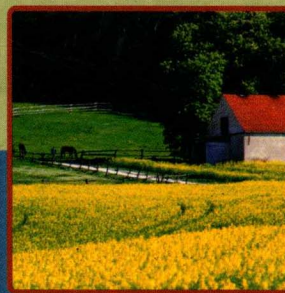
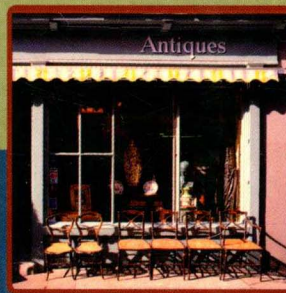


Concise Edition

# ECONOMICS



Roger A. Arnold



Concise Edition

# ECONOMICS

**Roger A. Arnold**

*California State University  
San Marcos*

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*To*  
*Sheila, Daniel,*  
*and David*



## NOTE TO INSTRUCTORS

Note to Instructors **xxi**

Third, it has to convince students that the tools they acquire in economics can be used outside the classroom—and for all the days of their lives.

I have organized and written this book with these three objectives in mind. It sticks to the basics, it stresses the key principles, it applies key economic concepts to enough material from the real world to convince students that economics is useful. And finally, it stresses the economic way of thinking.

In short, what I have attempted in *Economics, Concise Edition* is to give to students a good, hearty dose of economics—in its purest form—so that they can first understand what it is, and then learn to appreciate what it can do for them.



# Preface

PREFACE

PREFACE

PREFACE

Economists look around at the world and see people buying and selling goods in markets in Tokyo, London, and New York. They notice ships filled with goods from Europe and Asia arriving in Los Angeles. They note that the stock market has just had its worst day in 20 years. They observe a young man graduating college, a couple trading wedding vows, and a small grocery store at the corner of 5th and Main just now being robbed.

Economists scratch their heads and wonder what explains the things they see in the world.

Observations and questions—this is how the science of economics begins. All the rest of economics is simply economists' best attempts at answering their questions.

If you were to ask the man on the street what economics is, he'd probably say it has something to do with money, interest rates, the stock market, and things like that. Many people define economics by listing three or four topics.

But defining economics in terms of the topics that economists study and discuss is a little unsatisfying. It doesn't consider whether or not economists use a common approach to studying and discussing all the topics.

The essence of what economics is and what economists do is really seen most clearly when you understand the *economic approach*. Economics is not so much a course of study or a list of topics, but more a way of looking at the world.

To give you a picture of the way the world looks to an economist, imagine the following cartoon: An economist is standing and looking at a globe. He's wearing an odd pair of glasses, unlike any eyeglasses you've seen. The caption



reads: These economic eyeglasses sure let you see things in the world that you couldn't see without them.

What exactly does the economist see? Well, that's largely what this book is about. You're going to have an opportunity to look through those economic eyeglasses.

You'll need to keep in mind that learning a new subject sometimes requires unlearning some things that you previously thought were true. In this regard, physics students are often different than economics students. Few physics students enter a college physics class with an intimate knowledge of protons, electrons, quarks, or black holes. When the professor says that electrons do this or that, the student never thinks to himself that what the professor has just said doesn't correspond with his experience with electrons. He has no experience with electrons. He has no way to judge what the professor says. This situation is similar to an alien from some distant planet coming to Earth and telling you what his planet is like. Are you going to tell the alien that he's wrong because you've been to his planet and you know what it's like?

Students have never been to the planet Physics, and so they are ready and willing to accept what the physics professor tells them about that particular planet.

Not so with economics. Most people believe they are well acquainted with the planet Economics. The words economists use—price, costs, firms, competition, monopoly, interest rates, inflation, unemployment, and so on—are some of the same words non-economists use. People use the language of economics on a daily basis; they live and work in the economic world. So when an economics student hears an economics professor say something about firms, costs, or competition, she compares what the professor has said with her experiences and sometimes thinks to herself that what the professor said seems wrong. In fact, what the professor said may be wrong, but that's not really the point. The point is that no matter what the professor says—right or wrong—when you

have access to the world the professor is discussing, you will judge what the professor says based on what you know or think you know.

So, an economics professor is in a somewhat more difficult position than is a physics professor. Specifically, an economics professor sometimes not only has to teach what he or she thinks is right but also has to prove that many of the things that the student thinks are true are not. In a way, some of things that the student believes are true (but aren't) have to be unlearned.

To illustrate, many people believe that when the government places a tax on a company, the tax will matter very little to the company. It will simply pass along the tax to the consumer. In other words, if the tax is \$1 per unit, and the consumer is currently paying \$4 a unit, the price after the government imposes the tax will be \$5 a unit.

But things don't usually turn out this way. You will see why later in this book.





# Key Content Changes

## Loaded with new content, data, and learning opportunities

The groundbreaking new Concise edition of *Economics* will change the way your students think about economics. In addition to completely current examples and exercises, the new edition retains the innovative features you've come to expect in the Arnold product family, while focusing on the basics or "bread and butter" of economics. Extremely student friendly, the book's lively presentation of real-world economic theory and applications doesn't just teach students the definition of economic topics. It equips them with the skills to think like an economist—which gives them a valuable new perspective of the world around them.

Here is just a sampling of the cutting-edge new features in the Concise edition:

**NEW! THOMSONNOW FOR ARNOLD CONCISE** (Available for purchase separately) ThomsonNOW ties together five fundamental learning activities for use with Arnold's Concise edition: diagnostics, tutorials, homework, quizzing, and testing. The assigned material and unlimited practice improve both retention and remediation. In addition, self-paced tutorials support

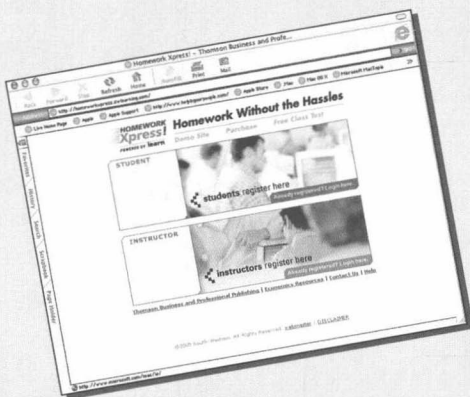
students with explanations, examples, step-by-step problem solving, and unlimited practice. Students also have access to the Arnold Concise edition Graphing Workshop, Ask the Instructor Video lessons, and access to EconNews, EconDebate, EconLinks and EconData.

Students work at their own pace and reinforce chapter concepts by completing assignments via the Internet. Instructors can make assignments as frequently as desired—the program grades the exercises and tracks student progress in an integrated gradebook. Instructors can easily assess how adequately students prepared for class, identify potential problem areas, and—with students well grounded in the basics—devote more class time to advanced concepts.

For Arnold Concise edition instructors, ThomsonNOW provides a powerful gradebook and course management tools, compatible with both WebCT and Blackboard. Instructors can quickly create their own assignments and tests, drawing from the wealth of exercises provided or authoring their own questions. The variety of problem types allows instructors to assess the way they teach. Customized assignments can be copied easily for use in additional sections or future terms, making class management progressively easier.

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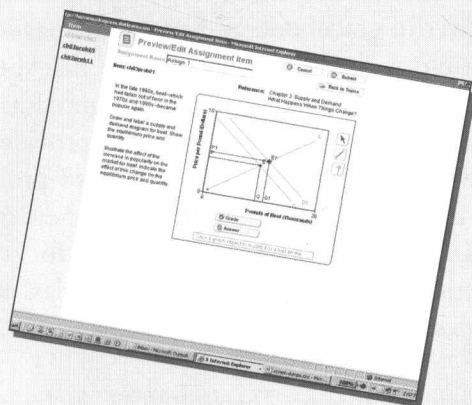
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- > **ABC Videos**—ThomsonNOW includes access to video segments carefully chosen from ABC's vast library of news and documentary video to correlate with compelling current events and demonstrate economics connections and consequences in those events.
- > **Text-Specific**—*ThomsonNOW* is customized specifically for Arnold, *Economics*, Concise Edition 1/e.



Visit the *ThomsonNOW* demo at  
<http://now.swlearning.com/arnold>.

**EXPANDED!** The beautiful color graphs, photos, and illustrations that distinguish Arnold as one of the most visually striking principles texts are retained in the new Concise edition. Exhibits and graphs strategically use color and cause/effect diagrams for maximum student accessibility and understanding, while *A Closer Look* explanatory flow charts summarize and explain complex material in a highly visual, easy-to-follow format.

**CURRENT!** Boxed features include abundant examples of economics in everyday life and popular culture, illustrating that almost anything can be analyzed from an economic perspective.

**UNIQUE!** *Thinking Like an Economist* features directly show students how economists actually look at the world and conceptually think about the technical material being presented.

**STUDENT-FRIENDLY!** A unique **active learning format** integrates questions that students would likely ask if they had the opportunity, providing a more active reading experience and clarifying potential problem areas before progressing. In addition, **Self-Check** questions throughout each chapter help students monitor their comprehension.

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**MarketSim**, an online tool comprised of two simulations, helps students better understand how markets work by placing them in the roles of consumers and producers in a simulated economy. (Available as a bundle option.)

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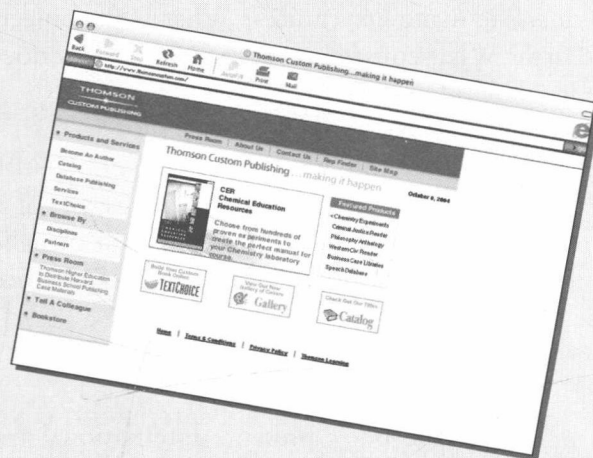
<http://access.gale.com/thomsonlearning>

Another expansive resource available is our Gale Business & Company Resource Center. Our exclusive and robust online resource center allows students to conduct detailed business research and analysis from their own desks—anytime and anywhere they have an Internet connection. Through the BCRC, students gain access to a vast assortment of global business information, including competitive intelligence, career and investment opportunities, business rankings, company histories, and much more. (Available as a bundle option.)

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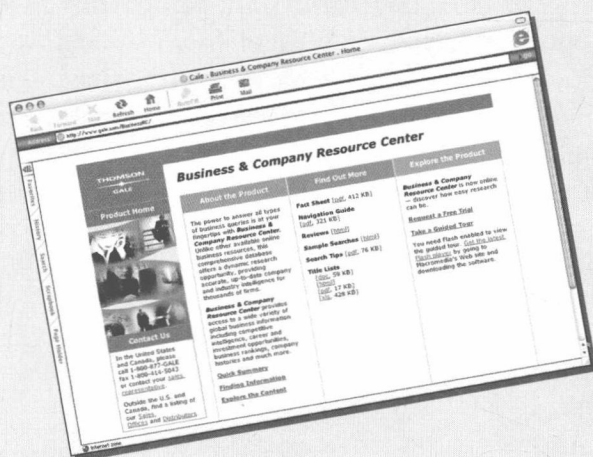
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## Organization of the Concise Edition

### Section I: An Introduction to Economics

Section I presents the “economic way of thinking.” Specifically, it introduces key concepts in economics (opportunity cost, efficiency, costs and benefits, decisions at the margin, unintended effects, and more), explains the uses and abuses of theory and theorizing, focuses on two key economic activities—producing and trading—and develops one of the key economic frameworks of analysis in economics—supply and demand.





## Section II: Macroeconomics

This section begins with macroeconomic measurements, then discusses various schools of macroeconomic thought (classical, Keynesian, new classical, monetarist, new Keynesian) within the context of key economic phenomena—business cycles, inflation, deflation, economic growth, and more. Both fiscal and monetary policy are extensively discussed, as well as expectations theory.

## Section III: Microeconomics

The consistent theme of the microeconomics section of the book is that microeconomics is about objectives, constraints, and choices. What is the objective of the individual consumer? What constraints does she face? How does she make her choices? What is the objective of the firm? What constraints does it face? How does it make its choices?

Specifically, this section begins with marginal utility analysis and elasticity, proceeds to a discussion of the firm and various market structures, and then turns to a thorough discussion of resource markets and microeconomic policies.

## Section IV: The World Economy

This section of the book presents international trade theory and international finance theory. It discusses

why countries trade, how exchange rates are established, the effects of tariffs and quotas, and more.

## The Structure of Each Chapter

Each chapter contains the following features and strategies to help you understand economics:

- > Setting the Scene
- > Margin Definitions
- > Thinking Like an Economist
- > Applications Features (*Economics In Everyday Life*, *Economics In Popular Culture*, *Economics In The World*, and *Economics In Technology*)
- > Analyzing the Scene
- > Self-Tests
- > A Reader Asks
- > Chapter Summary
- > Questions and Problems
- > Working With Numbers and Graphs
- > Key Terms and Concepts

Each of these features and learning strategies is described in words and visually in the *Student Learning Guide* that follows this preface.



## **Economics, Concise Edition** *offers a powerful collection of innovative instructor and student resources.*

### **For Students: Learning Resources**

**Study Guide, by Roger A. Arnold:** Helping students gain a solid understanding of chapter material, the Study Guide explains, reviews, and tests for the key facts, concepts, and diagrams in every chapter. Available in micro/macro splits. (0-324-31586-4) (Macroeconomics Study Guide, ISBN 0-324-31594-5), (Microeconomics Study Guide, ISBN 0-324-31590-2)

### **For Students and Instructors:**

#### **Arnold Support Web Site:**

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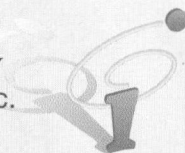
Instructors can access Word files for the Instructor's Manual and Test Bank, as well as PowerPoint slides, from the Instructor's Resource area on the Arnold Support Web Site. Students can access Internet Activities by chapter to encourage interactive learning. Students can also access free quizzes for each chapter to test their understanding of basic concepts.

#### **How to Think Like an Economist (0-324-01575-5)**

Most economics instructors believe that a primary goal of this course is to teach you how economists think. There's more to thinking like an economist than knowing the concepts and technical tools of analysis. Pay attention to this feature—it will give you unique insight into the economist's mind, allowing you to see how interesting issues are approached from an economic perspective. This soft-cover guide can be bundled free with new copies of *Economics, Concise Edition*.

#### **InfoTrac College Edition**

An InfoTrac College Edition 4-month subscription card is automatically packaged free with new copies of this text. With InfoTrac College Edition, journals like *Business Week*, *Fortune*, and *Forbes* are just a click away! InfoTrac College Edition provides students with anytime, anywhere access to 20 years' worth of full-text articles (more than 10 million!) from nearly 4,000 scholarly and popular sources. Visit <http://infotrac.thomsonlearning.com>.



#### **The Wall Street Journal Subscription:**

*Economics, Concise Edition* makes it easy for students to apply economic concepts to this authoritative publication, and for you to bring the most up-to-date, real-world events into your classroom. For a nominal additional cost, *Economics, Concise Edition* can be packaged with a card entitling students to a 15-week subscription to both the print and online versions of *The Wall Street Journal*.



For a detailed explanation of these supplements, please visit the product snapshot online by going to <http://economics.swlearning.com> clicking on the author's name, and selecting the Concise edition.

# In Appreciation

IN APPRECIATION

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*Economics*, Concise Edition could not have been written and published without the generous expert assistance of many people, particularly those who reviewed the first through seventh editions of my comprehensive text. A deep debt of gratitude is owed to these instructors.

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