

PRINCIPLES OF ECONOMICS



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Principles of Economics

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Preface

There are a number of good introductory economics textbooks. Our book acknowledges their strengths by emulating them in several respects. First, it shares a common purpose with others. We explain how the economy works when functioning freely by markets, as well as when influenced by government policies. Second, our selection of subjects has not strayed from the mainstream. We treat the standard topics: market equilibrium; the Keynesian, monetarist, and new classical models; monetary and fiscal policy; economic growth; oligopoly and other market structures; income distribution; labor relations; and international monetary relations and international trade. In the paperback volumes we cover the standard topics in clusters of micro and macro orientation, as is now customary.

We explain different political and ideological views in an evenhanded manner. We cover the views of both conservatives and liberals.

Features

Why then another principles text? Why try this new offering? An examination of the book will reveal many distinguishing features—matters of content, organization, and exposition.

One significant feature is *logical flow*. The student should not be left with the impression that economics is a loose collection of unconnected topics. We avoid this in several ways. For example, all principles books refer to the basic questions of “what,” “how,” and “for whom” in the early chapters. We maintain the connection between these basic questions and various aspects of market performance discussed later in the book. In the same vein, we maintain a focus for the student by developing the methodology of two-question logic. For macroeconomics the two questions are “What is expected?” and “What actually happens?”; for microeconomics the questions are “What are the benefits?” and “What are the costs?” Using this two-question logic much hard analysis can be reduced to familiar ways of thinking. The flow of several chapters is smoothed by the use of a run-

ning example. In Chapter 5, for instance, the basic facts of American business are illustrated by a series of discussions concerning General Motors.

A second source of freshness concerns *summaries*. Most texts open each chapter with a preview or outline of the contents and close with a recapitulation. We do this and more. We introduce additional summaries within the chapters. Charts that compare several related diagrams appear throughout the book. “Check your Bearings” reviews within chapters help readers cement their comprehension at intervals shorter than those afforded by end of chapter summaries.

A third characteristic, overlapping the others, is careful presentation. We maintain a logical sequence of topics and develop matters one step at a time. We draw a distinction between *problems* to be solved (for example, what price maximizes profit) and *dilemmas* that require value judgments (for example, the short-run unemployment–inflation tradeoff). We develop alternative macroeconomic models in a clear building-block fashion, with rigor, but without excess complexity.

Finally, dynamics appears in abundance. “What’s New” is a basic question we explicitly acknowledge, along with the more traditional key questions. Growth and technological change are central topics in the book. In the same spirit, entrepreneurship is given explicit and extensive coverage as a scarce and valuable resource. Product life cycles are explained in relation to changes in demand and production techniques over time.

Organization

The book is organized as follows.

PART I lays the foundation for the whole volume. Chapter 1 begins with the fundamental concepts of scarcity and choice. In Chapter 2 production possibility frontiers illustrate scarcity in a formal fashion. Opportunity costs naturally follow, and their manipulation leads logically to the development of specialization, market exchange and circular flow. Chapter 3 presents simple market me-

chanics—demand, supply and their interaction. Chapter 4 covers the market's shortcomings and introduces government as the source of economic policy, recognizing that such intervention may be harmful. Chapter 5 concludes Part I with a glance at basic business realities, such as corporations and stock markets.

PART II begins with a definition and discussion of unemployment and inflation—two key macroeconomic variables—in Chapter 6. Chapter 7 describes the central measures in the National Income Accounts. In Chapter 8 we turn from describing to explaining the behavior of macroeconomic variables. Four macroeconomic models (or systems) are discussed in turn. The starting point is the *Classical* system (Chapter 8). Consideration of the classical system at the start is useful for several reasons. Understanding the classical system provides the background for understanding the *Keynesian revolution*. Moreover, the major modern challenges to Keynesian views are all rooted in classical theory. *Keynesian* economics is presented in Chapters 9–12, building up the complete model in steps. Chapter 13 applies the Keynesian theory to explain the behavior of inflation and unemployment over the past three decades. The next two chapters consider modern alternatives to the Keynesian theory—*monetarism* in Chapter 14 and the *new classical economics* in Chapter 15. Chapter 16 concludes Part II with a summary of the models, examining areas of consensus as well as controversy.

PART III goes into more detail concerning *macroeconomic policy*. Policy questions are discussed in Part II as well, but to keep the initial presentation of macroeconomic models simple, institutional detail and most discussion of actual policy-making procedures are left to Part III. Chapters 17 and 18 consider monetary policy and the banking system. Chapter 19 deals with fiscal policy. In Chapter 20 the focus shifts to the longer run as economic growth and trends in employment and unemployment are discussed. Supply-side economic theories and fiscal policy enter in this discussion in Chapter 20 as well as in Chapter 19.

PART IV, the backbone of the microeconomics part of the book, focuses on product markets. The basics of demand and supply are elaborated upon

with discussions of consumer choice (Chapter 21), elasticity (Chapter 22), and cost conditions (Chapter 23). Chapter 24 then presents an overview of all the main market types—perfect competition, monopoly, oligopoly and monopolistic competition. We stress the fact that market structure determines the firm's view of demand, which in turn determines the firm's revenue experience, which then influences the firm's behavior because revenue experience, along with cost conditions, determine profits—the prime motive behind behavior. Details are presented thereafter. Separate chapters discuss perfect competition and monopoly (Chapters 26 and 27). Oligopoly and monopolistic competition are covered jointly in Chapters 27 and 28, one covering price strategies and the second non-price strategies. Discussions of regulation, anti-trust and information policies round out the analysis, in Chapter 29.

PART V shifts the focus away from product markets toward input markets. Labor, the most important productive input when measured by total household income earnings and overall business expenses, occupies Chapters 30 and 31. Chapter 30 tackles competitive labor markets and explains differences in wages by variations in such things as work conditions and human capital. Chapter 31 covers unions, their economic and institutional aspects. Input markets for resources other than labor—those for land, capital and entrepreneurship, in particular—receive ample attention at the conclusion of Part V in Chapter 32.

PART VI takes up several areas of microeconomics that do not fit neatly elsewhere. In Chapter 33, poverty and discrimination are explained along with the government's attempts to alleviate them. Public choice theory is a topic that has grown to the point of warranting an entire chapter (Chapter 34). Political decision-making is often grounded on economic motives, and public choice theory helps to explain how this relationship affects government inclinations and operations. It will become apparent that the government does not always serve public interests. In Chapter 35, problems with the environment and energy likewise receive attention.

PART VII begins with an analysis of international economics. Chapter 36 recalls international con-

siderations from our earlier discussion. In fact, a number of examples used in the earlier analysis help to emphasize that the U.S. economy functions within a world economy. Now in Chapters 36 and 37 international trade and international monetary relations come to center stage. Chapter 38 closes the volume with a discussion of the developing economies and of nonmarket communist systems. The Soviet economy is used as an example of a nonmarket economy and recent Soviet economic reforms are described.

Learning Aids

The book includes a number of features aimed at increasing reader comprehension. These are:

- Chapter outlines at the beginning of each chapter
- "Check Your Bearings" sections for review at crucial points
- *Boxed Perspectives* that expand on the text discussion
- End-of-chapter summaries
- End-of chapter questions
- Lists of key terms following each chapter
- Glossary with definitions of key terms

Teaching Aids and Supplements

Principles of Economics has a complete set of materials containing the following elements:

1. An *Instructor's Manual*, written by Professor Jack Adams of the University of Arkansas–Little Rock, includes chapter objectives and highlights, suggested instructional strategies, research projects, and complete answers to all end-of-chapter questions and problems.

2. A *Study Guide* by Professor Guy Schick of California State University, Fullerton, will provide students with outstanding self-instructional content. It contains appropriate lists of key terms, succinct summaries of chapters, and a variety of self-tests: multiple choice, true-false, and fill in questions. In addition, graphical and numerical problems are included.

3. The *Test Bank* has a mix of multiple choice, fill-in, true-false, and short essay questions. An

additional test bank will contain all multiple choice questions.

4. *Transparencies* will be available upon adoption for those instructors who want overhead projections.

5. *Software* will be provided in a simple "menu-driven" program for students that will contain a series of mini-simulations in which students can make a variety of economic decisions.

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R. T. F.
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