

Economics of Social Issues

SEVENTEENTH EDITION



SHARP • REGISTER • GRIMES

Economics of Social Issues

Seventeenth Edition

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Preface

Welcome to the 17th edition of the first textbook to introduce the social issues approach to the teaching of economic principles. Over the years, our revisions to each edition of *Economics of Social Issues* have attempted to reflect the important societal trends and public debates current at the time. Currency and relevance are the motivations behind the major changes that previous users will quickly find in this volume. Although the specific topics and organization of the material continue to evolve, at least one thing remains a constant: our basic teaching objectives designed to produce economically literate citizens. These objectives are to (1) create student interest in the study of economics and (2) provide a framework of basic analytical tools useful in the understanding of social issues. To reach these objectives, we first introduce and discuss the important aspects of a contemporary social issue. Next, we develop the economic concepts and principles germane to the issue. Finally, we apply these principles to the issue to resolve it. The issues throughout the text are arranged so that basic economic concepts are logically developed and an understanding of these concepts is reinforced through repeated use and application. Enough flexibility is built in, however, to give instructors the ability to experiment with different sequences of topics and chapters. As always, we carefully choose relevant social issues that not only stimulate classroom discussion but also lend themselves to helping students learn the important basic principles of economics.

WHAT'S NEW

Our primary goal throughout the revision process was to enhance the uniqueness of our pedagogical approach to teaching basic economic concepts while continuing to improve the overall quality of our final product. We feel we succeeded in doing this and hope that both our new and our long-time users will agree.

Those familiar with previous editions of the book will find a number of modifications and additions incorporated into the 17th edition. The most obvious change is in Chapter 2. With the Soviet Union receding into the pages of history, we received numerous recommendations from reviewers and long-time adopters to replace our discussion of the Soviet transition with an exploration of the experiences of the People's Republic of China. On the basis of these suggestions, China is now the focal point of Chapter 2, where the examination of the differences between command economies and market-based economies is used to illustrate the power of the marketplace to answer society's basic economic questions. The basic instructional goals of the chapter remain the same, only the example has changed. Given the ongoing controversies about China's role in the global economy, we believe this change will make Chapter 2 more relevant for today's college student.

We have retained the same number and sequence of chapters for the 17th edition and, although the primary instructional objectives of the text have not changed, we have revised each chapter to reflect the current public discourse and debate on the topics at hand. For example, in Chapter 6 on the economics of

education, students are presented with recent research findings concerning the effects of vouchers and charter schools on student performance. In Chapter 10 on international trade, we have added a discussion of the currently popular protectionist argument about the need to prevent outsourcing of service sector jobs overseas. Chapter 10 also reflects the recent expansion of the European Union to its current 25 members. Our chapter on public finance, Chapter 14, has been updated to account for recent tax reform measures, and the comparison of U.S. tax rates to those in other countries has been updated and expanded. In the discussion of the incidence of tax burdens, Chapter 14 now introduces students to the concept of price elasticity of demand, a concept missing from the last several editions of the text. Readers will also find that Chapter 16 on Social Security includes the latest forecasts for the trust fund balance and discusses the 2003 Medicare Modernization Act. There are many other changes throughout the text that are too numerous to list here and, of course, each chapter was thoroughly revised and updated with the latest statistics and data available at press time.

Again, the end of each chapter includes an updated list of recommended World Wide Web sites relevant to the particular social issues discussed in that chapter. These sites were chosen on the basis of their content and ability to provide students with additional information or alternative points of view. Please visit our enhanced Web site created and maintained by Margaret A. Ray and hosted by McGraw-Hill/Irwin. This site provides hyperlinks to each Web site listed at the end of each chapter, as well as links to articles and information that supplement our textbook material. Furthermore, self-tests designed to enhance the resources found in our companion *Study Guide* are available to students. The URL for our Web site is www.mhhe.com/economics/sharp17.

Without question, however, the most important change is that the 17th edition marks the first edition in which founding author Ansel Sharp has not taken an active role. We have each known Ansel for some 25 years now. We have known him as professor, as mentor, as coauthor, and most significantly as dear friend. Ansel being no longer actively involved leaves us with very big shoes to fill. At the same time, through 25 years of observing his exemplary professionalism, it is our hope that we can fill those shoes, keeping *Economics of Social Issues* as current, interesting to students, and analytically sound as it has always been.

THE SOCIAL ISSUES PEDAGOGY

To those instructors who are contemplating the adoption of a social issues approach to teaching economic principles, we would like to call your attention to the following research article: "The Social Issues Pedagogy vs. the Traditional Principles of Economics: An Empirical Examination," *The American Economist*, vol. 41, no. 1, Spring 1998. This paper was written by Paul along with Professor Paul S. Nelson of the University of Louisiana at Monroe. It presents the results of a controlled experiment comparing the learning of students enrolled in a social issues-oriented course that used a previous edition of this book with students who took traditional principles of economics courses and used a standard encyclopedic

text. The results are encouraging in that no significant difference was found between students in the social issues course and students enrolled in the traditional macroeconomics principles course, after controlling for student demographic characteristics, prior experiences, and academic aptitude. Furthermore, the results strongly indicate that the students in the social issues course had a higher probability of course completion relative to those in the control group. In this era, in which student retention is becoming more important, we strongly believe that this result suggests an important positive spillover benefit of our pedagogical approach that those who design economics courses and curriculum should consider.

Acknowledgments

First, we would like to thank former author Richard H. Leftwich for all his contributions to past editions of this book. Much of the credit for the success of the social issues pedagogy belongs to him. The author team also extends its sincere appreciation to the author of the *Study Guide* and *Instructor's Manual*, Margaret A. Ray of Mary Washington College, for her diligent work in revising and updating these important companions to our book. Margaret has also provided insightful comments and suggestions throughout the last several revisions of the textbook. We also wish to thank her for applying her expertise in economic education to the development and maintenance of the Web site. Margaret's hard work has proved instrumental in the success of this important enhancement of our efforts.

Many of the features included in this edition are based on suggestions made to us in conversation or in writing by the following users or previous reviewers of our book:

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Charles A. Register

Paul W. Grimes

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Checklist of economic concepts

- Labor resources
- Capital resources
- Technology
- Production possibilities curve
- Opportunity costs
- Opportunity cost principle
- Increasing opportunity costs
- Marginal social cost
- Marginal social benefit
- Cost-benefit analysis
- Gross domestic product, current dollar
- Gross domestic product, real
- Gross domestic product, real per capita
- Gross domestic product, per capita
- Price index numbers
- Lesser developed countries
- Developed countries

Argentina may produce enough food to feed a population equivalent to that of the United States, but little has reached 1-year-old Debora Santana, who lay in a rusty hospital cradle with an IV drip attached to her rake-thin arm.

Her single, jobless mother took Debora to a children's hospital in northern Tucuman province after she became listless, refusing to eat the little food offered. She arrived suffering from diarrhea and parasites and weighed less than 13.2 pounds, nearly half what an average child her age should.

Debora, her stomach bloated, looked up from the iron cot with dark, scared eyes. Mother and daughter had been living on a bowl of noodle soup daily and an herbal tea called mate.

"It's a disgrace this is happening in Argentina," said Mirta, a nurse in the dingy ward of broken tiles as she looked over the bed. She echoed the anger and shame Argentines feel at the plight of a crisis-wracked nation that a few years ago was a beacon of middle-class prosperity in Latin America.

In the latest of hundreds of often fatal cases of malnutrition, Debora was a "grade three," the most extreme when body weight is some 40 percent lower than normal.

Argentina, with a population a tenth of that in the United States, produces annually the equivalent of 2 tons of grains for each of its inhabitants. But a slump worse than the 1930's U.S. depression has made millions of families so poor they depend on state aid to feed their children.

"Argentina has food for everyone but there is a problem of distribution. It's incredible Argentina has come to this point. It's a disgrace," said Economy Minister Roberto Lavagna.

Debora has, so far, survived. But in the last few months, five children died from malnutrition at the same run-down hospital as Argentina's social welfare and health systems collapse from the strain of a four-year recession combined with endemic state corruption.

Health groups say that one in five children nationwide is malnourished. Dozens of child deaths nationally and images of kids with the bloated stomachs that come from severe protein deficiency have sparked a crisis of conscience.

"I sometimes have to remind myself this is not Africa, this is Argentina," Mirta said.

Argentina, with its legacy of state welfare and pride of having one of the highest standards of living in the region, has long said it is different from the Third World.

But the news from Tucuman and other provinces has reminded people how far their nation—vying economically with Canada 70 years ago—has fallen. Deaths from malnutrition in Argentina are nothing new—before this year's crisis, national charity Red Solidaria estimated several children died daily from malnutrition.

But the sheer scale of the crisis has shocked even hardened doctors. Official data this year is not available but doctors in Tucuman say their number of malnutrition cases has doubled.