

modern economics , principles and policy

**Kelvin
Lancaster**

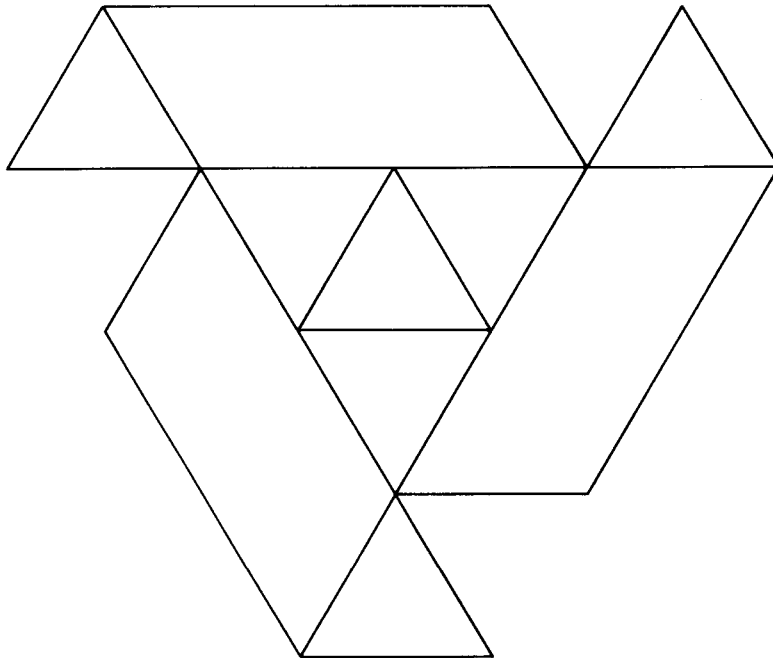


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Columbia University



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RAND M^CNALLY ECONOMICS SERIES

For the instructor's convenience
the text of this volume has been abstracted
into two paperback volumes,
MACROECONOMICS and **MICROECONOMICS**.

To my wife, Deborah,
who has been willing to share me
with this book for the past three years

PREFACE

My first task in this book is to convince you, who are looking at this preface, that you should read (or induce your students to read) the book itself. We both know that this is not the only book aimed at the beginning (but serious) student of the subject, so why choose this one in particular?

If your interest is in economic policy, then this is certainly the book for you, and not just because it has many chapters devoted to policy problems and covers more aspects of policy than other comparable books, but because the idea of policy permeates the whole book. When there is a chapter devoted to straight economic theory, it is there because that theory is necessary for the understanding of policy, and the treatment of the theory is made in terms of its relevance for policy. This does not mean the reader is short-changed on the basic principles of economics, only that these are not presented as something that he should study just because they are there.

This book is designed to be a true introduction to economics and economic policy, not a mere preface to it. Its aim is to make the reader aware of the state of the art in economic policy analysis and prescription, to tell him honestly when economists have not yet found the answer (or disagree among themselves), and to set out the principles upon which economists have based their policy conclusions, all in a manner that is fully within the grasp of the newcomer to economics. The technical analysis is kept at the level of simplicity appropriate to an elementary text, but the policy discussion is otherwise thoroughly sophisticated and timely.

I have used the term “modern” in the title to emphasize that both the economics and the policy coverage are up to date. The analysis uses recent concepts in consumption theory, the role of time, human capital, monetary theory, and econometric model building in an integral way, and not as novelties. The policy coverage includes, of course, extensive discussion of such standard problems as unemployment, growth, inflation, and imperfect

competition, but also includes equally extensive discussion of poverty and income distribution, the role of the price system in allocation and distribution, the supply of public goods, pollution and other externality problems, manpower policy and the use of input-output data, urban and agricultural problems, the constraints placed on policy by international relationships, the pervasiveness of distributional considerations, and the ultimate interconnection of all aspects of policy.

The book is laid out in thirty six chapters, divided among ten parts. Part I (Chapters 1–3) introduces the reader to economic thinking and the American economy, Part II (Chapters 4–8) covers analysis of the market economy as a preliminary to Part III (Chapters 9–14) which discusses microeconomic problems and policy. Part IV (Chapters 15–18) takes up both analysis and policy concerning income distribution. Macroeconomic analysis and policy commences with Part V (Chapters 19–22) which lays the foundations of macroeconomics, and continues through Part VI (Chapters 23–25) which discusses specific problems, Part VII (Chapters 26–28) which covers money and banking, and Part VIII (Chapters 29–32) in which macroeconomic policy is discussed at length. Part IX (Chapters 33–35) covers international economics, while Part X (Chapter 36) discusses problems in which many aspects of policy are intermingled.

Although the layout happens to place microeconomic analysis and policy before macroeconomic analysis and policy, the book is written so that the reader can commence with Part V as easily as with Part I or II, and the macroeconomic and microeconomic portions can be taken up separately or in either order.

To the Reader

In your first glance through the book you will notice some of the organizational features designed to make it both easy and interesting reading.

Probably the first thing you will notice are the Capsule Supplements, several to each chapter, which are set out in a way that clearly distinguishes them from the main text. The purpose of these capsules is to provide you with brief, interesting essays that supplement and illustrate the subject matter of the book. Some, you will find, give real-world examples of things discussed in the text, some are brief biographies of leading economists of the past and present, some discuss methodological or philosophical problems which arise in economics, others give background factual or institutional materials, present thought-provoking ideas or arguments, occasionally act as extensive footnotes. The separation of these capsules from the main text is a gain for both them and the text, enabling the capsulized material to be presented in a more lively fashion while preserving an uncluttered and clear thread of argument in the text proper. I am sure you will enjoy reading all the capsules, even those in chapters you are not otherwise covering.

Another feature you will notice is the provision of clearly identifiable lead-in and recap statements for every section of every chapter. The function of these is twofold: they act not only as a help to you as you read and as a short summary of what you should have extracted from your reading, but also they enable you to find out easily what is contained in the section even if, for reasons of time, you are not able to study it. Since Recaps are given for every section, they provide a total picture of the chapter which is much more detailed, and carries much more feeling for the logical development of the chapter than the chapter summaries of other books. It is for this reason that I regard the Recaps as substitutes for a full reading of the chapter if the latter is simply not possible.

Although I believe, like every other author, that everything I have labored so hard to put on paper is worth close study, I appreciate that many of you have constraints on your time and will not be able to do more than skim through those parts of the

book which are not central to your particular interests. For you, the book contains, in addition to the aforementioned Lead-ins and Recaps, a Glossary of terms that will provide some guidance when you meet terms in your special-interest reading that were discussed in chapters you have omitted. I hope, of course, that you will read the whole book—if not on first use because of pressure of other things, then at your later leisure.

To the Instructor

First, let me reiterate what I have said in my message to the reader, that the book has been carefully organized, with its Lead-ins, Recaps, and Glossary, so that the content of any chapter (or chapter section) is readily available without detailed study. This means you can design your course to concentrate on chapters or chapter sections that you regard as most relevant to your presentation, yet be assured

that your students have reasonable access to materials that you do not cover in detail. You can set certain chapters or chapter sections for outline reading only, enabling you to regulate the depth to which you want to pursue specific topics.

At the end of each chapter you will find a list of important concepts introduced in that chapter and two kinds of materials for class use. The first are Exercises of the conventional kind, numerical when appropriate, otherwise whatever kind best fits the subject matter of the chapter. The second are labeled For Thought and Discussion and are subjects typically open-ended and policy-oriented, often argumentative, designed to start a discussion but not always amenable to a clear-cut answer. You will also find that many of the Capsule Supplements provide excellent materials for discussion.

Supplementary teaching aids—an Instructor's Manual and a Student Exercise Book—have also been prepared for your use.

New York City
November, 1972

Kelvin Lancaster

SUGGESTED COURSE SYLLABUSES

Various combinations of chapters in this book will make it suitable for at least seven separate courses with different emphases. Below is listed the author's choice of chapters to be included in the courses described. Please consult the Contents for the chapter titles.

I A FULL-SCALE ONE-SEMESTER COURSE IN MACROECONOMICS

Chapters 3, 19-32, 35, 36; for a more international orientation, substitute Chapter 34 for 23.

II A LESS INTENSIVE VERSION OF COURSE I

Chapters 3, 19-22, 25, 29-32.

Also include reading of Section Recaps in Chapters 23, 24, 26, 27, 28, and 35.

III A FULL-SCALE ONE-SEMESTER COURSE IN MICROECONOMICS

Chapters 1-3, 4-12, 15-18, 36, and either 13 or 14; for an international trade emphasis, substitute Chapter 33 for the 13 or 14 choice.

IV A LESS INTENSIVE VERSION OF COURSE III

Chapters 1, 3, 4, 6-9, 11-12, 15, 18.

Also include reading of Section Recaps in Chapters 2, 5, 10, 16, 17.

Also consider including Chapter 13 or 14.

V A FULL-YEAR COURSE IN ECONOMICS AND ECONOMIC POLICY

Combine Courses I and III in any order, eliminating duplication of Chapters 3 and 36.

VI A LESS INTENSIVE VERSION OF COURSE V

Combine Courses II and IV in any order, eliminating duplication of Chapter 3.

VII A ONE-SEMESTER INTRODUCTORY COURSE COVERING BOTH MICROECONOMICS AND MACROECONOMICS

Chapters 1, 3, 4, 8, 11, 12, 15, 19-21, 29, 32.

Also include reading of Section Recaps in Chapters 6, 7, 9, 22, 30, 31, and 35.

SPECIAL NOTE: Students should be encouraged to read the Capsule Supplements in all chapters, no matter which syllabus is used.

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