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BOOK REVIEW

MICROECONOMICS

By Deviga Vengedasalam, Karunagaran Madhavan and Rohana Kamaruddin, Oxford University Press, 2008. ISBN: 978-983-45003-3-7, 312 pp.

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Microeconomics by *Deviga Vengedasalam, Karunagaran Madhavan & Rohana Kamaruddin* is clearly written in a student-friendly language, relatively concise, and provides a good coverage of basic microeconomic theory at degree as well as diploma levels. It explains in simple language the beauty of economic theory; the concise manner in which real world examples are integrated into the text; and, the cases particularly in the Asian context that does an effective job in complementing the text particularly for the students of Malaysia and other Asian countries. It gives students the opportunity to understand directly with theoretical tools, real-world applications, and cutting edge developments in the study of microeconomics. This text is made very simple and it is useful for students with different backgrounds such as engineering, computer sciences, architecture, and management, who often have difficulty in understanding the microeconomic concepts. At the same time, the text is solid, rigorous, comprehensive, and is sensibly challenging for the students majoring Economics. The coverage and structure of the book have been designed in such a way that it takes into account the curriculum of Microeconomics courses taught in the undergraduate and diploma programs of institutions/universities in Malaysia and abroad.

The book is well organized in 14 chapters and covers the topics included in most of the courses in Microeconomics. Each chapter begins with the *chapter outline* and *introduction*, followed by *definition*, *basic concepts*, and *explanation with diagrams, examples, application and relevant case(s)*. Further, it provides the *summary* of the chapter for the students to quickly revise what they have learnt from the chapter. Finally, the chapter ends with the *review questions*, which could be very useful for the students to assess on their understanding of the concepts and prepare themselves for the university exams.

Chapter 1 defines and introduces some basic concepts of microeconomics. It explains how the societies choose to allocate scarce resources among competing uses. It also explains the concept of production possibility curve, which shows the possible combinations of goods and services that can be produced by an economy with a given level of technology and other resources.

Chapters 2 and *3* cover one of the most important tools of microeconomics: demand and supply analysis and market equilibrium. It explains the concepts of demand and supply and factors affecting changes in the above two variables. It also explains how a competitive market works and how demand and supply determine the prices and quantities of goods. Further, it explains how demand-supply analysis can be used to determine the effects of changing market conditions including government intervention.

Chapter 4 discusses about the different types of elasticity: elasticity of demand with respect to its own price, price of related goods, income; and explains the factors that affect the elasticity of demand. It provides the practical application of how the burden of tax is distributed between producers and consumers with different elasticities of demand or/and supply.

Chapter 5 deals with the process of decision making by the household as the consumer, and provides the rules to ensure that the best decisions are made, assuming that the consumer is a rational being who wants to maximize utility. It also shows how consumers' preferences and budget constraints determine their demands for various goods, and why different goods have different demand characteristics. It also shows how to analyze consumer choice under uncertainty.

Chapters 6 and *7* discuss the theory of the firm and cost of production. It shows how firms combine different inputs to produce goods and services, in a way that minimize the cost of production. It also explains how the firm's cost depends on its rate of production and on its production experience. *Chapter 8* then shows how firms choose their profit maximizing rate of production and how the production decisions of individual firms combine to determine the competitive market supply and its characteristics.

Chapters 9 to *12* discuss the firm's and market equilibrium of goods and services in different forms of market structure. *Chapter 9* applies demand and supply curves to the analysis of perfectly competitive markets and explains how the price and output is determined in the short-run as well as long-run under profit maximizing assumption of the firms. *Chapter 10* deals with another extreme form of market structure, i.e., Monopoly. It explains differences between natural monopoly and government-created monopoly and explains how the price and output decisions are made in the short-run as well as long run when there is only one seller of product or service in the market. It further explains when price discrimination is possible and how the firm achieves equilibrium under different degree of price discrimination. *Chapter 11* and *12* deal with the markets in which the number of firms is limited. It examines a variety of such markets, ranging from monopolistic competition, in which many firms sell differentiated products, to cartels, in which a group of firms coordinate their decisions and act as a monopolist. It is also concerned with the market in which there are a few firms; each firm designing its pricing, output and investment strategy, keeping in mind how its competitors are likely to react. It develops and applies the principles of game theory to analyze the strategic behavior.

Chapter 13 shows how the markets for factor inputs, such as labor, operate. It explains how wages and the level of employment are determined for a firm under a perfectly competitive factor market based on marginal productivity theory. *Chapter 14* discusses why externalities cause markets to allocate resources inefficiently and thus result in market failure.

The book is well designed to explain the microeconomics concept in a simple language with examples and cases keeping in view the local content. Further, the use of appropriate diagrams and incorporation of calculus in several chapters make the concepts easier to understand for students with different backgrounds.