making the decisions that undergird productive and happy lives and leaving in place public policies that presume particular social and economic outcomes and roles.

The women-unfriendly state of U.S. policy is a case study in economic policy run amuck. A cornerstone of good economic policy is to do as little damage as possible. It is a fact of life, for example, that taxes are needed to finance desirable government programs. But when people prefer chocolate ice cream, taxes alone should not shift market demand to vanilla. Why be both poorer and unhappy with dessert? When market forces reveal families' values and desires, tax policy should be designed to respect those values.

A corollary is that when society shifts, policy must shift to match. Despite the remarkable changes in the economic role of women, our public policy institutions have not kept apace. Taxes, labor regulations, child care arrangements, and a myriad of other economic institutions are cast in the image of women who remain in the home and penalize especially married women who work. The highest marginal tax rates, for example, are faced by women, even women earning only modest incomes.

The most compelling area of the book documents the role of women as workers and the legacy of past workplace rules that destroy equal treatment of working women and those that stay at home. If a single woman leaves welfare to take a job, the combination of explicit taxes and lost benefits will yield marginal tax rates approaching 80 percent—an affront to those serious about working their way to a better life. When a married woman works; she faces high tax rates; inflexible bene-

fit rules that reduce the value of her compensation; and the nightmare of finding affordable, quality child care. (The authors overlook the fact that tax-subsidies to homeowners also stack the deck toward stay-at-home moms whose childcare "facility" is cheaper.) In similar vein, the authors document the difficulties in health care and education shouldered by women.

Another notable issue revolves around Social Security. If a woman is divorced one day short of ten years, she receives no benefits on the basis of her husband's earnings. If the marriage lasts even one day longer, she receives benefits. If she remains married and her husband dies before retiring, she receives some benefits as long as she does not work—but labor income is taxed at rates in excess of 80 percent. The list goes on.

These rules seem out of place in the modern world. The authors argue that they are a legacy of tailoring policy to the world of the 1950s—but there is something more durable at work as well. Efficient policies—those that respect the choices of individuals—often fall prey to arguments for greater fairness. But which is fair? Is it fair to make sure that all women get a Social Security benefit? Or, is it fairer that all women have the freedom to choose to work or not and that benefits differ based on their choice? Efficient policies reflect equality of opportunity but may result in differences of outcome. This is especially true in a dynamic setting, where outcomes are difficult to predict. Because women are the most dynamic element of the U.S. labor market—shifting among home, part-time work, and full-time work—the difference between equality of opportunity and equality of outcomes is most striking among women.

Thus, the authors favor the latter

view. But adherence to other notions of equity has been politically durable. The authors favor making the income tax system marriage neutral, introducing "earnings sharing" to make the Social Security system more neutral, and individual accounts for unemployment insurance taxes and retirement savings to make sure that the same resources go in for working men and women. It is a large policy agenda.

The authors also avoid some difficulties in other areas. It is fine to argue that policy should be neutral between public schools and home-schooling of children, especially if the issue is just education; but introducing effective competition among public schools may be a more effective way to improve education. And some would argue that public schooling includes valuable acculturation and socialization. However, many of the policy proposals—portability in health insurance, flexibility in work hours and benefit packages, more generous opportunities for portable retirement savings—should appeal to any metric of fairness between men and women, among women, and across generations. They are simply overdue in the United States.

Internationally, women remain an underutilized economic resource. From a nationalistic perspective, U.S. economic competitiveness will be enhanced by public policies that hinder less the economic energies of women. From the perspective of economic development and alleviating global poverty, strategies that inefficiently button-hole the role of women will slow progress toward desirable goals.

*Leaving Women Behind* is not a blueprint for all societies and all times. But it is a startling compendium of the outdated laws, regulations, and norms that handcuff the

modern U.S. economy and serves as a reminder of the danger of failing to re-think and re-examine economic strategies as societies evolve.

Douglas Holtz-Eakin  
*Council on Foreign Relations*



#### EDITOR'S NOTES

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#### NABE CALENDAR OF EVENTS

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(Partial Listing)

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|----------------|--|
| March 12-13    | <b>23rd Annual Washington Economic Policy Conference</b> —"An Economic Framework for Effective Policymaking"—Gather real intelligence you can use immediately on the likely direction and effects of key economic policies.    |
| April 22-24    | <b>Professional Development Seminar on Economic Statistics</b> —"Using Economic Statistics to Understand Business Cycles"—A short cost-effective program to explain economic statistics in the context of the broader economy. |
| July           | <b>"Econometrics for the Business Analyst"</b> —A four-day, hands-on NABE continuing education seminar in Chicago, IL.   |
| September 9-11 | <b>49th NABE Annual Meeting</b> —Mark your calendar for this important learning and networking event in San Francisco, CA.   |
| November       | <b>"Advanced Statistical Techniques for Economic Forecasting"</b> —A four-day, hands-on NABE continuing education seminar in Charlotte, NC.  |

For more information about the above events as well as teleconferences, survey releases, and publication dates, please visit [www.nabe.com](http://www.nabe.com) or contact the NABE office at [nabe@nabe.com](mailto:nabe@nabe.com) or 202-463-6223. IdeaLink, NABE's electronic bulletin, will provide updates on the first and third Tuesday of each month. For information about local chapter events, please visit our calendar and chapter listings, also on [www.nabe.com](http://www.nabe.com). NABE News, published six times a year online, also gives updates on NABE events.

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