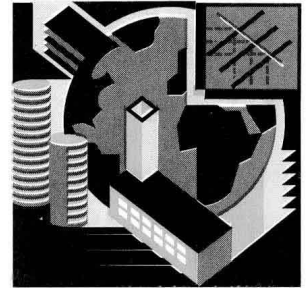




PRINCIPLES OF
ECONOMICS
AMACHER & ULBRICH
FIFTH EDITION

PRINCIPLES OF ECONOMICS

FIFTH EDITION



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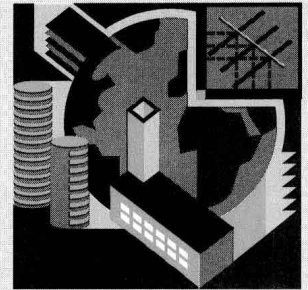
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PREFACE



Each revision of a textbook presents a major challenge. This fifth edition of *Principles of Economics* was no exception. We had to decide what to keep, what to change, and what additions or modifications were needed to make the textbook up to date and responsive to changing ideas, methods, and interests. In putting together a fifth edition, we have benefited from comments and suggestions from users of earlier editions, colleagues at Clemson University, and some careful and thoughtful reviewers.

We reiterate our goal that guided the earlier editions. We do not want to make professional economists out of students. A common complaint is that instructors and textbook authors treat the principles of economics course as the first step in work toward a Ph.D. This text is intended not to train professional economists but rather to describe the analytical tools that economic theory offers the policy analyst or adviser to governments and business firms. This book teaches enough theory to enable students to understand policy and presents enough policy situations to give them an understanding of how to apply the theory. In addition, where relevant, we present the historical context of the theory.

CHANGES IN THE FIFTH EDITION

The multi-color format allows us to be more creative with the graphs and to make the book more attractive. The figures have been prepared so that all demand-related curves are blue and all supply-related curves are red. Historical and other nonspecific information is shown in gold. Throughout the text, special features, including the International Perspectives,

Economic Profiles, Economic Insights, and summary boxes, are presented in a consistent color and format.

We have expanded the integration of the international sector in this edition. The gold-colored International Perspective pages in each chapter extend the scope of the material from the purely domestic scene to the worldwide implications and focus on related real-world international issues. Some of the perspectives show what happens to the model or theory when it is placed in the context of an open economy. Thus, we add exports and imports to supply and demand in microeconomics and to aggregate supply and demand in macroeconomics. We look at the antitrust implications of foreign competition and the link between the budget deficit and the trade deficit. Other perspectives consider how particular problems are addressed or how particular institutions work in other countries. For example, the chapter on financial markets looks at how financial markets work in Japan, and the discussion of poverty programs explores income support programs in Europe.

We recognize that students appreciate having important material summarized frequently, so we continue to include concise summaries of main points in order to make the book as user friendly as possible. Other features that are especially helpful to students have been retained, including key terms and their definitions in the margins and the numbered chapter summaries. Chapter learning objectives have been reintroduced at the request of users. The number of end-of-chapter questions has been expanded, including more problem-solving and brainstorming questions along with those that review chapter material.

On the basis of reviewer recommendations, a major effort was made in this edition to reorganize and streamline the material in the introductory chapters. The number of introductory chapters has been reduced from four to three. Each chapter emphasizes a single model and uses that model to develop basic methodological concepts. Thus, Chapter 1, "Economics, Economic Issues, and Economic Methods," now introduces the production possibilities curve. Chapter 2, "Markets, Governments, and Nations: The Organization of Economic Activity" describes the circular flow model, building on the introductory material on scarcity and choice in Chapter 1 while creating a broad overview of both microeconomics and macroeconomics. This chapter blends some materials from Chapter 2 of the previous editions with a discussion of the role of governments and the international economy, in order to set the stage for the remaining chapters. Some methodological material, which appeared in the opening chapter in earlier editions, is best understood in the context of the circular flow model. Thus, Chapter 3, "Supply and Demand," now incorporates the topics of comparative statics and equilibrium and disequilibrium. The materials that were presented in Chapter 4 in previous editions have been assigned to various micro and macro chapters as appropriate, but the basic material on the role of government has been incorporated into the new Chapter 2.

The significant changes in macroeconomics begin with Chapter 9, "Fiscal Policy." Materials on the size and composition of the federal budget are now found in Chapter 9 in connection with discussion of the budget as a policy tool. Because the broad and complex issue of the national

debt and deficits dominates any discussion of fiscal policy, we have split this critical current policy debate off into a separate chapter (Chapter 10), drawing materials from several earlier chapters and incorporating new data and arguments.

In the area of money and interest rates, we felt that it was necessary to include some discussion of financial markets, as banks are increasingly becoming merely one among a host of financial intermediaries. After the discussion of money demand in Chapter 11 and banks and the Federal Reserve in Chapter 12, a new chapter has been added. Chapter 13, "Financial Markets and Interest Rates," includes materials on the interest rate, investment, and the loanable funds market, as well as a new discussion of the economic role of financial intermediaries such as the stock and bond markets. We have reorganized the final chapters of the macro part of the text so that the discussion of demand issues ends in Chapter 15 with another look at inflation and employment, as well as a brief summary of various schools of thought. Chapter 16, "Aggregate Supply and Economic Growth," includes an expanded treatment of the productivity issue and industrial policy. We have moved "Economic Development and the Third World" from the end of the textbook to Chapter 17 in the macroeconomics section, since it is logically linked to the growth chapter.

Chapter 18, "Applications of Supply and Demand," again reviews the concepts of supply and demand, with new examples and revised material brought together from several chapters of the previous edition. The presentations of elasticity in Chapter 19 and demand and consumer choice in Chapter 20 received strong support from our reviewers. Indifference curve analysis remains as an optional appendix to Chapter 20.

Chapter 21, which introduces the student to the theory of the firm, includes coverage of two new topics: households as firms and nonprofit firms. The optional appendix covering isoquant and isocost curves parallels the Chapter 20 appendix on indifference curves. Chapter 22 presents cost theory and concludes with a discussion of profit maximization. Chapters 23–25, covering perfect competition, monopoly, and monopolistic competition and oligopoly, have been updated with new examples and problems. The final chapter of this section, Chapter 26 on regulation, deregulation, and antitrust policy, includes antitrust and regulatory changes that have occurred since the last edition.

Chapter 27 discusses marginal productivity in the context of labor markets. Chapter 28 follows the labor market theory with a revised and updated discussion of U.S. labor history and the role of unions. All the material on rent, interest, and profit appears in Chapter 29, which now also includes a discussion of the functional distribution of income. Chapter 30, "Income Distribution: Poverty, Discrimination, and Welfare," concludes the section. This chapter includes two new topics: the regional distribution of poverty and transfers to the elderly, an area of great controversy.

Chapters 31 and 32 in turn discuss market failure and government failure, incorporating new material and additional examples on both sides of the argument. A new Chapter 33, "Case Studies in Market Failure and Government Failure," includes the farm problem and urban problems. Also covered in this chapter is a third area of growing interest and concern—the environment. This material is new to the fifth edition.

The international section comprises three chapters. Chapter 34, “International Trade,” now includes an introduction to two additional arguments for tariffs: the optimum tariff argument and the theory of the second best. To show the role of services in the balance of payments, Chapter 35 contains an International Perspective that discusses how the United States has become a net exporter of tourism. Chapter 36, which deals with comparative systems, was revised at the last minute to incorporate the rapid changes in Eastern Europe.

IMPORTANT FEATURES OF THE FIFTH EDITION

The previous editions of *Principles of Economics* have been used by thousands of students at hundreds of institutions. The following features have made this text a useful and well-regarded teaching and learning tool.

ORGANIZATION

The length and content of the fifth edition represent a very careful weighing of thoroughness against brevity. Although we did not go quite so far as to apply “zero-based editing” by requiring each item to justify its inclusion, we did carefully rethink what to include and we did some pruning to make room for new material and ideas.

This edition of the textbook is again available in paperback splits. *Principles of Macroeconomics* contains Chapters 1–17 and 34–36. *Principles of Microeconomics* contains Chapters 1–3 and 18–36.

SPECIAL PAGES

Each chapter includes special pages. At least one special page, color-keyed gold, is an International Perspective, extending the scope of the material in the chapter to a global view. Other special pages may be Economic Profiles of important economists or Economic Insights into important institutions, relevant historical events, or pressing current issues. The special pages are placed close to the relevant chapter material and highlight the development of the theory or its application to current domestic or global problems.

PEDAGOGICAL FEATURES

Each chapter begins with learning objectives, to introduce the students to the materials that will be covered. Key terms and their definitions are highlighted in the margin of the text. A feature introduced in the fourth edition and continued in the fifth edition is the capsule summaries of the preceding section or sections, placed at strategic points in each chapter. We have again expanded the selection of end-of-chapter questions, which can be used for review, homework, or class discussion. Suggested answers are provided in the *Instructor's Manual*. The carefully annotated Suggestions for Further Reading in each chapter have been updated and expanded to include current material. All terms that appear in boldface type and in the margins of the book are defined in the Glossary.

SUPPLEMENTARY MATERIALS

In addition to the pedagogical features in the textbook—the learning objectives, key terms, questions, and summaries—there is also a *Study Guide*, an *Instructor's Manual*, and a *Test Bank*. The *Study Guide* was prepared by Patricia Pando of Houston Baptist University. The revised *Test Bank* for the fifth edition was developed by Ryan Amacher, Holley Ulbrich, and Dennis Placone of Clemson University and has again been expanded to accommodate instructors' needs. The *Instructor's Manual* was prepared by the authors of the textbook.

THE STUDY GUIDE

The *Study Guide* will be a real asset for your students. Each chapter corresponds to a chapter in the textbook. It includes a chapter overview; matching exercises based on the important terms in the chapter; a three-part self-test consisting of true/false questions, problems requiring numerical and/or graphical solutions (where appropriate), and multiple choice questions; a review of the learning objectives for the chapter; complete answers to all questions in the self-test; and chapter exercises. The chapter exercises can be used for homework or for quizzes. (Answers are provided in the *Instructor's Manual*.)

THE INSTRUCTOR'S MANUAL

The *Instructor's Manual* also contains a chapter corresponding to each chapter in the text. Each chapter of the *Manual* includes a short discussion of the purposes of the chapter; the chapter outline, learning objectives, and summary; key terms from the chapter with their definitions; suggestions for lectures, extensions, and applications; suggested answers to all end-of-chapter questions; and answers to the chapter exercises in the *Study Guide*. Transparency masters are also included in the *Instructor's Manual*.

THE TEST BANK

An extensive *Test Bank* is available to adopters. It consists of 5,000 multiple choice and true/false questions, including those in the *Study Guide* (marked with an asterisk). The *Test Bank* is also available on disk for use with MicroSWAT III test generation software. This easy-to-use, menu-driven software allows instructors to quickly and efficiently produce high-quality tests. Instructors can enter and edit questions, scramble questions and choices, and print graphs as part of a test. Included in the software is a grade book.

TRANSPARENCIES

Important illustrations from *Principles of Economics* have been reproduced on a set of color acetate transparencies available to adopters to enhance classroom presentations. The most critical illustrations appear on overlay transparencies, an innovative teaching tool.

THE MICROCOMPUTER TUTORIALS

Tutorial software, available for IBM® or IBM-compatible machines, con-

tains eight modules—four in micro, four in macro—designed for either individual or group use in reviewing basic concepts.¹ The tutorials have been thoroughly revised in response to suggestions from users and are available to adopters. Copies may be made for student use.

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Finally, we would like to dedicate the fifth edition to the memory of Professor Jack Livingston of Ripon College and Professor Dorothy Goodwin of the University of Connecticut. Their skill and enthusiasm for teaching attracted us to economics as a profession. If they were alive to read this textbook, they would find their inspired teaching living on in its pages.

Ryan C. Amacher
Holley H. Ulbrich

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