

Corner Solutions	135
Representing the Process of Rational Choice	136
Deriving the Individual Demand Curve	137
Deriving the Market Demand Curve	139
Consumer Surplus	140
Summary	142
• <i>Consultant's Corner: The Trade-off between Risk and Return</i>	143
Problems	144

Chapter 5 Estimating Demand Functions 149

The Identification Problem	150
Consumer Interviews	153
Market Experiments	154
L'eggs: A Market Experiment	154
Regression Analysis	155
Simple Regression Model	157
Sample Regression Line	158
Method of Least Squares	160
Coefficient of Determination	163
Multiple Regression	165
• <i>Consultants Corner: Marketing Plans at the Stafford Company</i>	166
Software Packages and Computer Printouts	168
• <i>Concepts in Context: How the Japanese Motorcycle Makers Used the Coefficient of Determination</i>	170
Interpreting the Computer Printout	171
• <i>Concepts in Context: Color Balance and Shelf-Life Performance of Polaroid Film</i>	173
• <i>Analyzing Managerial Decisions: How Good Are Ward's Projections of Auto Output?</i>	174
Multicollinearity	178
Serial Correlation	179
Further Analysis of the Residuals	181
Summary	182
• <i>Analyzing Managerial Decisions: How Fed Economists Forecast Auto Output</i>	184
Problems	186
Appendix: The Coefficient of Determination and the Concept of Explained Variation	192

Chapter 6 Business and Economic Forecasting 197

- Survey Techniques 198
- Taking Apart a Time Series 199
- How to Estimate a Linear Trend 202
- How to Estimate a Nonlinear Trend 204
- Seasonal Variation 205
- Calculation of Seasonal Variation 206
- *Analyzing Managerial Decisions: Forecasting the Demand for Blood Tests* 208
- Cyclical Variation 209
- Elementary Forecasting Techniques 212
- How Leading Indicators Are Used 214
- *Consultant's Corner: Deciding Whether to Finance the Purchase of an Oil Field* 216
- How Econometric Models Are Used 217
- *Analyzing Managerial Decisions: Forecasting Shipments of Cement by CEMCO* 218
- John Hancock and Timberland: A Case Study 218
- The Purvere Corporation: A Numerical Example 219
- "Study Your Residuals" 221
- Summary 222
- Problems 223
- Appendix: Exponential Smoothing and Forecasting 227
- *Managerial Economics in Context: How to Forecast the Sales of Paper, According to McKinsey* 230

Part Three Production and Cost 233

Chapter 7 Production Theory 235

- The Production Function with One Variable Input 236
- *Analyzing Managerial Decisions: Shaquille O'Neal Goes to Los Angeles* 241
- The Law of Diminishing Marginal Returns 242
- The Optimal Level of Utilization of an Input 242
- The Rondo Corporation: A Numerical Example 244
- *Analyzing Managerial Decisions: How to Determine the Optimal Horsepower for an Oil Pipeline* 245
- The Production Function with Two Variable Inputs 246

- *Analyzing Managerial Decisions: How Nucor Stays on the Production Function* 248
 - Isoquants 249
 - The Marginal Rate of Technical Substitution 251
 - The Optimal Combination of Inputs 254
 - The Beiswanger Company: A Numerical Example 257
 - The Miller Company: Another Numerical Example 259
 - Optimal Lot Size 260
 - What Toyota Taught the World 264
 - Returns to Scale 266
- *Consultant's Corner: Choosing the Size of an Oil Tanker* 267
 - The Output Elasticity 268
 - How Firms Obtain Information About the Production Function: Competitive Benchmarking at Xerox 269
 - Measurement of Production Functions 270
 - Three Types of Statistical Analysis 272
 - The Telephone Industry in Canada: A Case Study 273
 - Poultry Production in the United States: Another Case Study 274
 - Summary 277
 - Problems 278
 - Appendix: Lagrangian Multipliers and Optimal Input Combinations 284

Chapter 8

Technological Change and Industrial Innovation 289

- Technological Change 290
- Labor Productivity 291
- Total Factor Productivity 292
- Using Total Factor Productivity to Track Factory Performance 294
- Research and Development: A Learning Process 296
- Parallel Development Efforts 297
- What Makes for Success? 299
- *Concepts in Context: Parallel Development Efforts at IBM* 300
 - Project Selection 300
 - Innovation 301
 - Time-Cost Trade-offs 302
 - The Learning Curve 304
- *Analyzing Managerial Decisions: The Time-Cost Trade-off Function for Airlines* 306
- Applications of the Learning Curve 306

Henry Ford's Model T and Douglas Aircraft's DC-9	308
Diffusion Models	308
• <i>Consultant's Corner: How Robots Spread in Japan and the United States</i>	312
Forecasting the Rate of Diffusion of Numerically Controlled Machine Tools	313
• <i>Analyzing Managerial Decisions: The Development and Introduction of Canon's Personal Copier</i>	314
Summary	315
Problems	316

Chapter 9	The Analysis of Costs	321
	Introduction	321
	Opportunity Costs	322
	• <i>Concepts in Context: How Harley-Davidson Has Reduced Costs</i>	323
	Short-Run Cost Functions	323
	Average and Marginal Costs	326
	• <i>Analyzing Managerial Decisions: The Effects of Output on the Cost of Producing Aircraft</i>	331
	Long-Run Cost Functions	332
	The Crosby Corporation: A Numerical Example	336
	• <i>Analyzing Managerial Decisions: Should We Continue to Make Autos from Steel?</i>	337
	Economies of Scale in Nursing Homes	338
	Measurement of Short-Run Cost Functions: The Choice of a Mathematical Form	341
	Nature and Limitations of Available Data	342
	Key Steps in the Estimation Process	345
	A Hosiery Mill's Short-Run Cost Functions	346
	A Transportation Firm's Short-Run Cost Functions	348
	Long-Run Statistical Cost Estimation	350
	The Long-Run Average Cost Function for Electric Power: A Case Study	352
	The Survivor Technique	353
	The Importance of Flexibility	355
	Economies of Scope	355
	• <i>Concepts in Context: Economies of Scope in Advertising Agencies</i>	357
	Break-Even Analysis	358
	Algebraic Break-Even Analysis	360
	• <i>Consultant's Corner: Mr. Martin Gets Chewed Out by the Boss</i>	361
	Profit Contribution Analysis	361