



Avinash Dixit

MICROECONOMICS

A Very Short Introduction

OXFORD

Microeconomics: A Very Short Introduction

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Preface

Non-economists think economics is about unemployment, inflation, growth, competitiveness of nations, and other matters pertaining to the economy as a whole, or in economists' jargon, about *macroeconomics*. They rarely mention, and perhaps are not even aware of, the whole nexus of choices and transactions behind the larger picture: people's choices of where to live and work, how much to save, what to buy, and so on; firms' decisions about location, investment, hiring, firing, advertising, and many other dimensions of business; and government policies with regard to infrastructure, regulation of industries, structure and rates of taxes on goods and services, and so on. Citizens' relative ignorance and neglect of these fine-level, or *microeconomic*, issues is partly explained by the fact that things often work pretty well at that level, and when they don't work so well, each failure seems small in the larger scheme of things. But many such small failures can add up to a large economic cost. They can have large ramifications at the macroeconomic level too. Therefore it is important to understand why things work pretty well in the microeconomy much of the time, when and why they fail in little and big ways, and what to do to guard against and cope with such failures. In this book, I attempt to present this way of thinking about economics, and some of the conclusions it yields. I hope to convince non-specialist readers that microeconomics is important,

and connects as closely with their daily life as unemployment and inflation. I hope to give them some aha moments, where they say, 'I have often seen this; now I understand why!' For more lasting value, I hope to equip them with some basic concepts and tools of microeconomic analysis for use in their own thinking and actions, and leave them eager to do the further reading that I recommend.

Three caveats before you begin. First, in this *Very Short Introduction* you should not look for anything like a comprehensive treatment of the subject. I had to leave out many topics, ideas, and methods, not because they are unimportant, but because in my opinion others have a stronger claim in a brief introduction. If you are a microeconomist and your favourite topic is missing, blame my tastes.

Microeconomics

Second, economics has an unavoidable quantitative aspect that requires a little numeracy, for example reading tables and graphs. I have kept these topics as simple as I could, but readers who have occasional trouble with the graphs or numbers can usually just skip those parts and read the rest.

Third, while I hope the subject is fascinating and my treatment readable, such a book cannot be a page-turner. If you are new to the subject, do not try to read too much at one go. Stealing from P. G. Wodehouse's preface to his collected Jeeves short stories, I advise: Do not attempt to finish this volume at one sitting. It can be done—I did it myself when correcting the proofs—but it leaves one weak and is really not worth doing just for the sake of saying you have done it. Take it easy. Spread it out. Assimilate it little by little. Take one small section with each meal. Should insomnia strike, add another section or two at night.

Drafts of a book intended for intelligent non-economist readers should be tried out on intelligent non-economists. I am fortunate to have just the right friends: my breakfast group at Small World

Coffee. I am very grateful to Frank Calaprice (physicist), Julie Jetton (lawyer), Bill Shaffer (financial adviser), Connie Shaffer (high-school French teacher), and Cathy Smith (hypnotherapist) for their patience and generosity in reading early drafts and telling me what needed clarification, rewriting, or even deletion. Andrea Keegan at Oxford University Press and her colleagues also provided valuable feedback on matters of style as well as substance.

Fellow economists were also generous with their time and advice, correcting my errors and suggesting better examples and explanations. Karla Hoff has my eternal gratitude for combining this role with that of an eagle-eyed copy-editor. I am also very grateful to Dilip Abreu, Paul Klemperer and John Vickers for their perceptive comments and useful suggestions.

My biggest *Thank You* goes to all the teachers, colleagues, and students from whom I have absorbed and improved understanding of microeconomics over my whole career. Much of what is good in the book is your doing; the defects are mine.

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