

I appreciate Steve Pearlstein's kind words about my earlier work in his *Washington Post* review of THE ECONOMIC NATURALIST, though I was of course disappointed that he didn't find my students' examples quite as charming as many others have. But that's clearly just a matter of taste. Some of his specific criticisms, however, suggest that he may not have read the book carefully.

For example, Mr. Pearlstein writes, "We are told... that sometimes goods are priced on the basis of what it costs to produce them (brown eggs) and sometimes on the basis of what people are willing to pay (sleeker, black colored Apple computers), but nowhere does Frank help us resolve this tension between demand and supply-side determination." Since the explicit point of the brown eggs vs. white eggs example was to illustrate that the price difference between the two shell colors couldn't be explained on the basis of cost (supply) or willingness to pay (demand) alone, it's hard to see what he might have meant by that. Here's the brown eggs example exactly as it appeared in the book:

The final examples in this chapter discuss phenomena whose explanation requires attention to both sides of the market, supply and demand.

**Why are brown eggs more expensive than white ones?
(Jonathan Chang)**

At Ithaca's largest supermarket, jumbo grade AA eggs sell for \$3.09 a dozen if their shells are white but for \$3.79 a dozen if their shells are brown. According to the Egg Nutrition Center in Washington, D.C., neither the taste of an egg nor its nutritional quality depends on the color of its shell. What explains this price difference?

It is tempting to say that brown eggs are more expensive because consumers prefer their looks and are more willing to pay extra for them. But that observation does not

constitute a satisfactory explanation, because it seems to imply that sellers of white eggs are leaving cash on the table. If they could earn higher profits by selling brown eggs, why do they continue selling white ones?

A plausible answer is that that brown eggs are more costly to produce than white ones. The color of an egg depends on the breed of hen that lays it. White Leghorn hens, for example, lay white eggs, and Rhode Island Red hens lay brown ones. Brown hens tend to be larger than white ones, and since a hen's daily calorie requirement depends on its size, producing brown eggs costs more. But to explain why they sell for more, an important condition must also be present on the demand side. Unless some consumers prefer the looks of brown eggs and are willing to pay more for them, they will not be offered for sale.

Can anyone find in that discussion any support for Mr. Pearlstein's suggestion that THE ECONOMIC NATURALIST attributes the higher prices of brown eggs to cost alone?

The example involving the premium price for black Apple laptops appeared in a separate chapter devoted to examples in which some buyers pay much more than others for essentially the same good. As I state explicitly in that chapter, sellers who price their products in this way almost always enjoy economies of scale: the more they produce and sell, the lower their unit cost of production. As the chapter explains clearly, if these sellers charged all buyers the cost of producing the last unit, they would lose money. Under the circumstances, most sellers charge some buyers considerably more than average cost, while selling to other buyers at discount prices well below average cost. In general, producers force buyers to jump a hurdle of some sort—such as mailing in a rebate coupon—to be eligible for the discount price. Or, as in the Apple example, they

sometimes offer a less attractive variant of the product at a lower price (the familiar white laptop). But the central theme of all the examples in that chapter was that price differences in such cases are a reflection not of cost differences, but rather of the fact that some buyers are willing to pay more than others. So here, too, Mr. Pearlstein's complaint that I have failed to "resolve this tension between demand and supply-side determination" is puzzling.