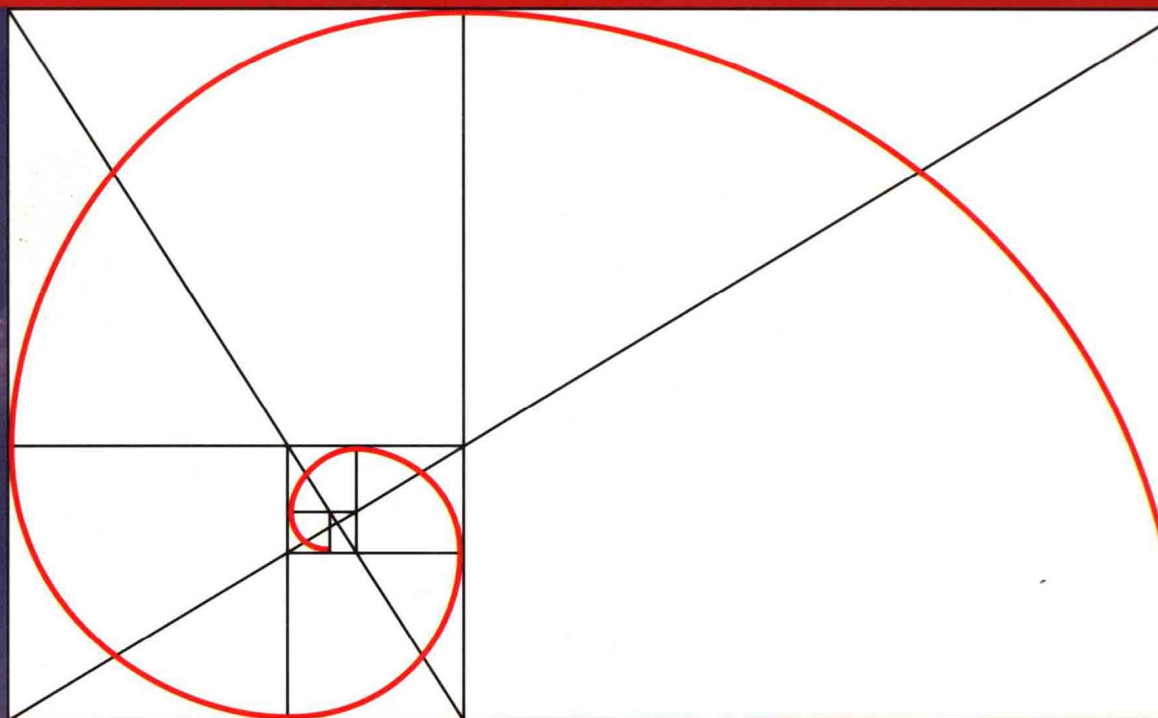


INTRODUCTION TO

# MACROECONOMICS



ALAN C. STOCKMAN



INTRODUCTION TO  
M A C R O E C O N O M I C S

ALAN C. STOCKMAN  
*University of Rochester*



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# P R E F A C E

## WHY I WROTE THIS BOOK

I expected to become a physicist or political scientist when I entered college in the fall of 1969. My interest in political science sprang from my fascination with political philosophy and broad social issues, but most political science courses appeared to focus more on the institutions of government than on fundamental questions. Meanwhile, outside reading led me to the works of Milton Friedman, Friedrich Hayek, and Ludwig von Mises, and inspired me to learn more economics. However, I found my introductory economics course dry and intellectually unsatisfying. The textbook required for the course seemed to imply, contrary to what Friedman and others persuasively argued, that our economy frequently requires government policies to “get things right.” Rather than raising and discussing fundamental questions and showing me how to apply economic analysis to such questions, the book implied that most economic issues had already been resolved and that experts could apply economics to correct the failures of markets and fine-tune the economy.

Despite that experience, my outside reading (and some good professors) sustained my interest in economics. When I decided to pursue economics in graduate school, I promised myself that someday I would write a better introductory economics textbook through which I could share with other people the fun and intellectual excitement I found in economics. After getting my Ph.D. at the University of Chicago and spending two years at UCLA, I found myself teaching a principles course at the University of Rochester in the fall of 1979. I have taught principles every year since then but have never been satisfied with the textbooks available. The book you hold in your hands is my attempt to fulfill my promise to myself.

## THE IDEAL TEXTBOOK

Surely most professors who teach introductory economics share similar great moments: when a student first exhibits that contagious enthusiasm sparked by a discovery of economic reasoning; when a student spontaneously demonstrates an ability to apply economic principles to new problems; and when a student chooses to major in economics because of that particular professor's course. A textbook should help produce the conditions that create these moments.

Most students enroll in an introductory economics course without knowing what economics is about (aside from general notions of business, finance, and government policy) or why they should care about it. Many expect an economics course to be boring and enroll in it only to satisfy a requirement. The idea that economics could be incredibly interesting and relevant both to their own lives and to

broader issues that they care about seldom enters their minds. The first job of a professor is to interest students in economics. Without such an interest, students will neither learn nor retain much of the basic material from their courses, let alone develop the ability to apply it to new situations.

An ideal textbook can help students learn partly by stimulating their interest in economics, by motivating them to think like economists, and by showing them how. Although the factors that shape people's interests are complex, some general themes emerge. We tend to like subjects that satisfy our innate senses of curiosity, that help us make sense of things that we don't understand, and that provide that "Aha!" feeling of new discovery. Of course, this satisfaction requires that we know what it is that we don't understand—that is, what questions to ask. While students who are already curious about economic issues are easy to motivate, most other students have little idea of what questions to ask. It has never occurred to them that our economy, without any central plan or direction, somehow coordinates the activities of millions of people to produce efficiently the goods and services they want. Most students have never been exposed to the kinds of questions that economics answers. Although the results profoundly affect their lives, they take those results for granted.

A good economics textbook should help a professor impart a sense of discovering important ideas. It should help a professor to rekindle and channel students' innate senses of wonder. It should show students new ways in which to look at the world, new worlds to look at, and new questions to ask. It should show students how to apply economics to help achieve their own goals (such as becoming successful businesspeople). It should also validate students' senses of self-worth and ability, encouraging them to express their opinions about topics that interest them, to commit themselves even at the risk of making mistakes, and to combine economic reasoning with their own values and opinions using economics to develop more informed opinions, sharper arguments, and better answers to significant questions. This textbook contains many questions (a broader range than most other economics textbooks) because I believe that showing students a whole new world of questions to ask is as important as showing them answers and more likely to motivate them to learn *how* to answer questions.

Most people take greater interest in subjects that are directly useful to their lives. The book contains numerous examples of how economics can help people to make business decisions and personal decisions. We, as students, also tend to like subjects that provide us with feelings of accomplishment. Those feelings come partly from hard work, but also from the smaller successes achieved by applying new ideas and answering new questions correctly. To that end, this book is more applied than others. It allows students to amass accomplishments as they go along by reading news articles and seeing how these articles relate to key concepts, by answering questions at ends of sections (first by reviewing key points and then building upon them), and by applying economics to broader issues. Finally, people enjoy subjects that exhibit a bit of whimsy and fun and don't always take themselves too seriously. I hope this book has that flavor.

A good textbook must go well beyond motivating student interest in a subject. It must explain how to *use* basic principles in new situations. Clear explanations of main points, with examples that can serve as memory aids and applications that

can deepen understanding, are essential. I believe students learn best if they practice applying concepts to both familiar and new situations, to both everyday life and broader issues. The best way to learn how to think analytically and to apply economics is to practice, and then to practice again. This book tries to provide an opportunity for that practice and to make it easier.

## **APPROACH**

### **MODERN, NEOCLASSICAL APPROACH**

This book takes a modern, neoclassical approach. Students learn equilibrium macroeconomics before studying short-run issues involving nominal sluggishness; they study long-run economic growth before business cycles; they learn the distinction between real and nominal variables before studying connections between them. The book's distinctive chapters on monetary and fiscal policies emphasize laissez-faire versus activist views of government policy and examine debates about rules versus discretion. The book also contains a balanced presentation of modern Keynesian theory and evidence and a separate chapter on real business cycle theory. The macroeconomics chapters, like the micro chapters, contain numerous examples designed to clarify main points, illustrate the relevance of economics to important real-life issues, and help students apply economics to current events and public policies.

I have taken this alternative approach to macroeconomics for several reasons. Standard presentations often leave students feeling as if the reasoning of macroeconomics is divorced from the reasoning of microeconomics. Despite the common attempt to make macroeconomics look like microeconomics through the use of aggregate supply and aggregate demand graphs, students seldom learn that the market process, Adam Smith's metaphorical invisible hand, operates for the economy as a whole just as it operates in micro applications. Students who never appreciate the successes of the market process applied to macroeconomic issues will have no basis for understanding where market failures might develop and why some economists advocate active roles for government macroeconomic policies. *This textbook is unique in explaining how the market process applies to macroeconomic issues.*

### **FUNDAMENTAL ISSUES AND EVERYDAY APPLICATIONS**

Throughout the chapters, the book emphasizes major social and political issues, enticing students to broaden the set of questions that they ask about the world, to understand both sides of controversial issues, and to combine economic analysis with their own value judgments as they think about current events and fundamental social issues. The book also strives for a real-life flavor through data, examples, applications of economics to macroeconomic policy decisions, and the extensive use of real news clippings.

## **PEDAGOGICAL FEATURES**

This book maintains a reader-friendly organization that helps students by separating main points from explanations and examples. This organization increases student understanding by making it easier for readers to identify main points, examples, and explanations. It also helps students to review the chapters with less study

time. Some sections of the book deviate from this organization, but always for a reason.

### **CONCLUSIONS**

The concluding sections of each chapter are organized by section, making it easier for students to identify sections that they need to reread. On a second reading, many students will find that they can skip explanation and example sections if they already understand the issues.

### **NEWS CLIPPINGS**

The book makes extensive use of real news clippings to help students practice applying economic principles as they read about or listen to reports of current or historical events. The news clippings also increase student familiarity with news stories on economic topics, alleviating fears that such stories are beyond their comprehension and elevating their self-confidence not only to read but also to evaluate such stories.

### **QUESTIONS AND PROBLEMS**

Questions and problems appear at the ends of sections, not just the ends of chapters. Some questions are mainly for review, while others require student analysis. This placement of the questions allows students to query themselves about the material in each section before continuing to the next. Questions and problems cover each level of learning, helping students learn to restate main points, to create new examples of those points, to work through applications from the text with small changes, to apply main points to genuinely new applications, and to apply economics to everyday life, current events, and broad social issues. Many problems help students learn to work with graphs (and some with numerical examples) and to state verbally the conclusions of the graphical analysis.

### **INQUIRIES FOR FURTHER THOUGHT**

Inquiries for Further Thought are one of the most important features of the book. These distinctive inquiries supplement other end-of-chapter questions and problems. They challenge students to use economic analysis to formulate positions on issues of fundamental importance. The inquiries raise positive and normative questions on important social issues related to economics, teaching students (a) how to raise new questions and think about issues in new ways, (b) to distinguish between the positive and normative components of such questions, (c) that these positive and normative components are related to each other, (d) that economic analysis helps provide a logical way to approach many questions, and (e) that big-issue questions make economics interesting and important. The inquiries help students practice combining economic analysis with their own values and opinions about fundamental issues. Because most of the inquiries involve value judgments, they have no “correct” answers.

## **SUPPLEMENTARY MATERIALS**

### **SUPPLEMENTARY MATERIALS FOR THE INSTRUCTOR**

► *Macro Test Bank.* Prepared by Alden Shiers of California Polytechnic State University, the macro test bank contains more than 3,500 multiple-choice and crit-

ical-thinking questions. Each question is graded by level of difficulty. Also, each critical-thinking question has a suggested correct answer in the printed test bank. All questions were checked by David Bishop at the University of Rochester.

- ▶ **Computerized Test Bank.** The test bank is available on computer disk for IBM and Macintosh users. The ExaMaster system accompanying the computerized test banks makes it easy to create tests, print scrambled versions of the same test, modify questions, and reproduce any of the graphing questions.
- ▶ **Teaching Transparencies for Macroeconomics.** Color acetates of the major exhibits have been prepared for overhead projection. A number of acetates are layered to show what happens graphically when curves shift.
- ▶ **Instructor's Manual.** This supplement contains valuable outlines, teaching tips, and answers to all the questions in the book. This information is also available in WordPerfect 5.1, which allows instructors to customize their lecture notes.
- ▶ **CD-ROM.** This highly interactive product utilizes animated graphs, audio, video, and text from the book to create a multimedia learning environment. The CD-ROM focuses on core economic concepts that go beyond the linear presentation in the book. The instructor's disk includes LectureActive Presentation Software, which contains all of the graphics and text files from *Introduction to Economics*.
- ▶ **PowerPoint Presentation Software.** Key concepts and figures from the text are reproduced in an overhead-presentation format designed for lectures. Instructors may pick and choose the information they want to cover by selecting customization options. PowerPoint is a basic program that is very easy to use.
- ▶ **Video Packages.** The *Economics in Focus* video series facilitates multilevel learning and critical thinking through its up-to-date coverage of current events, while focusing on the economic issues important to students and their understanding of the economy. Recent segments from The MacNeil/Lehrer News Hour are updated quarterly. These videos look at three major topics:
  1. "The International Economics Scene" covers free trade, foreign policy, and other issues.
  2. "Economic Challenges and Problems" explores topics such as changing incomes, the government budget deficit, and inflation.
  3. "The Political Economy" looks at the role of the government, free enterprise, and economic stabilization.

Each segment of *Economics in Focus* closes with a special feature story or one-on-one interview with a noted economist.

Milton Friedman's *Free to Choose* video series is available in 10, half-hour videotapes. These videos update the earlier series, *Milton Friedman Speaks*, and contain introductions by Arnold Schwarzenegger, George Schultz, Steve Allen, David Friedman, and Ronald Reagan.

- ▶ **Laser Discs.** These discs focus on the core principles of economics and present the information interactively. A brief 5- to 7-minute video from CBS begins each learning section. Related animated graphics follow. Once students under-



stand the concepts presented, they are then challenged with critical-thinking questions. A printed *Media Instructor's Manual* explains how the laser discs coordinates with the textbook.

### FOR THE STUDENT

- ▶ *Macroeconomics Study Guide.* Written by John Dodge at University of Sioux Falls, the study guide utilizes numerous strategies for active learning. Elements of this supplement include: learning goals, key-term quizzes, true-false questions, multiple-choice questions, fill-in-the-blank problems, priority lists of concepts, short-answer questions, and basic and advanced problems.
- ▶ *CD-ROM.* This highly interactive product utilizes animated graphs, audio, video, and the text of the book to create a multimedia learning environment. The CD-ROM focuses on core economic concepts that go beyond the linear presentation of the text. Students can purchase the CD-ROM with or without the printed text.
- ▶ *Tutorial, Analytical, and Graphical (TAG) Software.* This award-winning software by Tod Porter and Teresa Riley of Youngstown State University has been significantly enhanced to contain an extensive chapter-by-chapter tutorial, a hands-on graphic section in which students are actually required to draw curves (with key strokes or a mouse), and a practice exam for each section. Students receive feedback on their answers. It is available in both DOS and Windows formats.

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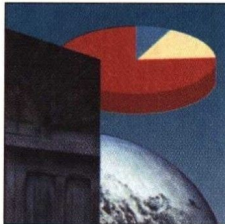
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Professor Stockman received his Ph.D. at the University of Chicago in 1978, and has published widely in the leading professional journals, such as the *Journal of Political Economy*, *American Economic Review*, *Journal of Monetary Economics*, *Journal of International Economics*, and *Journal of Economic Theory*.

He specializes in macroeconomics and international economics, although his research also extends to other areas such as the economics of philosophy. He serves on editorial boards of several professional journals and presents frequent talks at universities and professional conferences around the world. In his spare time, he enjoys music, skiing, and spending time with his wife and three daughters.

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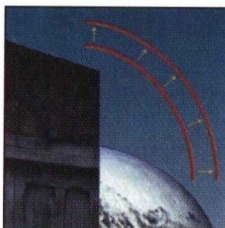
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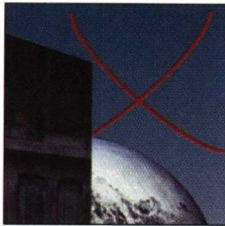
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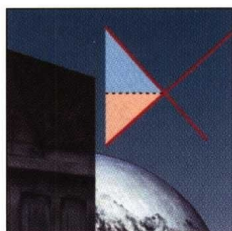
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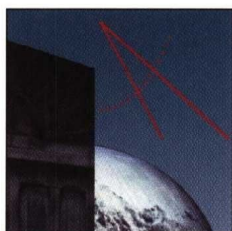
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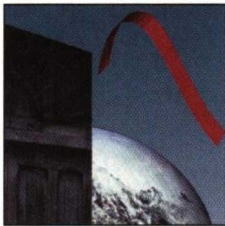


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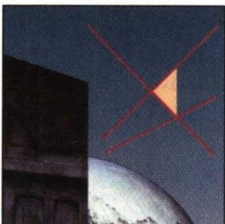
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