

Stephen L. Slavin



Economics

sixth edition



Economics

SIXTH EDITION

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Preface to the Instructor

More than 25 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.”

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.

Why did I write this book? Probably my moment of decision arrived about 15 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 almost 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 methodically in this book. All you’ll need to do is tell your students which pages to look at.

The micro chapters offer 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 for more than 30 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 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.

Distinctive Qualities

My book has six qualities that no other principles text has.

1. **It reviews math that students haven’t covered since middle school and high school.** (See, for example, the box “A Word About Numbers,” Chapter 5, page 112, or “Calculating Percentage Changes,” Chapter 9, page 223.)
2. **It’s an interactive text, encouraging active rather than passive reading.** (See, for example, the calculation of average fixed, variable, and total cost, Chapter 20, pp. 554–555.)*
3. **It’s a combined textbook and workbook.** Each chapter is followed by workbook pages that include multiple-choice and fill-in questions, as well as numerical problems.
4. **It costs less than virtually every other text on the market.** The sixth edition has the lowest list price on the market for this combined textbook-workbook.
5. **It’s written in plain English without jargon.** See for yourself. Open any page and compare my writing style with that of any other principles author. This book is written to communicate clearly and concisely with the students’ needs in mind.

*All chapter references are to the two-semester text, *Economics*.

- 6. It is written with empathy for students.** My goal is to get students past their math phobias and fear of graphs by having them do hundreds of problems, step-by-step, literally working their way through the book. Students learn economics best by actively “doing.”

Special Features

Three special features of my book are its integrated coverage of the global economy, its extra help boxes, and its advanced work boxes.

The Global Economy

Until the early 1970s our economy was largely insulated from the rest of the world economy. All of this changed with the oil price shock of 1973, our subsequent growing appetite for fuel-efficient Japanese compact cars, as well as for TVs, VCRs, camcorders, and other consumer electronics made in Asia. As our trade deficits grew, and as foreigners bought up more and more American assets, every American became quite aware of how integrated we had become within the global economy.

The sixth edition has three chapters devoted entirely to the global economy—Chapter 32 (International Trade), Chapter 33 (International Finance), and Chapter 8 (The Export-Import Sector). This new chapter is part of the sequence (C, I, G, and X_n) leading up to the chapter on GDP. In addition, we have integrated a great deal of material dealing specifically with the global economy throughout the text.

Here are some of the things we look at:

- The “Isms”: Capitalism, Communism, Fascism, and Socialism (Ch. 4, p. 98)
- China: The Premier Communist Power (Ch. 4, p. 104)
- Foreign Investment in the United States (Ch. 6, p. 148)
- The World’s Leading Trading Nations (Ch. 8, p. 200)
- World Trade Agreements and Free Trade Zones (Ch. 8, pp. 202)
- Global Comparison: Breakdown of GDP Expenditures for Selected Countries (Ch. 9, p. 215)
- Trillion-Dollar Economies, 2000 (Ch. 9, p. 228)
- Comparative Unemployment Rates (Ch. 10, p. 255)
- How Independent Is Our Central Bank in Comparison to Other Leading Central Banks? (Ch. 14, pp. 370–371)
- The Effectiveness of Monetary Policy in an Open Economy (Ch. 14, p. 390)
- The Productivity of Labor: An International Comparison (Ch. 16, p. 468)

- Economic Growth in Less-Developed Countries (Ch. 16, p. 469)
- Cartels: The Case of OPEC (Ch. 25, p. 663–664)
- Antitrust Enforcement by the European Commission (Ch. 26, pp. 694–695)
- Worldwide Corporate Mergers and Acquisitions (Ch. 26, p. 701)
- Union Membership in the United States and Other Nations (Ch. 28, p. 735)
- Hourly Wage Rates in the United States and Other Nations (Ch. 29, p. 761)
- U.S. Merchandise Trade Deficit with Japan and China (Ch. 32, p. 854)
- How the Japanese Drove American TV Manufacturers Out of Business (Ch. 32, p. 857)
- Exchange Rates: Foreign Currency per American Dollar (Ch. 33, p. 877)

Extra Help Boxes

Students taking the principles course have widely varying backgrounds. Some have no problem doing the math or understanding basic economic concepts. But many others are lost from day one.

I have provided dozens of Extra Help boxes for the students who need them. They are especially useful to instructors who don’t want to spend hours of class time going over material that they assume should be understood after one reading.

Of course these boxes can be skipped by the better prepared students.

Here are some of the topics covered in the extra help boxes:

- Read Only if You Still Don’t Understand Why C is 1,000 (Ch. 5, p. 120)
- More on Finding Autonomous and Induced Consumption (Ch. 5, p. 124)
- Calculating Percentage Changes (Ch. 9, p. 223)
- Read Only if You’re Not Sure How to Calculate the Unemployment Rate (Ch. 10, p. 253)
- Finding Percentage Changes in the Price Level (Ch. 10, p. 262)
- Differentiating Between the Deficit and the Debt (Ch. 12, p. 326)
- Differentiating Between Changes in Supply and Changes in the Quantity Supplied (Ch. 17, p. 491)
- Approaching Perfect Elasticity and Perfect Inelasticity Arithmetically (Ch. 18, p. 512)
- Calculating Marginal Utility and Total Utility (Ch. 19, p. 536)

- What's the Difference Between Shutting Down and Going Out of Business? (Ch. 20, p. 552)
- Distinguishing Between Fixed Cost and Average Fixed Cost (Ch. 20, p. 557)
- Making Sure We're Maximizing Total Profit (Ch. 21, p. 577)
- Finding the Firm's Short-Run and Long-Run Supply Curves and Shut-Down and Break-Even Points (Ch. 21, p. 585)
- How to Read a Graph (Ch. 23, p. 622)
- Drawing the Cutthroat Oligopolist's Demand and Marginal Revenue Curves (Ch. 25, p. 671)
- Finding the Imperfect Competitor's MRP (Ch. 27, p. 717)
- Finding the Percentage of Income Share of the Quintiles in Figure 1 (Ch. 31, p. 797)

Advanced Work Boxes

There are some concepts in the principles course that many instructors will want to skip. (Of course, if they're not included in principles texts, this will make other instructors quite unhappy.) These boxes are intended for the better prepared students who are willing to tackle these relatively difficult concepts.

Here is a sampling of my Advanced Work boxes:

- Post-World War II Recessions (Ch. 1, p. 15)
- APCs Greater Than One (Ch. 5, p. 116)
- Nominally Progressive, Proportional, and Regressive Taxes (Ch. 7, p. 148)
- Why NNP Is Better Than GDP (Ch. 9, p. 218)
- The Accelerator Principle (Ch. 10, p. 247)
- The Paradox of Thrift (Ch. 12, p. 320)
- Three Modifications of the Deposit Expansion Multiplier (Ch. 14, p. 381)
- Rational Expectations vs. Adaptive Expectations (Ch. 15, p. 419)
- Why Don't We Use a Simpler Elasticity Formula? (Ch. 18, p. 508)
- Maximizing Total Profit and Maximizing Profit per Unit (Ch. 22, p. 602)
- Technological Advance and Decreasing Costs (Ch. 22, p. 609)
- Showing Total Profits and Losses Graphically (Ch. 22, p. 605)
- Perfect Price Discrimination (Ch. 24, p. 652)
- Who Created the Land? (Ch. 30, p. 777)
- The Negative Income Tax (Ch. 31, p. 820)

Changes in the Sixth Edition

We made a few major organizational changes in the sixth edition, while cutting the number of chapters from 35 to 33. There's now a much stronger emphasis on supply and demand toward the beginning of the text, and we've added a new chapter on the export-import sector of GDP. The early micro chapters were completely reorganized: Chapter 17 is now Demand, Supply, and Equilibrium; Chapter 18, The Elasticities of Demand and Supply; Chapter 20, Cost; and Chapter 21, Profit Maximization. We've detailed the chapter-by-chapter changes near the beginning of the Instructor's Manual.

Two basic ways this book is different from all other principles texts is that it is a smoother read and it is interactive. The sixth edition improves on these features.

Most of the really hard stuff is in Advanced Work boxes and appendices. This relatively difficult material can be skipped, or perhaps assigned for extra credit. The really easy stuff—for example, math that should have been learned in high school—is covered in Extra Help boxes. These boxes save professors hours of valuable class time. For example, students who can't figure out percentage changes can get help from the boxes on pages 223 and 262. In the sixth edition I've added a dozen new boxes.

Unlike all other principles texts, which encourage passive reading, my book encourages active reading. Students work their way through each chapter, tackling numerical problems, filling in tables, and drawing graphs. Then, at the end of each chapter is a workbook section with multiple-choice and fill-in questions, and problems. In the sixth edition we now have about 100 problem sheets in the Instructor's Manual, which can be torn out, photocopied, and handed out to the students. Let's say a professor assigned the first 10 pages of Chapter 12 (Fiscal Policy and the National Debt). A problem sheet would have a graph and three questions: (1) Is this an inflationary gap or a deflationary gap? (2) How big is it? (3) What two fiscal policy measures would you use to remove it? There's a problem like this in the workbook section of Chapter 12, but this problem comes up at the beginning of a very long chapter. Having these problem sheets saves the professor from having to put this graph on the board and having students spend class time figuring out the answers.

The Supplement Package

In addition to the workbook, which is built in, *Economics* has a supplemental package to help students and instructors as they use the text.

Instructor's Manual

I prepared the instructor's manual to give instructors ideas on how to use the text. The manual includes a description of the textbook's special features, a chapter-by-chapter discussion of material new to the sixth edition, and a run-down of chapter coverage to help instructors decide what they can skip.

In the sixth edition, the IM has undergone the most radical change. Until now it had consisted of answers to the workbook questions at the end of each chapter in the text, worksheets, and worksheet solutions. We've now added answers to the Questions for Thought and Discussion at the end of each chapter. And, Mark Maier, who has used the text for several editions, has added three new IM sections for each chapter—learning objectives, ideas for use in class, and homework questions and projects (including scores of very useful Web sites). The IM now provides a rich source of interesting ideas of classroom activities and discussion involving concepts and issues included in the text.

Test Bank (Micro and Macro Versions)

The test bank, which I had updated and revised for each edition, had some 7,000 multiple-choice questions, fill-ins, and problems. Jim Watson has looked carefully at each of these, updating some, revising some, and dropping some. He then made up more than 1,000 new questions. To be quite frank, parts of my test bank had been getting somewhat stale, and Jim has greatly improved it.

Teaching Transparencies

The most important graphs and tables from the text are reproduced as two-color transparencies. Use of these acetates will aid the instructor's classroom presentations and the students' understanding.

Computerized Testing

The Micro and Macro test banks are available in computerized versions for PCs. Developed by the Brownstone Research Group, this state of the art software has the capability to create multiple tests, "scramble," and produce high-quality graphs.

Videos

A selection of videos is available to adopters, including both tutorial lessons and programs that combine histori-

cal footage, documentary sequences, interviews, and analysis to illustrate economic theory. There is also a 15-minute video that explains how to get the most out of the book. This may be played during the first day of class.

A series of instructional videos, whose content was reviewed by Nobel Laureate Robert Solow, is being created for McGraw-Hill's *Principles of Economics* texts. These brief but compelling pieces explain the core ideas of economics (for example, opportunity costs), diminishing returns, mutual gains from trade, marginal analysis, and comparative advantage.

Web Site

Some of the text's unique qualities are incorporated in a dynamic new Web site. Its remedial nature, with attention toward helping students further overcome math anxiety and graphing difficulties, will take on a self-help orientation for needy students. The quizzing practice offers questions not found in the Workbook or the Test Bank and serves to reinforce the material covered in every chapter. Instructors will find material from the IM and PowerPoints. Several sections, of interest to both instructors and students, provide useful and thought-provoking material and broaden understanding of the scope of economics.

One-Semester Courses

Here are some syllabi for one-semester courses with varying orientations:

Macro oriented:

Chapters 1–9; 12–14; 17; 29–33.
Chapters 1–3; 10; 12–14; 16–17; 26; 29–33.
Chapters 1–10; 16–17; 26; 31–33.

Micro oriented:

Chapters 2–4; 10; 16–26.
Chapters 1–4; 16–25; 32–33.
Chapters 2–3; 17–21; 27–33.

Balanced approach:

Chapters 1–9; 17–21; 32–33.
Chapters 1–4; 16–21; 26–31.

Here's another possibility—a one-semester course that focuses on contemporary problems:

Chapters 2–4; 10; 12–14; 16; 26; 29–33.

Acknowledgments

It is one thing to write an unconventional, even controversial, principles text, and it is quite another to get it published. Gary Nelson, the sponsoring editor at the time my book was signed, saw the project through from its inception to its completion, and I want to thank him for making this book possible. Gary oversaw the development from a bare bones text to a full-fledged principles package.

Paul Shensa, who succeeded Gary Nelson as sponsoring editor, has been a great advocate of my book, both inside and outside the company. Paul, who may well be the most experienced economics textbook editor in the industry, was especially helpful in getting the reviewers' suggestions incorporated into the text and the supplements. I also wish to thank Gary Burke, my publisher, who put together the group that edited and produced the book.

Chantal Guillemain, the developmental editor, saw this project through from the first reviews, the chapter-by-chapter revisions, the Test Bank revisions, and the dozens of deadlines that we met, to the time the book finally went to press. Chantal was great at keeping all the plates spinning, dealing with a diverse group of personalities, making sure that all the pieces fit, and seeing to it that the text and the supplements were ready to go to the printer.

Project manager Christina Thornton-Villagomez, with whom I worked day to day, managed the copyediting, artwork, and page proofs, and saw to it that we stayed not just on schedule, but ahead of schedule. Stacey Sawyer, the copyeditor with the light touch, suggested hundreds of improvements, large and small, while smoothing out the rough edges of the manuscript. Keith McPherson oversaw the design of the book from cover to cover. Supplements producer Becky Szura made sure the supplement production process went smoothly.

Every economist knows that no product sells itself. Without major sales and marketing efforts, my text could not sell very well. Marty Quinn, the marketing manager for economics, has done a great job publicizing my book, and he deserves a good deal of the credit for its expanding sales, as does Meg McCormick, the associate marketing manager. But most of the credit goes to all the Irwin/McGraw-Hill and Glencoe/McGraw-Hill sales reps for all their efforts to sell my book. And I would like to especially thank the reps in Dubuque, Iowa, who have personally accounted for about a quarter of our sales.

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Finally, to all adopters of the past five editions, thank you. Your comments and concerns have helped me to write the 2002 edition of *Economics*.

—Stephen L. Slavin

Preface 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.

How 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 ultramodernistic 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.

In nearly every chapter you'll find one or two boxes labeled "Extra Help." Sometimes you can master a concept when additional examples are given. Don't be too proud to seek extra help when you need it. And when you don't need it, you may skip the boxes.

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 planning to be an economics major, you will find that economics is neither dull nor all that hard.

—*Stephen L. Slavin*

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