

ECONOMICS



Roger A. Arnold

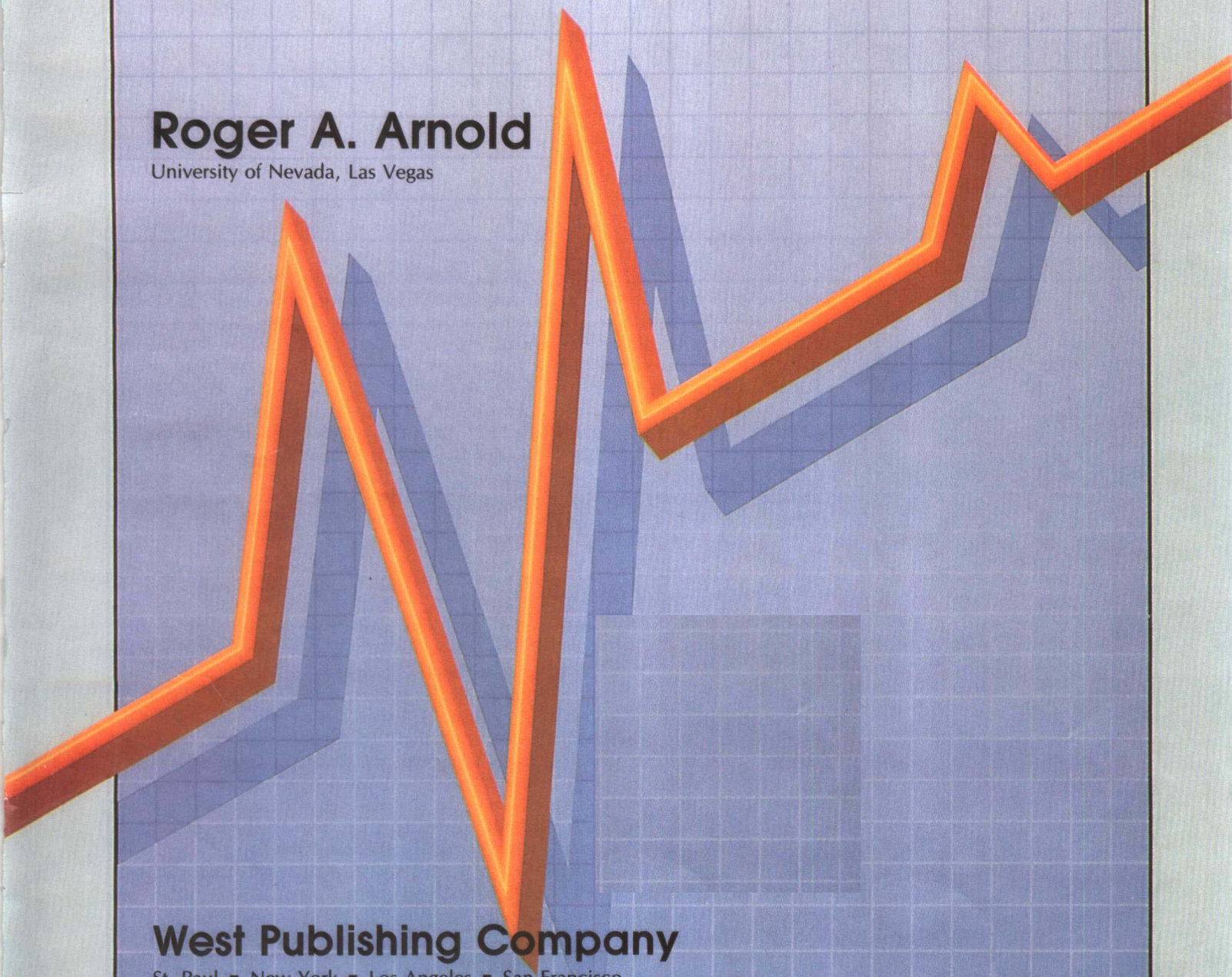
ECONOMICS

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(continued following index)

Preface

The stature of economics has grown in the recent past. There are, I believe, two major reasons for this. First, people have come to realize that economics plays an important role in their lives. Recession, inflation, the exchange value of the dollar, the savings rate, taxes, mergers, business starts, the budget and trade deficits, all matter. They touch lives, they affect dreams.

Second, economists have developed better tools and more refined methods of analysis; they have extended their analytical apparatus beyond the traditional confines of the science into such areas as sociology, law, political science, biology, and more. There have been peaks and valleys along the way, but mostly economics has performed well.

The challenge for the economics textbook writer today is to convey to students all that has occurred and is occurring in economics in a way that is understandable, exciting, and meaningful. Specifically, I believe the principles book should accomplish three goals: (1) Introduce the student to the facts, concepts, and analytic methods of economics. (2) Use the tools of economics to give the students a better handle on their world. (3) Push the frontier of the students' world outward. I have tried my best to meet all three goals in this book in a way that allows students to experience some of the richness, subtlety, and power of economics.

ORGANIZATION

This book is organized into four sections. Section I discusses the key concepts and tools in economics. Two of the four chapters are devoted to supply-and-demand analysis. On completion of this section, the student should have a solid understanding of the economic way of thinking.

Section II deals with the rich world of macroeconomics. The organization follows a logical sequence, beginning with macroeconomic fundamentals, moving to frameworks, then to theories and problems, and ending with policies. The goal has been to present the major macroeconomic schools in an objective light, focusing on both their theoretical and empirical successes and failures and engaging the student in the continuing, fascinating debate that characterizes this field of inquiry.

Section III engages the theoretical underpinnings of economics, microeconomic theory. I have tried to be rigorous in developing microeconomic tools and generous with applications, knowing that it is the constant back and forth between theory and applications that gives the student an appreciation of the explanatory and predictive power of economics.

Section IV contains generous quantities of both micro- and macroanalysis applied to the world economy. Here I have used economic analysis to try to unravel the

mysteries of international economic events, and to show students how these events, far removed in space from their home, city, state, or nation, can nevertheless sharply affect their world.

PEDAGOGY AND SPECIAL FEATURES

To motivate the student and make the learning experience more interesting and fulfilling, this book contains the following pedagogical features:

Introduction. The chapter introduction was designed to capture the student's attention and to pique his or her curiosity.

What This Chapter Is About. This feature serves as a road map for the chapter, noting the topics that will be discussed and in what order.

Key Questions to Keep in Mind as You Read. Each chapter begins with key questions that focus the student's attention on what is important in the chapter.

Interspersed Questions and Answers. Throughout each chapter are questions that students may ask as they are reading. Each question is then answered by the author. The question-answer format allows students to have their questions answered as they arise and to play a more active role in the learning process. This is a unique feature of this book.

Margin Definitions. Key words are printed in boldface and defined in the margins as well as in the text.

Glossary. All margin definitions are listed alphabetically in the glossary at the end of the book.

Economics In Our Times. This is one of the two applications features in the book. Economics In Our Times applications focus on current, exciting topics that are of particular interest to students.

Theory in Practice. Theory in Practice applications go beyond the student's world and immediate interests and apply economic theory in areas of special importance to professional economists. The mix of Theory and Practice and Economics In Our Times is designed to both deal with and extend the student's interests.

Interviews. Twent-three well-known economists were interviewed expressly for this book on topics that the student will be familiar with, having read the material in the chapter in which an interview appears. Not only do the interviews provide the student with insights into the thinking of some of our most respected contemporary economists but also in many cases they give a glimpse of these persons' experiences and personalities. The economists interviewed include Paul A. Samuelson, George Stigler, Robert Solow, James Buchanan, Alice M. Rivlin, Karl Brunner, George Akerlof, Robert Barro, Walter Heller, Thomas Sargent, Richard Musgrave, Allan Meltzer, Hyman Minsky, Arthur Laffer, Lester Thurow, Murray Rothbard, John Kenneth Galbraith, Gary Becker, William Baumol, Harold Demsetz, Robert Lekachman, Gordon Tullock, and Murray Weidenbaum.

Biographies. Biographical sketches of famous economists are used in this book to convey to the student some of the rich history of economics in more personal terms.

Summary. Summary points at the end of each chapter are categorized according to topic heading.

Questions to Answer and Discuss. End-of-chapter questions are based on the material discussed in the chapter and are answered in the instructor's manual.

DIAGRAMS

Diagrams are an integral part of the economic way of thinking, and as all economics instructors know, the sooner and more comfortably students begin to "think diagrammatically," the better. A personal objective has been to write a book that contains clear, colorful, complete-captioned diagrams that draw the student into them. To this end, each diagram in this book has been carefully crafted to mix color, content, and substance in a way that conveys the central message of the piece at a glance, while subtly informing the student "why" and "how" economists use diagrams.

SUPPLEMENTS

This book is accompanied by a complete teaching and learning package. The *Study Guide* was principally written by Thomas Wyrick (Southwest Missouri State University). Each chapter explains, reviews, and tests the student on important facts, concepts, and diagrams found in corresponding chapters in this book. Chapter parts include an introduction to and purpose of the chapter, a review of concepts from earlier chapters, a fill-in-the-blank review of concepts to be learned, and problems and exercises. I wrote the self-test that ends each chapter.

The *Instructor's Manual* was written by Keith A. Rowley (Baylor University) and offers detailed lecture assistance for this book. Chapter parts include an overview of each text chapter, a list of chapter objectives, a list of key terms, a detailed chapter outline with lecture notes, and answers to end-of-chapter questions.

Twenty *Enrichment Lectures* with accompanying transparencies are included in the supplement package. The lectures are on current topics of high interest to instructors and students alike. The lectures were prepared by Keith A. Rowley (Baylor University) and Thomas Wyrick (Southwest Missouri State University).

Dale Boisso (Southwest Missouri State University), Terry Ridgway (University of Nevada, Las Vegas) and I prepared the *Test Bank*. There are an average of 90 questions per chapter, 75 multiple-choice and 15 true-false. Each set of chapter questions tests the student's knowledge of definitions, facts, diagrams, concepts, theory, policy, and applications. The test bank is available on *Westest Microcomputer Testing Service*, which allows instructors to select or randomly generate test questions.

Audio Cassette Tapes provide students with a chapter by chapter review of major economic concepts. The tape scripts were written by Keith A. Rowley (Baylor University).

Software Tutorials for both macroeconomics and microeconomics are available. Each tutorial contains 10 modules that explain and test a student on the key theory issues discussed in this book.

Transparencies. The supplement package includes transparencies of key exhibits featured in the text and in the 20 enrichment lectures. There are 100 transparencies in total.

IN APPRECIATION

This book could not have been written and published without the generous and expert assistance of many people. A deep debt of gratitude is owed to the 76 reviewers of this book, who offered their detailed comments, suggestions, and ideas. I am indebted to:

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RAA

Suggested Course Outlines

This book is intended for the two-semester sequence in macroeconomics and microeconomics that is taught at colleges and universities. The book is available in a combined macro-micro hardbound volume and two paperback split versions, titled *Macroeconomics* and *Microeconomics*. The combined macro-micro hardbound volume can be used for a one-semester course that covers both macroeconomics and microeconomics. The suggested outlines (listed below) for one-semester, one-quarter, and combined macro-micro courses reflect the author's preferences only. Instructors may want to design courses with different emphases.

■ Suggested One-Semester and One-Quarter Course Outlines

CHAPTERS	MACRO EMPHASIS	MICRO EMPHASIS	COMBINED MACRO-MICRO
1 What Economics Is About	• •	• •	• •
2 Fundamentals of Economic Thinking	•	• •	•
3 Supply, Demand, and Price: Theory	• •	• •	• •
4 Supply, Demand, and Price: Applications		• •	
5 Macroeconomic Issues	•		
6 Macroeconomic Measurements	• •		
7 Money and Banking	• •		• •
8 The Federal Reserve System	• •		• •
9 The Income-Expenditure and MV-PQ Frameworks	• •		•
10 The Aggregate Demand-Aggregate Supply Framework	• •		• •
11 From Classical to Keynesian Theory	• •		• •
12 Monetarism	• •		•
13 Inflation	• •		• •
14 Unemployment	• •		• •
15 The Phillips Curve and Expectations Theory: The Story of Modern Macroeconomics	• •		• •
16 Business Cycles: Adjustment Paths and Causes	• •		
17 Fiscal Policy	• •		• •
18 Monetary Policy	• •		• •
19 Budget Deficits and the National Debt	•		
20 The Logic of Consumer Choice		•	
21 Elasticity		• •	• •
22 The Firm		•	
23 Production and Costs		• •	• •
24 Perfect Competition		• •	• •
25 Monopoly		• •	• •
26 Monopolistic Competition and Oligopoly		• •	
27 Factor Markets: With Emphasis on the Labor Market		• •	• •
28 Wages, Unions, and Labor		•	
29 Interest, Rent, and Profit		• •	
30 Agriculture: Problems and Policies		• •	•
31 The Distribution of Income and Poverty		•	•
32 Antitrust, Business Regulation, and Deregulation		• •	•
33 Market Failure: Externalities and Public Goods		• •	•
34 Public Choice: Economic Theory Applied to Politics	•	•	
35 International Trade	•	• •	• •
36 International Finance	• •		
37 International Impacts on the Macroeconomy	• •		
38 Economic Growth and Development	•		
39 Alternatives to Mixed Capitalism	•	•	•

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Contents in Brief

AN INTRODUCTION TO ECONOMICS 1

Part 1 The Essentials of Economic Thinking 3

- Chapter 1 What Economics Is About 4
- Chapter 2 Fundamentals of Economic Thinking 21
 - Appendix A Working with Graphs 41
- Chapter 3 Supply, Demand, and Price: Theory 49
- Chapter 4 Supply, Demand, and Price: Applications 74

MACROECONOMICS 91

Part 2 Macroeconomic Fundamentals 93

- Chapter 5 Macroeconomic Issues 94
- Chapter 6 Macroeconomic Measurements 107
- Chapter 7 Money and Banking 136
- Chapter 8 The Federal Reserve System 157

Part 3 Macroeconomic Frameworks 175

- Chapter 9 The Income-Expenditure and MV-PQ Frameworks 176
- Chapter 10 The Aggregate Demand-Aggregate Supply Framework 195

Part 4 Macroeconomic Theories and Problems 215

- Chapter 11 From Classical to Keynesian Theory 216
 - Appendix B The Permanent-Income Hypothesis 250
- Chapter 12 Monetarism 253
- Chapter 13 Inflation 279
- Chapter 14 Unemployment 301
- Chapter 15 The Phillips Curve and Expectations Theory: The Story of Modern Macroeconomics 320
- Chapter 16 Business Cycles: Adjustment Paths and Causes 341

Part 5 Macroeconomic Policies 363

- Chapter 17 Fiscal Policy 364
- Chapter 18 Monetary Policy 390
- Chapter 19 Budget Deficits and the National Debt 412

MICROECONOMICS

431

Part 6 Microeconomic Fundamentals 433

- Chapter 20 The Logic of Consumer Choice 434
 - Appendix C Budget Constraint and Indifference Curve Analysis 447
- Chapter 21 Elasticity 456
- Chapter 22 The Firm 477
 - Appendix D Stock Quotations, Bond Quotations, and the Dow 493
- Chapter 23 Production and Costs 497

Part 7 Microeconomic Theories (Product Markets) 517

- Chapter 24 Perfect Competition 518
- Chapter 25 Monopoly 542
- Chapter 26 Monopolistic Competition and Oligopoly 564
 - Appendix E Game Theory and Oligopoly 586

Part 8 Microeconomic Theories (Factor Markets) 591

- Chapter 27 Factor Markets: With Emphasis on the Labor Market 592
- Chapter 28 Wages, Unions, and Labor 616
- Chapter 29 Interest, Rent, and Profit 635

Part 9 Microeconomic Problems and Public Policy 653

- Chapter 30 Agriculture: Problems and Policies 654
- Chapter 31 The Distribution of Income and Poverty 672
- Chapter 32 Antitrust, Business Regulation, and Deregulation 699
- Chapter 33 Market Failure: Externalities and Public Goods 715
- Chapter 34 Public Choice: Economic Theory Applied to Politics 739

THE WORLD ECONOMY

755

Part 10 International Economics: Theory and Policy 757

- Chapter 35 International Trade 758
- Chapter 36 International Finance 785
- Chapter 37 International Impacts on the Macroeconomy 815

Part 11 Growth, Development, and Alternative Economic Systems 835

- Chapter 38 Economic Growth and Development 836
- Chapter 39 Alternatives to Mixed Capitalism 855

Contents

AN INTRODUCTION TO ECONOMICS

1

Part 1 The Essentials of Economic Thinking 3

Chapter 1 What Economics Is About 4

- Introduction 4
- What This Chapter Is About 4
- Key Questions to Keep In Mind As You Read 5
- The Basics of Economics: Scarcity, Choice, Opportunity Cost 5
 - What Is Economics? 5
 - Scarcity 6
 - Scarcity Implies Choice 7
- THEORY IN PRACTICE: Breakfast at Cafe du Monde,
Lunch at the Acme Oyster Bar, and Dinner at La
Provence 8
- Choice and Opportunity Cost 9
- ECONOMICS IN OUR TIMES: Why Rock Stars and
Fashion Models Rarely Go To College 10
- The Nature and Role of Theory 11
 - The Uses of Theory 11
 - Abstraction in Theory: Getting More with Less 11
 - The Parts of a Theory 12
 - How Do We Judge Theories? 13
 - The Scientific Approach 14
 - Association Is Not Causation and the Fallacy of
Composition 15
 - The Ceteris Paribus Condition: Taking One Thing at a
Time 16
 - Positive and Normative Economics 16
 - Macroeconomics and Microeconomics 17
 - Why Learn Economics? 18

- Chapter Summary 19
- Questions to Answer and Discuss 19

Chapter 2 Fundamentals of Economic Thinking 21

- Introduction 21
- What This Chapter Is About 22
- Key Questions To Keep In Mind As You Read 22
- Rational Self-Interest 22
 - What Rational Self-Interest Is Not 22
- There Is No Such Thing As A Free Lunch 23
 - A Way to Make the Invisible Visible: Say "No Free
Lunch" 24
- Decision Making at the Margin 24
- THEORY IN PRACTICE: How Much for that Soda? 25
- Efficiency 26
 - Resources 26
 - The Production Possibilities Frontier 27
 - Economic Concepts within a Production Possibilities
Frontier Framework 28
- ECONOMICS IN OUR TIMES: Economic Growth: An
Expanding PPF Ends the Political Tug-of-War, for a
While 30
- Efficiency 31
- Exchange 32
- THEORY IN PRACTICE: The Efficiency Criterion:
Economists Rarely Leave Home Without It 33
- Periods Relevant to Exchange 33
- Exchange and the Terms of Exchange 35
- Economic Facts of Life—No Matter Where You
Live 36
- Economic Facts of Life 36
- ECONOMICS IN OUR TIMES: Interview: Gary
Becker 37

The Scales of Economics	38
Chapter Summary	39
Questions to Answer and Discuss	40

Appendix A Working with Graphs 41

How To Read Graphs	41
Slope of the Line	43
The Slope of A Curve	43
The 45° Line	44
Pie Charts	44
Bar Graphs	44
Line Graphs	45

Chapter 3 Supply, Demand, and Price: Theory 49

Introduction	49
What This Chapter Is About	49
Key Questions to Keep in Mind as You Read	50
Demand	50
The Law of Demand	50
Absolute Prices and Relative Prices	51
From the Law of Demand to a Demand Schedule to a Demand Curve	51
THEORY IN PRACTICE: Apples in the Big Apple	52
How Much of a Good Buyers Are Willing to Buy Depends on Price, among Other Things	52
Factors That Can Cause the Demand Curve to Shift	54
A Change in Quantity Demanded versus a Change in Demand	55
An Exercise: Learning to Keep the Law of Demand Straight	57
The Market Demand Curve	58
Supply	59
The Law of Supply	60
Why Most Supply Curves Are Upward Sloping	61
Factors That Can Cause the Supply Curve to Shift	61
ECONOMICS IN OUR TIMES: Getting Taken for a Ride in a New York Taxi	63
A Change in Supply versus a Change in Quantity Supplied	64
The Market Supply Curve	64
The Market: Putting Supply and Demand Together	65
Supply and Demand at Work at an Auction	66
Learning the Language of Supply and Demand: A Few Important Terms	67
Moving to Equilibrium: What Happens to Price When There Is a Surplus or a Shortage?	68

Moving to Equilibrium: Maximum and Minimum Prices	68
---	----

Changes in Equilibrium Price and Quantity	70
Chapter Summary	72
Questions to Answer and Discuss	73

Chapter 4 Supply, Demand, and Price: Applications 74

Introduction	74
What This Chapter Is About	74
Key Questions to Keep in Mind as You Read	74
Price	75
Price as a Rationing Device	75
Price as a Transmitter of Information	76
THEORY IN PRACTICE: Prices and Prisoners of War	77
Price Controls	77
Price Ceiling: Definition and Effects	77
ECONOMICS IN OUR TIMES: Standing in Long Lines in Poland Isn't Much Fun	79
Do Buyers Prefer Lower Prices to Higher Prices?	80
Price Ceilings and False Information	80
Price Floor: Definition and Effects	80
Two Cases of Price Floors	81
Applications of Supply and Demand	84
Freeway Congestion	84
Tipping in a Las Vegas Showroom	85
ECONOMICS IN OUR TIMES: What Does Price Have to Do with Being Late to Class?	86
GPAs, ACTs, and SATs	87
Chapter Summary	89
Questions to Answer and Discuss	89

MACROECONOMICS

91

Part 2 Macroeconomic Fundamentals 93

Chapter 5 Macroeconomic Issues 94

Introduction	94
What This Chapter Is About	94
Key Questions to Keep in Mind as You Read	95
Macroeconomics: A Preview of Coming Attractions	95
A Few Facts and Questions in Macroeconomics	95
Debates in Macroeconomics	101

Revolutions in Macroeconomics	104
The Special Language of Macroeconomics	104
Learning Macroeconomics: A Plan of Attack	105
I Am Surrounded By It, Therefore I Know It	105
Chapter Summary	106
Questions to Answer and Discuss	106

Chapter 6 Macroeconomic Measurements 107

Introduction	107
What This Chapter Is About	107
Key Questions to Keep in Mind as You Read	108
Circular-Flow Diagrams: Pictures of the Economy	108
The Simple Economy	108
Adding Credit Markets: Saving and Investment	110
Adding Government: Government Borrowing, Taxes, and Transfers	112
Adding International Trade: Exports and Imports	112
National Income Accounting	112
Gross National Product: What Is It and Why Do We Calculate It?	113
Why Final Goods?	115
What GNP Omits	115
ECONOMICS IN OUR TIMES: The Underground Economy	117
GNP: Is It a Measurement of Happiness or Well-Being?	117
THEORY IN PRACTICE: Something New: MEW	118
Two Ways of Measuring GNP	118
The Expenditure Approach to Measuring GNP	118
The Income Approach to Measuring GNP	120
National Income and GNP: A Slight Modification	123
The Income and Expenditure Approaches Compared	124
Other National Income Accounting Measurements	124
Net National Product	124
Personal Income	124
Disposable Income	125
A Review of Five Economic Measurements	126
Per-Capita Economic Measurements	127
GNP and Price Changes	127
Real GNP: A Simple Example	127
Consumer Price Index	128
THEORY IN PRACTICE: What Did Things Cost When Andy Was Sheriff of Mayberry?	129
GNP Price Deflator	130
Chapter Summary	133
Questions to Answer and Discuss	135

Chapter 7 Money and Banking 136

What This Chapter Is About	136
Key Questions to Keep in Mind as You Read	137
Money: What Is It, and How Did it Come to Be?	137
Money: A Definition	137
Three Functions of Money	137
From a Barter to Money Economy: The Origins of Money	138
What Gives Money Its Value?	139
Gresham's Law: Good Money, Bad Money	139
Defining the Money Supply	140
THEORY IN PRACTICE: Gresham's Law and Inflation: Where Have All the Coins Gone	141
M1	141
M2	144
Where Do Credit Cards Fit In?	145
How Banking Developed	145
The Early Bankers	145
The Federal Reserve System	146
The Money Creation Process	146
A Few Preliminary Facts	146
The Banking System Creates Demand Deposits: The Money Expansion Process	147
Who Created What?	150
Assumptions: No Cash Leakages and Zero Excess Reserves	152
It Works In Reverse: The "Money Destruction" Process	152
We Change Our Example: No More Fred	153
ECONOMICS IN OUR TIMES: Transferring Funds with a Push of a Button	154
Chapter Summary	155
Questions to Answer and Discuss	155

Chapter 8 The Federal Reserve System 157

Introduction	157
What This Chapter Is About	157
Key Questions to Keep in Mind as You Read	157
The Federal Reserve System	158
The Structure of the Federal Reserve System	158
Functions of the Federal Reserve System	160
ECONOMICS IN OUR TIMES: Everything You Wanted to Know about Federal Reserve Notes but Were Too Busy Spending Them to Ask	161
The Monetary Base and Money Multiplier	162
The Monetary Base	162

From the Simple Deposit Multiplier to the Money Multiplier	164
Fed Tools For Controlling The Money Supply	166
Open Market Operations	166
The Required-Reserve Ratio	167
The Discount Rate	169
ECONOMICS IN OUR TIMES: 1980: A Banner Year in U.S. Banking and Fed History	170
The Best Is Yet to Come	172
Chapter Summary	172
Questions to Answer and Discuss	173

Part 3 Macroeconomic Frameworks 175

Chapter 9 The Income-Expenditure and MV-PQ Frameworks 176

Introduction	176
What This Chapter Is About	176
Key Questions to Keep in Mind as You Read	176
The Income-Expenditure Framework	177
Plans to Save and Invest	177
From Plans to Save and Invest to Plans of Production and Expenditure	177
Economy-Wide Disequilibrium	179
Economy-Wide Equilibrium	181
An Important Digression on Terminology	181
The Diagrammatics of Economy-Wide Equilibrium and Disequilibrium in the I-E Framework	181
THEORY IN PRACTICE: Not Everything in Economics Is a Graph	185
The Saving-Investment Approach to Equilibrium	185
Economy-Wide Equilibrium in Terms of Planned Saving and Investment	187
The MV-PQ Framework	188
The Equation of Exchange	188
From the Equation of Exchange to the Simple Quantity Theory of Money	189
The Modern Quantity Theory of Money: A Preview	191
THEORY IN PRACTICE: Which Framework Goes with the Statement?	192
Comparing the I-E and MV-PQ Frameworks	192
Chapter Summary	192
Questions to Answer and Discuss	193

Chapter 10 The Aggregate Demand-Aggregate Supply Framework 195

Introduction	195
What This Chapter Is About	196
Key Questions to Keep in Mind As You Read	196
The Aggregate Demand Curve	196
From the Income-Expenditure Diagram to the Aggregate Demand Curve	196
Why Does the Aggregate Demand Curve Slope Downward?	197
The Real Balance Effect	198
Shifts in the Aggregate Demand Curve	198
The Aggregate Supply Curve	200
The Upward-Sloping Aggregate Supply Curve	200
Shifts in the Aggregate Supply Curve	201
Supply and Inflation Expectations	203
Putting Aggregate Demand and (Short-Run) Aggregate Supply Together: Short-Run Equilibrium	203
ECONOMICS IN OUR TIMES: The Vietnam War and AD-AS	205
The Long-Run Aggregate Supply Curve	205
The Natural Rate of Unemployment	205
What Is Full Employment?	206
Natural Real GNP	206
THEORY IN PRACTICE: Is There Evidence That the Economy Removes "the Gaps" by Itself?	210
Things Might Not Work as Smoothly as the Diagram Suggests	210
The Long-Run Aggregate Supply Curve	211
Chapter Summary	212
Questions to Answer and Discuss	213

Part 4 Macroeconomic Theories and Problems 215

Chapter 11 From Classical to Keynesian Theory 216

Introduction	216
What This Chapter Is About	216
Key Questions to Keep in Mind as You Read	217
The Classical Theory	217
Views of the Classical Economists	217
Say's Law	217
Interest Rate Flexibility	218
Wage-Price Flexibility	219
Classical Economic Policy: Laissez-Faire	220
Keynesian Theory: Background	220