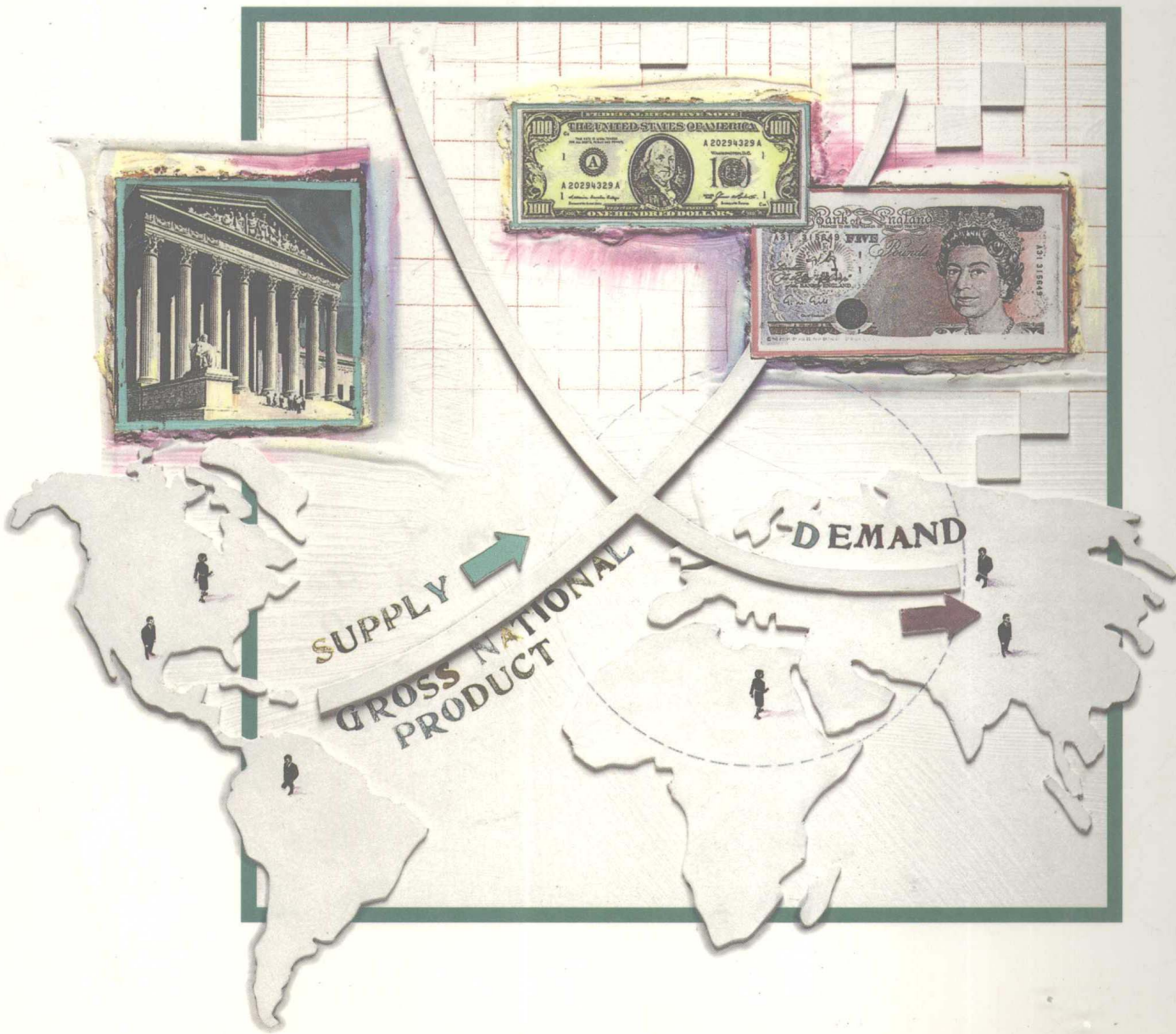


# INTRODUCTION TO ECONOMICS

SECOND EDITION



STEPHEN L. SLAVIN

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# Introduction to Economics

Second Edition

*Stephen L. Slavin*

*The New School for Social Research New York City*  
*Union County College Cranford, New Jersey*

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# Introduction to Economics

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# Foreword

"You teach economics?" asks the alumnus at the college reunion. I answer affirmatively, even proudly, but I know what the next sentence is going to be: "It was my worst subject—I *hated* it."

Indeed, he or she hated it, learned nothing, and joined the army of economic illiterates. Was this necessary? Probably not. The old grad took a course that was taught as the first step toward a Ph.D. For some students, that can be very useful. Most students, particularly vocationally oriented students, however, need a course that enables them to grasp the basic elements of economics and relate them to their world.

Professor Slavin has written a text that fulfills such a need. In the language of computer programs, the book is user friendly. The student is led gently into each topic. Each step is carefully explained in prose that is accessible. The landmines that so often destroy student interest are cleared away—how to draw a diagram, what the concept of the margin is, even how to calculate a percentage. Yes, Virginia, there *are* college students who have deep-rooted problems with simple math or even arithmetic. Such students are capable of learning complex concepts if the explanations are made clear enough.

Although the book's emphasis is on basics, the coverage is complete. The student who has mastered this book is prepared for more advanced work. Indeed, the book's style and innovative pedagogy will enable such a student to retain more of the subject, instead of forgetting the bulk of it after the final exam.

I am happy to see this book on the market. It is an excellent teaching tool. And that is what textbooks are supposed to be all about.

**Bruno Stein**  
*Professor of Economics*  
*New York University*

# About the Author

Stephen L. Slavin received his B.A. in economics from Brooklyn College and his M.A. and Ph.D. in economics from New York University. He previously taught at New York Institute of Technology, Brooklyn College, St. Francis College (Brooklyn), and in the M.B.A. program at Fairleigh Dickinson University, and he now teaches at the New School for Social Research in New York City and at Union County College in Cranford, New Jersey.

He has written four other books: *The Einstein Syndrome: Corporate Anti-Semitism in America Today* (University Press of America); *Jelly Bean Economics: Reaganomics in the Early 1980s* (Philosophical Library); *Economics: A Self-Teaching Guide* (John Wiley & Sons); and *All the Math You'll Ever Need* (John Wiley & Sons).

Dr. Slavin's articles have appeared in *Economic Planning*, *Journal of BioSocial Science*, *Business and Society Review*, *Bankers Magazine*, *Education for Business*, *Public Management*, *Better Investing*, *Northwest Investment Review*, and *Patterns in Prejudice*. In addition, he has written over 300 newspaper commentaries on public policy, demographic economics, politics, urban economics, international trade, investments, and economic fluctuations.

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# Preface

Nearly 20 years ago, while still a graduate student, I got a part-time job helping to ghostwrite an introductory text for a major publisher. I asked my editor why so many economics texts were ghostwritten. She smiled and said, "Economists can't write." This makes me the exception that proves the rule.

Economics can be a rather intimidating subject, with its extensive vocabulary, complicated graphs, and quantitative tendencies. Is it possible to write a principles text that lowers the student's anxiety level without watering down the subject matter? To do this, one would need to be an extremely good writer, have extensive teaching experience, and have solid academic training in economics. In this case, two out of three is just not good enough.

## ***To the Student***

What have you heard about economics? That it's dull, it's hard, it's full of undecipherable equations and incomprehensible graphs? If you were to read virtually any of the introductory economics textbooks, that's exactly what you would find.

Why is this book different from all other books? For starters, this is the first economics book that is reader friendly. While you're reading, I'll be right there with you, illustrating various points with anecdotes and asking you to work out numerical problems as we go along.

Are you a little shaky about the math? Your worries are over. If you can add, subtract, multiply, and divide (I'll even let you use a calculator), you can do the math in this book.

How do you feel about graphs? Do you think they look like those ultra-modernistic paintings that even the artists can't explain? You can relax. No graph in this book has more than four lines, and by the time you're through, you'll be drawing your *own* graphs.

Unlike virtually every other economics text, this one includes a built-in workbook. Even if your professor does not assign the questions at the end of each chapter, I urge you to answer them because they provide an excellent review.

I can't guarantee an A in this course, but whether you are taking it to fulfill a college requirement or are planning to be an economics major, you will find that economics is neither dull nor all that hard.

## ***To the Instructor***

Why did I write this book? Probably my moment of decision arrived about nine years ago when I mentioned to my macro class that Kemp-Roth cut the top personal income tax bracket from 70 percent to 50 percent. Then I asked, "If you were rich, by what percentage were your taxes cut?"

The class sat there in complete silence. Most of the students stared at the blackboard, waiting for me to work out the answer. I told them to work it out themselves. I waited. And I waited. Finally, someone said, "Twenty percent?"

"Close," I replied, "but no cigar."

"Fourteen percent?" someone else ventured.

"No, you're getting colder."

After waiting another two or three minutes, I saw one student with her hand up. One student knew that the answer was 29 percent—*one* student in a class of 30.

When do they teach students how to do percentage changes? In high school? In junior high or middle school? Surely not in a college economics course.

How much of *your* time do you spend going over simple arithmetic and algebra? How much time do you spend going over simple graphs? Wouldn't you rather be spending that time discussing economics?

Now you'll be able to do just that, because all the arithmetic and simple algebra that you normally spend time explaining are covered very methodically in this book. All you'll need to do is tell your students which pages to look at.

In the micro chapters, there are scores of tables and graphs for the students to plot on their own; the solutions are shown in the book. This will cut down on the amount of time you'll need to spend putting these problems on the board.

As an economics instructor these last 25 years at such fabled institutions as Brooklyn College, New York Institute of Technology, St. Francis College (Brooklyn), and Union County College, I have used a variety of texts. But each of their authors assumed a mathematical background that the majority of my students did not have. Each also assumed that his graphs and tables were comprehensible to the average student.

The biggest problem we have with just about any book we assign is that many of our students don't bother to read it before coming to class. Until now, no one has ever written a principles text in plain English. I can't promise that every one of your students will do the readings you assign, but at least they won't be able to complain anymore about not understanding the book.

### ***Changes in the Second Edition***

We've added two chapters and split International Trade and Finance into two chapters (30 and 31). The new chapters are Economic Growth and Productivity (16) and Income Distribution and Poverty (29). We've also tried to straighten out all the kinks that inevitably crop up in first editions of principles texts. There are more current applications, particularly with respect to our deteriorating international competitive position. Wherever possible, suggestions by the book's users have been incorporated, but the organization, format, and writing style remain the same.

### **Acknowledgments**

It is one thing to write an unconventional, even controversial, principles text, and it is quite another to get it published. Gary Nelson saw this project through from its inception to its completion, and I want to thank him for making this book possible.

I'd also like to thank Paula Buschman, the project editor; Jess Ramirez, the copyeditor; and Randy Haubner, who worked on promoting *Introduction to Economics*, 2nd edition.

Finally, I want to thank Professor Bruno Stein (New York University) and Professor Elaine Wrong (Montclair State College) for their helpful suggestions with the manuscript.

**Stephen L. Slavin**



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# What Is Economics All About, How Do We Use This Book, and Why Is This Book Different from All Other Introductory Economics Textbooks?

You've just started reading what may be the shortest chapter with the longest title ever to appear in an introductory economics textbook. Why is this chapter so short? Mainly because I believe in economizing. What is economizing? Funny you should ask.

Economics deals with efficiency—getting rid of waste. That's why this chapter is so short. In fact, that's why this entire book—a textbook and workbook combined—is so short. We've eliminated most of the extraneous material, the stuff that almost no one reads and virtually no one can understand. What you'll be getting here is 99.44 percent pure introductory economics. If this book were sold in supermarkets, you'd find it with the rest of the no-frills products.

What exactly is economics? Basically, economics is a set of tools that enables us to use our resources efficiently. The end result is the highest possible standard of living.

Economics operates on two levels, the macro level and the micro level. *Macroeconomics* deals with huge aggregates like national output, employment, the money supply, bank deposits, and government spending, and how we can deal with inflation and recession. The first half of this book (through Chapter 16) is devoted to macroeconomics.

*Microeconomics* operates on the level of the individual business firm, as well as that of the individual consumer. How does a firm maximize its profits, and how do consumers maximize their satisfaction? These are the types of questions answered by microeconomic analysis, which begins with Chapter 17.

This book is very different from every other introductory text in several ways. Not only is it shorter, but it is much more readable. To paraphrase an old computer term, it is "reader friendly." There are plenty of jokes and anecdotes to illustrate points. And you will be able to do the math even if you are mathphobic.

The format of the book encourages you to read actively rather than passively. You will be asked to answer questions and do calculations. Then you'll check your work against the answers.

Whenever you are asked to do any calculations (and we rarely go beyond eighth grade arithmetic), there will be a section that reviews the math. For



example, just before we deal with gross national product (Chapter 5), which is expressed in trillions of dollars, there is a section showing you how to deal with large numbers. If you happen to be one of those people who doesn't know billions from trillions, then this section is for you. But if you do know your billions and trillions, you can skip this section and go directly to GNP, collect \$200, and roll the dice again.

Actually, I won't claim that reading this book will be quite as much fun as playing Monopoly, or that you will get to collect \$200 whenever you skip a section. But you do get to save some money.

This text gives you two books in one: the conventional textbook and the workbook. Go into any college bookstore and check out the prices. Almost every standard textbook/workbook package will cost you over \$60, so you're already economizing. And yet, in the words of the Carpenters' golden oldie, "We've only just begun."