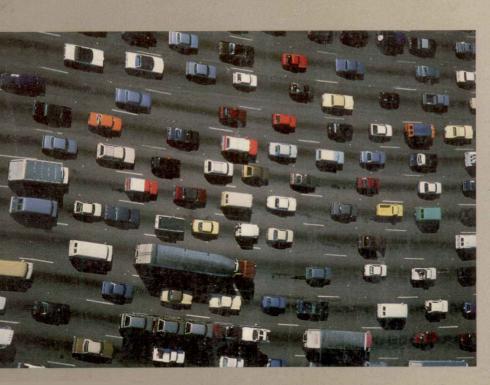
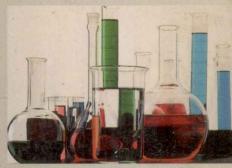
ECONOMICS AND CONTEMPORARY ISSUES







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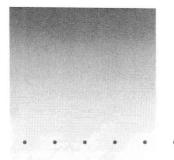
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PREFACE

This book examines important contemporary issues: inadequate medical care, farm failures, housing shortages, monopoly, crime and drugs, pollution, poverty, old-age financial insecurity, unemployment, inflation, federal budget and balance of payments deficits, slow productivity growth, and disparities in the wealth of nations. Not only are these issues of great interest, they are also effective vehicles for teaching the basic principles of economics.

In the issues approach, economic principles are developed and then used immediately to gain a fuller understanding of important social problems. This approach demonstrates that economic theory is useful in explaining how the world works, providing students with a powerful motive for investing their time and effort in learning economics.

The Intended Audience

One audience for this text is students enrolled in the growing number of one-term issues courses offered by economics departments. This book contains enough economic theory, however, that it is appropriate for the traditional one-term survey course in economics. It also develops enough applications that it could be used effectively as a supplement in traditional two-semester principles courses or for teaching economics in social science survey courses.

BASIC FEATURES

Economics and Contemporary Issues has several features that we think are important ingredients in an issues-oriented text:

- 1. effective aids to self-learning,
- 2. a balanced treatment of microeconomics and macroeconomics,
- 3. a solid, comprehensible, theoretical foundation,
- 4. up-to-date, comprehensive, background information on each issue, and
- 5. flexibility in the sequencing of topics and issues.

Aids to Self-Learning. The most important aid to self-learning is clear, concise exposition of basic concepts. We have tried to produce a book that is

truly understandable for beginning students. Every page has been read carefully by reviewers, editors, and students to eliminate confusing or excessive prose.

Students must understand more than the economists' prose, of course; they must also master the basic vocabulary of economics. To help them do this, key terms are highlighted when they first appear, and they are defined in three places: in the body of the text, in the end-of-the-book glossary, and (in almost all cases) in the margin. In addition, each chapter begins with a list of key terms introduced in previous chapters that should be reviewed, and ends with a list of the new key terms introduced in the chapter.

To help students master the standard tools of economic analysis there is a judicious use of graphs, diagrams, and tables, explained both in the text and in accompanying captions.

Self-testing is an essential component of self-learning. To aid students in this endeavor, we provide end-of-chapter questions (with answers in the *Instructor's Manual*). The *Study Guide* to accompany this text has been carefully constructed to give students practice in mastering the material. Also at the end of each chapter are annotated references for further reading and a summary to help students review material.

Micro-Macro Balance. The analysis of macroeconomic issues is often slighted in issues and applications books. We achieve a balance by devoting 8 of 17 chapters to macroeconomic issues. In addition to unemployment and inflation, we cover such aggregate issues as the federal budget and balance of payments deficits, and economic growth and development. We also examine the efficiency and equity aspects of various microeconomic issues, including agriculture, housing, crime, monopoly power, pollution, education, poverty, and social security.

Solid, Comprehensible Theory Core. Both the micro and macro parts of this book are based on a small number of understandable, yet powerful, economic concepts and models.

In the microeconomics chapters, we use supply-demand and marginal analyses extensively. Models of competitive and monopolized markets are developed. The concepts of marginal benefit and marginal cost are used to illustrate market and government failures.

The common thread of the macroeconomic chapters is the model of aggregate supply and demand. Use of this versatile tool enables beginning students to understand the forces that determine income, employment, and price levels without getting bogged down in the arithmetic of national income analysis. It also enables them to see clearly the consequences of alternative policy choices.

Current, Comprehensive Information. Our experience shows that most beginning students know very little about economic history, data, and institutions. A good course provides the information necessary for understanding the nature and significance of the problems addressed. If public programs are at issue, a good course teaches students how they work.

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This information can be provided by both the instructor and the text. Although there is no perfect substitute for an instructor who seeks new information and provides it to students, we have tried to minimize the instructor's task by providing current and comprehensive background information on the issues discussed in this book.

Flexibility in Sequencing Topics. This book is structured so that microeconomic issues are developed before macroeconomic issues. The macroeconomic issues can be studied first, however, since the micro chapters (1–9) have been designed to be independent of the macro chapters (10–17). Instructors who prefer to teach macro first, but only after an introduction to the market system, can do so by assigning Chapters 1 and 2 before beginning Chapter 10.

The text also facilitates individual ordering of issues within the divisions of micro and macroeconomics. Chapters 1 and 2 provide some essential foundations for the remaining micro chapters, as do Chapters 10 and 11 for the macro section of the book. A one-term principles survey course could be based on these four chapters and Chapters 4, 6, 12, and 17, and be supplemented with additional chapters. A variety of chapters could be combined to fit student needs and instructor interests in courses stressing the economic aspects of contemporary issues.

SUPPLEMENTARY MATERIALS

Students will benefit greatly from working through the *Study Guide*. This aid has been prepared by Professor Donald L. Bumpass of Oklahoma State University, a colleague with extensive experience in teaching economics to beginning students. Each chapter in the *Study Guide* includes a review of key terms, true/false and multiple-choice questions, and practice problems.

Instructors will find the *Instructor's Manual and Test Bank* helpful in planning their courses and preparing exams. This aid was written by Professor Kim McCoy of Central Missouri State University, an "issues" course veteran, and ourselves. This manual includes chapter overviews, learning objectives, teaching suggestions, additional references for each issue, detailed lecture outlines, answers to questions in the text, a variety of exam questions and problems, and transparency masters. A newsletter will also be issued twice a year as a means of providing adopters with the latest available information.

A CKNOWLEDGMENTS

This book is a joint product of three authors who are long-time colleagues—and still friends after working on this project. We did not produce this book alone, however, and we greatly appreciate the contributions of colleagues, reviewers, students, and the staff of The Dryden Press.

Professor Michael J. Applegate of Oklahoma State University merits special thanks. He wrote Chapter 17, provided constructive reviews of the entire text, and class-tested the manuscript.

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Careful reviews of the entire manuscript were provided also by Pauline Fox (Southeast Missouri State University), Neil Garston (California State University, Los Angeles), Doug McNeil (McNeese State University), John Pisciotta (Baylor University), Steve Smith (Rose State College), and Barbara Street (Chaminade University of Honolulu). The final manuscript was reviewed by Hyung C. Chung (University of Bridgeport), Emily Hoffman (Western Michigan University), George Murphy (University of California, Los Angeles), Larry Sechrest (University of Texas, Arlington), and Alden Smith (Anne Arundel Community College).

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Former editor Liz Widdicombe insisted that Dryden was the right company for this project. We're glad that she persisted and we gratefully acknowledge the guidance provided by the Dryden staff, including Becky Ryan, Jan Richardson, Karen Steib, Paula Dempsey, Mike Roche, and copy editor JoAnn Learman. We're still amazed by the contrast between what we started with and what came off the press.

Michael R. Edgmand Ronald L. Moomaw Kent W. Olson

November 1990

To the Student

Welcome to *Economics and Contemporary Issues*. This book will teach you how the U.S. economy works, and how economic incentives and institutions are related to important social problems. In the process of learning these things you will also sharpen your analytical and decision-making skills.

The issues and problems you will study command the attention of concerned citizens and policymakers. Many of them will continue to be important long after you finish this book. The principles you learn here, however, will help you to understand problems and issues that appear long after your final exam.

In examining each issue, we first develop and apply the principles essential for understanding its economic dimensions. Then we evaluate current and alternative approaches to dealing with the issue. The first step is the province of positive economics; the second is the focus of normative economics. Positive economics explains and predicts economic phenomena; normative economics selects social goals and evaluates alternatives according to how well they achieve these goals. This approach reflects the dual purpose of economics: to discover how the world works and to determine how it can be improved.

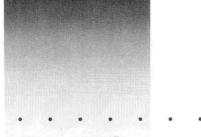
The basic normative questions posed throughout this book are whether government action is necessary to solve social problems and, if so, what policies should be adopted. For example, in the chapter on air pollution, we ask whether curbing pollution (a social goal) can be accomplished efficiently by the private sector alone and conclude that it cannot. We then evaluate existing regulations and proposed policies to determine which of them are most likely to improve the situation. We use a similar approach in examining the other issues. We hope the net result will be a greater appreciation on your part of the strengths and weaknesses of the private and public sectors.

To achieve lasting benefits from economics (and to do well in your economics course!) plan to go beyond merely memorizing this material. Learn, in addition, how to apply the principles and models developed in the text.

We have worked hard to write clearly and concisely so that you will understand the important principles and how they work. You will greatly enhance your ability to apply these principles by answering the questions at the end of each chapter, and by working through the *Study Guide* to this book.

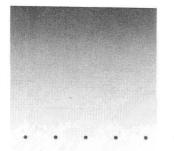
You will also progress faster and more surely in your study of economics if you master the basic vocabulary. To help you do this, we have focused on a list of essential, or key, terms. These terms are highlighted when they first appear, and they are defined in the body of the text, the end-of-book glossary, and (in almost all cases) in the margin.

Good luck in your study. May you discover, as we did, that your view of the world will never be quite the same after your first encounter with economics.



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