

Corrections: Core Economics for Managers (1st Print)

- p.27, line 10: trade will occur only *if* there is value
- p.31: there is an error in the inequalities. The second inequality should read $v_B - o_B \geq p \geq o_S - v_S$. This impacts on the remaining text. The text has been re-written as follows:

p.31 Textbook Correction

In general this means that trade will only occur if we can find at least one price, p , such that:

$$v_B - p \geq o_B \text{ and } p + v_S \geq o_S .$$

Together these imply that:

$$v_B - o_B \geq p \geq o_S - v_S .$$

Notice that:

- If $v_B - o_B \geq o_S - v_S$, this is the same as our earlier condition for the buyer and seller to be jointly better off from trade (that is, it is the same as $v_B + v_S \geq o_B + o_S$).
- If the buyer and seller are jointly better off from trade, then there is potentially a range of prices—from a high price of $v_B - o_B$ to a low price of $o_S - v_S$ —at which trade will make both the buyer and seller individually better off.
- If the buyer and seller are not jointly better off from trade (that is, $v_B + v_S < o_B + o_S$), then there are no prices at which trade will make *both* the buyer and seller individually better off.

So in the case of the Ming vase, for the buyer and seller to be jointly better off from trade, it needs to be the case that $v_B \geq \$48,000$. However, for Ming21 to purchase the vase, $p \leq v_B$ and for Vases Abroad to sell to Ming21, $p \geq \$48,000$. Thus, if $v_B > \$48,000$, there is a range of prices from \$48,000 to v_B . What price might ultimately emerge is, however, dependent on other factors; something that we explore in Part II of this book.

- p.31: first paragraph after bullet points, third line should read $v_B > \$48,000$.
- p.33: in the paragraph starting “This definition would obviously ...”, the final word of the paragraph should be “customers” (not “suppliers”).
- p.36, 3rd para, line 2: “willing to pay up to \$1.50 plus \$x for the Coke”
- p.38: (WTS definition): “For each unit of a product, the quantity supplied of a product is the quantity of output for which suppliers' willingness-to-sell for a unit of output is smaller than price.”
- p.39: third last sentence should read “what quantity will create the greatest value.”
- p.40: line 7 of quotation should read “no function **other than** to distract”
- p.41: Figure 3.8. In graph A the downward sloping curve should be labeled “Demand” (and not “Supply”)
- p.51: in paragraph beginning “Working backwards, ...”, 3rd line should read “... is a 50% chance that if they reject...”

- p.57 (3rd para in “Eliminating Dominated Strategies” sub-section): this should read
 “This is, however, where, for this game, the elimination of dominated strategies stops. The reduced game in Table 4.6 contains some strategies that are weakly dominated (**e.g., for player 2, bidding \$3 is weakly dominated by bidding \$2; earning a higher payoff for player 2 in every situation except where player 1 is bidding \$3 where bids of \$2 or \$3 earn 2 a payoff of \$0**). However, there are no strategies that are strictly dominated. In this situation, we would need to use an alternative method to fully solve the game (e.g., Nash equilibrium discussed below).”
- p.58: should read “and (v) finally, that given this, **3 dominates 2** for both. Hence, the outcome of the game will involve both A and B playing **3** and receiving payoffs of **9** each.”
- p.71: Figure 5.1: remove downward pointing arrows on second vertical axis, below Willingness-to-sell
- p.73: The BATNA Approach: According to definition $WTP = \text{Buyer value} - O_B$. So the whole section should be as here:

p.73 Textbook Correction

The BATNA approach

Another way of looking at this range of outcomes is to consider the “Best Alternative to a Negotiated Agreement” or BATNA approach to bargaining. In contrast to the added value approach, the BATNA approach asks what would a player realise if it walked away from the negotiations: this is a player’s outside option. In our example, the buyer would not receive anything if they walked away, so their outside option is \$0. If the seller walked away, they would recover its opportunity cost, so their outside option is \$40.

A seller would not accept a price less than their outside option, while a buyer would not pay a price for which their consumer surplus (i.e., WTP less that price) was negative. In notation,

$$p > O_S$$

and

$$v_B - O_B - p = WTP - p > \$0 \text{ or } WTP > p$$

where O_S is the seller’s outside option, v_B is the buyer’s value, O_B is the buyer’s outside option, WTP is the buyer’s willingness-to-pay (or $v_B - O_B$), and p is the price. In our example, price must therefore, exceed \$40, the seller’s outside option and must not be greater than \$100 or the buyer’s consumer surplus would be negative. As in the added value example, this implies that prices may range from \$40 to \$100.

One thing that is easy to see from both analyses is that if the buyer’s willingness-to-pay rises (falls) the highest possible price rises (falls) while if the seller’s opportunity cost rises (falls) the lowest possible price rises (falls). Indeed, if total value falls (rises) the range of prices available will fall (rise).

- p.90: first paragraph, fourth line should read “that a player might receive can be calculated by assuming that they have RECEIVED take-it-or-”
- pp.118, line 5: should read “There may be many consumers of a given type, v .” Also, further down the page, the definition of $Q(P)$ was typeset strangely. Would be better as $Q(P) = \sum_{v > v^*(P)} n(v)$.
- p.120: second last word should be “produce.”
- p.125: third line should have $(P^* - c)/P^* = -1/e$.
- p.131: line 10, should read $P_1 > P_2$ if $e_1 > e_2$.
- p.133, line 7: should read “It *is* also important ...”
- p.141: Figure 9.2 (bottom graph). Label should be “BILL’s reaction curve.”
- p.152, line 11: missing bit is Π^m .