higher price, in accord with the first law of demand. Furthermore, the reduction has been greater in the long run, in accord with the second law of demand.

Indirect Evidence of Validity

Often the power of a principle is most clearly corroborated by indirect, unexpected implications. For example, a larger proportion of good-quality California oranges and grapes is shipped for sale to New York while a larger proportion of the poorer-quality fruit remains in California. Are New Yorkers richer or more discriminating? Possibly—but, then, why is the quality *ratio* higher even in the poor districts of New York than in California? The question can be posed for other goods: Why do Asians import disproportionately more expensive American cars than cheaper models? Why are "luxuries" disproportionately represented in international trade? Why do young parents go to expensive plays rather than movies on a higher percentage of their evenings out than do young couples without children? Why are "seconds," slightly defective products, more heavily consumed near the place of manufacture than farther away? Why must a tourist be more careful buying leather goods in Italy than Italian leather goods in the United States? Why is most meat shipped to Alaska "deboned"? The answers all are implications of the law of demand. Let us see why.

Suppose that California grapes cost 50¢ a pound to ship to New York, regardless of quality; that production of grapes is 50% "choice" and 50% "standard"; and that in California the choice grapes sell for $1.00 a pound and the standard for 50¢ a pound. The cost of shipping grapes to New York raises the New York buyer's cost of both types of grapes by 50¢ a pound to $1.50 for choice grapes and $1.00 for standard grapes. One

pound of choice grapes in New York costs the same as 1.5 pounds of standard, whereas in California it costs the same as two pounds of standard. New Yorkers have a lower price for choice *relative* to standard grapes, and therefore, in accordance with the first law of demand, consume *relatively* more choice grapes than do Californians. In California, where standard grapes are cheaper relative to choice grapes, a larger *fraction* of grapes consumed should be standard. And it is so.

Pricing Tactics: A Preview

So that you can better understand the explanatory power of the demand schedule, we anticipate some pricing tactics to be explained in more detail later. Suppose a seller knew that a buyer's demand schedule was that in Table 2–2, and suppose the costs of production were 25¢ per egg. This seller could tell the buyer: "You may buy one egg at 99¢. If you do, you may buy a second egg at 89¢. If you do, you may buy a third egg at 79¢, a fourth at 69¢, a fifth at 59¢, a sixth at 49¢, a seventh at 39¢, and the eighth, and as many thereafter as you wish, at 29¢ each." How many will the buyer buy? The correct answer may be surprising.

This customer will buy a first egg, since her one unit is worth at least $1.00, and she can buy it for only 99¢, with a 1¢ gain of consumer's surplus as compared to not buying it at all (although her gain is not as great as it would be were she able to buy each for only 29¢). The second egg has a marginal personal use value to her of 90¢, but will cost only 89¢, giving another 1¢ consumer's surplus. Similarly, each successive additional unit purchased adds 1¢ of use value over the costs, until she has purchased eight units. A ninth would have a marginal use value of only 20¢, but would cost 29¢. Her total consumer's surplus would be only 8¢, 1¢ on each of the eight eggs.