

Stephen L. Slavin



Economics

seventh edition



Economics

SEVENTH EDITION

Stephen L. Slavin

Union County College
Cranford, New Jersey

The New School University
New York City



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Preface to the Instructor

More than 30 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 20 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 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. Learning actively rather than passively, your students will retain a lot more economics.

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.**
2. **It’s an interactive text, encouraging active rather than passive reading.** Students are expected to solve numerical problems, fill in tables, draw graphs, and do economic analysis as they read the text.
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 seventh 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.
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 seventh edition has three chapters devoted entirely to the global economy—Chapter 31 (International Trade), Chapter 32 (International Finance), and Chapter 8 (The Export-Import Sector). This 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:

- Shipbreaking (Ch. 4, p. 75)
- The “Isms”: Capitalism, Communism, Fascism, and Socialism (Ch. 4, pp. 83–85)
- The Decline of the Communist System (Ch. 4, pp. 86–87)
- Why Did Incorporation Come So Late to Islamic Middle-Eastern Nations? (Ch. 6, pp. 121–122)
- Foreign Investment in the United States (Ch. 6, p. 127)
- Are We Giving Away the Store? (Ch. 7, p. 144)
- Trillion Dollar Economies (Ch. 9, p. 197)
- Comparative Unemployment Rates (Ch. 10, p. 219)
- Japanese Fiscal Policy (Ch. 11, pp. 260–61)
- Surplus or Deficit as Percentage of GDP, Selected Countries (Ch. 12, p. 282)
- The Banking Mess in Japan (Ch. 13, p. 316)
- Independence of Central Banks (Ch. 14, p. 324)
- Economic Growth during the Last Millennium (Ch. 16, p. 382)
- The Corporate Hierarchy (Ch. 22, p. 544)
- The Dango (Ch. 24, p. 574)
- European Antitrust (Ch. 25, p. 596)
- American Wages vs. Foreign Wages (Ch. 27, p. 654)
- Children Living in Poverty in Various Countries (Ch. 30, p. 698)

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:

- How Changes in Demand Affect Equilibrium (Ch. 3, p. 50)
- How Changes in Supply Affect Equilibrium (Ch. 3, p. 52)
- Price Ceilings, Price Floors, Shortages, and Surpluses (Ch. 3, pp. 56–57)
- A Word about Numbers (Ch. 5, p. 92)
- How Did We Get an Average Tax Rate of 15%? (Ch. 7, p. 148)
- Reviewing the Two Approaches to GDP (Ch. 9, p. 190)
- Calculating Percentage Changes (Ch. 9, p. 192)
- Read Only if You’re Not Sure How to Calculate the Unemployment Rate (Ch. 10, p. 216)
- Finding Percentage Changes in the Price Level (Ch. 10, p. 225)
- Finding Equilibrium GDP (Ch. 11, p. 258)
- Finding the Multiplier (Ch. 12, p. 274)
- Does Printing More Money Increase Our Money Supply? (Ch. 14, p. 336)
- Differentiating between Changes in Supply and Changes in Quantity Supplied (Ch. 17, p. 415)
- Calculating Marginal Utility and Total Utility (Ch. 19, p. 456)
- What’s the Difference between Shutting Down and Going Out of Business? (Ch. 20, page 484)
- Finding the Firm’s Short-Run and Long-Run Supply Curves, and Shut-Down and Break-Even Points (Ch. 21, page 504)
- How to Find the Monopolist’s Price and Output (Ch. 22, page 531)
- Productivity and Marginal Physical Product (Ch. 26, p. 612)
- Finding the Imperfect Competitor’s MRP (Ch. 26, p. 616)
- Finding the Percentage of Income Share of the Quintiles in Figure 1 (Ch. 30, p. 687)
- Interpreting the Top Line in Figure 3 (Ch. 32, p. 753)

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. 12)
- The Law of Increasing Costs (Ch. 2, pp. 32–33)
- Selling Emissions Rights in the Free Market (Ch. 4, p. 79)
- APCs Greater than One (Ch. 5, p. 94)
- Investing Your Own Money (Ch. 6, p. 131)
- Nominally Progressive, Proportional, and Regressive Taxes (Ch. 7, p. 150)
- Should Cigarettes Be Taxed? (Ch. 7, p. 155)
- Why NDP Is Better than GDP (Ch. 9, p. 187)
- Calculating Per Capita Real GDP (Ch. 9, p. 199)
- Demand-Pull Inflation and the Aggregate Supply Curve (Ch. 10, p. 232)
- The Paradox of Thrift (Ch. 12, p. 275)
- Money versus Barter (Ch. 13, p. 295)
- Three Modifications of the Deposit Expansion Multiplier (Ch. 14, p. 329)
- Rational Expectations versus Adaptive Expectations (Ch. 15, p. 363)
- The Malthusian Theory of Population (Ch. 16, p. 397)
- Why We Don't Use a Simpler Elasticity Formula (Ch. 18, p. 430)
- Deriving the Shut-Down and Break-even Points (Ch. 20, page 487)
- Calculating a Firm's Total Loss (Ch. 21, page 500)
- Maximizing Total Profit and Maximizing Profit per Unit (Ch. 21, page 513)
- Who's Got the Flatter Demand Curve? (Ch. 23, p. 557)
- Perfect Price Discrimination (Ch. 23, p. 562)
- The Concept of Margin in Economic Analysis (Ch. 26, p. 611)
- Who Created the Land? (Ch. 29, p. 669)
- Usury in Ancient Times (Ch. 29, p. 671)

Changes in the Seventh Edition

There are two major changes in the seventh edition. The chapters on profit maximization and perfect competition

were combined and we managed to cut over 100 pages. Here are some of the new topics:

- Chapter 4: A new section on environmental pollution, including command-and-control regulations, incentive-based regulations, and an advanced work box, "Selling Emissions Rights in the Free Market."
- Chapter 6: Added box, "Why Incorporation Came Late to Islamic Middle Eastern Nations."
- Chapter 7: New section, "Recent Tax Legislation."
- Chapter 12: Added section, "Must we balance the budget every year?"
- Chapter 16: Added box, "Why are healthcare costs so high?"
- Chapter 19: Added section, "Some limitations of utility applications."
- Chapter 21: New section, "The Perfect Competitor: A Price Taker, Not a Price Maker."
- Chapter 25: Added section, "Corporate Misconduct."
- Chapter 27: New section, "Jobs: Exportable and Nonexportable."
- Chapter 28: Added section, "The Minimum Wage and the Living Wage."
- Chapter 29: New box, "Jay Sorensen, Inventor, Innovator, and Entrepreneur."
- Chapter 30: New box, "Going the Extra Mile."
- Chapter 31: Added box: "President Bush's Steel Tariff."

Two basic ways this book is different from all other principles texts is that it is a smoother read and it is interactive. The seventh 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.

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

This provides instructors with ideas on how to use the text, includes a description of the text's special features, a chapter-by-chapter discussion of material new to the seventh

edition, and a rundown of chapter coverage to help them decide what they can skip. Also found here are the answers to the workbook questions and questions for thought and discussion at the end of each chapter of the text, as well as chapter worksheets and worksheet solutions.

Mark Maier, who has used the text for several editions, took over the instructor's manual in the sixth edition, and has added sections on learning objectives, ideas for use in class, and homework questions and projects (including scores of very useful websites) for each chapter. The Instructor's Manual now provides a rich source of interesting ideas of classroom activities and discussions involving concepts and issues included in the text.

Test Bank (Micro and Macro Versions)

The test bank now includes over 7,000 multiple-choice questions, fill-in questions, and problems. Jim Watson, another long-time user of the text, took over the testbank for the sixth edition, and has kept it current, culling outdated questions and adding new ones.

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.

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.

Videos

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

Produced by Paul Solman, business and economics correspondent for the *Lehr News Hour* and WGBH Boston, are a series of DVDs that cover the core topics in economics.

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. Deborah Figart of Richard Stockton College (NJ) was very helpful in providing Learning Tips and Teaching Tips.

One-Semester Courses from Economics, 7e

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

Macro oriented:

Chapters 1–9; 12–14; 28–31.

Chapters 1–3; 10; 12–14; 16; 25; 27–32.

Chapters 1–10; 16–17; 25; 30–32.

Micro oriented:

Chapters 2–4; 10; 16–25.

Chapters 1–4; 16–24; 31–32.

Chapters 2–3; 17–21; 26–32.

Balanced approach:

Chapters 1–9; 17–21; 31–32.

Chapters 1–4; 16–21; 25–30.

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

Chapters 2–4; 10; 12–14; 16; 25; 28–32.

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 knowledgeable 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.

Tom Thompson, 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. Tom 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.

Lead project manager Pat Frederickson, 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. Peter de Lissovoy, the copyeditor with the light touch, suggested hundreds of improvements, large and small, while smoothing out the rough edges of the manuscript. Adam Rooke oversaw the design of the book from cover to cover. Denise Keller, the project manager at GTS-York delivered an attractive and accurately composed text. 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 Beamer, the associate marketing manager. But most of the credit goes to all the McGraw-Hill Irwin 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.

Kunle Adamson (DeVry College of New Jersey), Ronald Picker (St. Mary of the Woods College), and Jim Watson (Jefferson College) very generously provided numerous suggestions which greatly improved the text, and Matt Brosius (OECD) filled in many of the gaps in the data.

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Finally, to all adopters of the past six editions, thank you. Your comments and concerns have helped to make this the best edition yet.

—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? Reading this book is like having a conversation with me. 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.

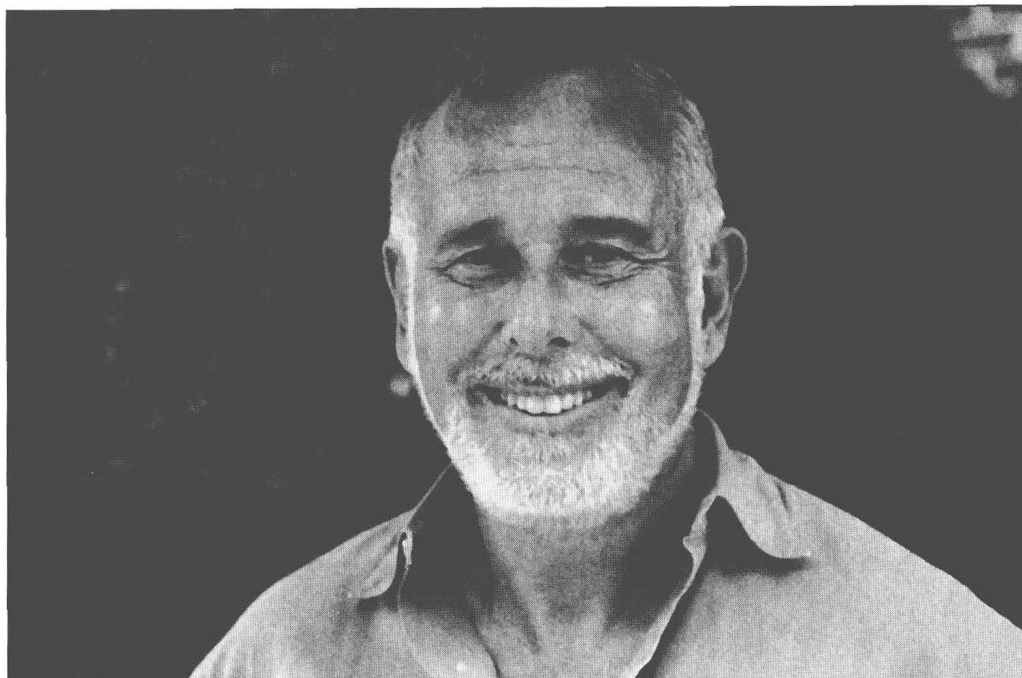
How do you feel about graphs? Do you think they look like those ultramodern paintings that even the artists can't explain? You can relax. No graph in this book has more than four lines, and by the time you're through, you'll be drawing your *own* graphs.

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, just 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*



About the Author

Stephen L. Slavin received his B.A. in economics from Brooklyn College and his M.A. and Ph.D. in economics from New York University. He has taught at New York Institute of Technology, Brooklyn College, St. Francis College (Brooklyn), and in the M.B.A. program at Fairleigh Dickinson University, and he now teaches at the New School University in New York City and at Union County College in Cranford, New Jersey.

He has written eight other books: *The Einstein Syndrome: Corporate Anti-Semitism in America Today* (University Press of America); *Jelly Bean Economics: Reaganomics in the Early 1980s* (Philosophical Library); *Economics: A Self-Teaching Guide*, *All the Math You'll Ever Need*, *Math for Your First- and Second-Grader*, *Quick Business Math: A Self-Teaching Guide* (all four published by John Wiley & Sons); *Chances Are: The Only Statistics Book You'll Ever Need* (University Press of America); and *Everyday Math in 20 Minutes a Day* (LearningExpress). He is the co-author of four other Wiley books, *Practical Algebra*, *Quick Algebra Review*, *Precalculus*, and *Geometry*. In addition he is also the coauthor of *Basic Mathematics*, a text published by Pi squared Publishers.

Dr. Slavin's articles have appeared in *Studies in Family Planning*, *Economic Planning*, *Journal of BioSocial Science*, *Business and Society Review*, *Bankers Magazine*, *Education for Business*, *Public Management*, *Better Investing*, *Northwest Investment Review*, *U.S.A. Today Magazine*, *Patterns in Prejudice*, *Culturefront*, and *Conservative Review*. In addition, he has written more than 500 newspaper commentaries on public policy, demographic economics, politics, urban economics, international trade, investments, and economics fluctuations.

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