

# TECHNOLOGIES of *Social Issues*

THIRTEENTH EDITION



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# ECONOMICS *Social Issues*

THIRTEENTH EDITION

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## *Economics of Social Issues*

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# Preface

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Welcome to the thirteenth edition of *Economics of Social Issues*. Users familiar with the previous twelve editions will discover that more than just the publisher's imprint has been revised. Our choice of topics and our presentation style have evolved and changed over time to match the dynamics of the economics discipline, but our basic teaching objectives have remained unchanged. These objectives are to (1) create student interest in the study of economics and (2) provide a framework of basic analytical tools useful in the understanding of social issues. To reach these objectives, we first introduce and discuss the important aspects of a contemporary social issue. Next, we develop the economic concepts and principles germane to the issue. Finally, we apply these principles to the issue in order to discover if there are ways that can help us resolve the issue. The issues throughout the text are arranged so that basic economic concepts are logically developed and an understanding of these concepts is reinforced through repeated use and application. However, enough flexibility is built in to give instructors the ability to experiment with different sequences of topics and chapters. As always, we carefully choose relevant social issues that not only stimulate classroom discussion but also lend themselves to helping students learn the important basic principles of economics.

## New Features

A significant number of changes were incorporated into this edition of *Economics of Social Issues*. Our primary goal throughout the revision process was to enhance the uniqueness of our pedagogical approach to teaching basic economic concepts while continuing to improve the overall quality of our final product. We feel we succeeded in doing this and hope that both our new and long-time users will agree.

The most noticeable difference between this edition and earlier editions is the addition of a new chapter on the economics of growth, Chapter 16. In recent years, economic growth has become a popular topic of

social discourse due to its influence on our personal standard of living. We use economic growth to introduce students to concepts such as productivity and the business cycle. Although Chapter 16 is at the end of the book, some instructors may find it useful to draw material from it substantially earlier. For example, much of Chapter 16 could be used after completion of Chapter 2 in order to include long-run concepts of market functioning in your presentations. To make room for Chapter 16, we eliminated the chapter on airline deregulation found in earlier editions. However, we maintained significant portions of the material on the economics of regulation, integrating them into Chapter 9, on big business. We believe that these changes have resulted in a positive net gain in our coverage of basic economic principles.

In this edition, we approach the issue of achieving maximum social well-being from the marginal social benefits and costs perspective. This convention lets us more formally address the virtues of the market and consider in more depth the impact of social spillovers on well-being. Although this new approach is woven into several chapters, it is most obvious in Chapter 5, where pollution is shown to create a divergence between marginal private and marginal social costs of production.

Chapter 6, on health care, was extensively rewritten to include the latest statistics and topics relative to the on-going debate concerning national health care reform. Two new sections of this chapter explore the British and Canadian experience with nationalized medicine. This chapter remains current by evaluating the failed Clinton health care reform measures of the mid-1990s.

To improve the flow of material, the chapter on discrimination (Chapter 7) now appears immediately before the chapter on poverty (Chapter 8). The 1996 welfare reform measures have been thoroughly incorporated into the discussion of Chapter 8, along with an evaluation of how the new programs differ from the old welfare system. Possible future problems with the new programs are also discussed and evaluated.

Chapter 10, which covers the economics of professional sports, has been enhanced with the addition of material concerning the effect of sports teams on local economic development. The location of professional teams and issues concerning local government support for stadiums and arenas are major controversies in many communities across the country. This new material helps students understand the economic issues involved in these debates.

Chapter 11, concerning international trade, has been greatly expanded to include a detailed description and analysis of various trade restriction practices. Specifically, basic economic tools are applied to illustrate the effects of international tariffs and quotas. Additionally, we added material to Chapter 11 to highlight the growing importance of the World Trade Organization and the advent of customs unions and free trade blocks.

The end of each chapter now includes a list of recommended World Wide Web sites relevant to the particular social issues discussed in that chapter. These cyberspace sites were chosen based on their content and ability to provide students with additional information or alternative points of view. We added an additional, albeit lowtech, feature to the end of each chapter: a short set of discussion questions that stimulate classroom debate and serve as a student study aide.

Many other minor changes and revisions, too numerous to list here, are found throughout the book. Of course, all the economic statistics and data were thoroughly updated and revised with the latest figures available at press time.

## **The Social Issues Pedagogy**

To those instructors who are contemplating the adoption of a social issues approach to teaching economic principles, we would like to call your attention to the following research article: "The Social Issues Pedagogy vs. the Traditional Principles of Economics: An Empirical Examination," *The American Economist*, vol. 41, no. 2, Fall 1997. This paper was written by Paul along with Professor Paul S. Nelson of Northeast Louisiana University (NLU). It presents the results of a controlled experiment comparing the learning of NLU students enrolled in a social issues-oriented course that used the twelfth edition of this book with students who took traditional principles of economics courses and used a standard encyclopedic text. The results are encouraging in that no significant difference was found between students in the social issues course and students enrolled in the traditional macroeconomics principles course, after controlling for student demographic characteristics, prior experiences, and academic aptitude. Furthermore, the results strongly indicate that students in the social issues course had a higher probability of course completion relative to those in the control group. In this era, in which student retention is becoming more important, we strongly believe that this result suggests an important positive spillover benefit of our pedagogical approach that those who design economics courses and curriculum should consider.

## **Acknowledgments**

First, we would like to thank former author Richard H. Leftwich for his contributions to past editions of this book. Much of the credit for the success of the social issues pedagogy belongs to him. We also wish to thank Devon Yoho, former author of the *Study Guide* that accompanies this text, for his valuable contributions in that effort. The author team also



extends its appreciation to the current author of the *Study Guide*, Margaret A. Ray of Mary Washington College, for her diligent work in revising and updating this important companion to our book. Margaret also gave insightful comments and suggestions throughout the textbook revision process.

Many of the features included in this edition are based on suggestions made to us in conversation or in writing by the following users or previous reviewers of our book:

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*Ansel M. Sharp*

*Charles A. Register*

*Paul W. Grimes*



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# ECONOMICS *of Social Issues*



# Human Misery

*The Most Important Issue of Them All*

## Chapter Outline

### World Poverty and Economics

Our Insatiable Wants

Our Limited Means

The Capacity of the Economy to Produce

Assessing Well-Being Using GDP

### Causes of Poverty and Requisites of Economic Growth

### Can Governments Help?

Governments of LDCs

Governments of DCs

### Summary

## Checklist of Economic Concepts

Labor resources

Capital resources

Technology

Production possibilities curve

Opportunity costs

Opportunity cost principle

Increasing opportunity costs

Gross domestic product,  
current dollar

Gross domestic product, real

Gross domestic product, real  
per capita

Gross domestic product,  
per capita

Price index numbers

Marginal social cost

Marginal social benefit

Cost-benefit analysis

Efficiency

Lesser developed countries

Developed countries

Social overhead capital

---

"I can't stand up," mutters Yussef Sheik Hussein, ignoring the swirl of flies attracted to a half-dozen dying Somalis nearby. "Do you have some medicine?" Hussein's emaciated body seems disconnected from his chiseled, intelligent face. But his eyes and memories are clear: His 75-acre farm was overrun by marauding gunmen a year ago; six sons and one daughter are all dead now. "Some were killed in fighting, and the smallest died of hunger." Without the needed medicine, his own fate is painfully clear. Beyond his hospital window, one of the morning's many dead is loaded on a donkey cart and led away.

Outsiders peer into such tortured lives feeling like ghoulish voyeurs. The initial impulse is to turn away. What, after all, can be done for people living in hell? Skeletal figures wander the thorny landscape in search of food, sometimes taking shelter in abandoned government buildings stripped bare by looters. Starvation has already claimed 100,000 lives and more than a million others could follow.<sup>1</sup>

<sup>1</sup>Jeffrey Bartholet, "The Road to Hell," *Newsweek*, September 21, 1992, pp. 53-57. © 1992, Newsweek, Inc. All rights reserved. Reprinted by permission.

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## World Poverty and Economics

Some two-thirds of the world's population go to sleep hungry at night. The World Bank estimates that perhaps as much as one-quarter of the world survives on no more than \$1 per day. Outright famine regularly occurs in various parts of the world—recent examples being the mass starvation of an estimated 1 million people in Ethiopia during the drought of 1984-1985 and the tragedy of Somalia in the early 1990s. Most of the hungry have no protection from the summer's heat or the winter's cold. They receive little or no medical care and live in unsanitary surroundings. Infant mortality is high and life expectancy is low. Whereas in the United States 9 infants out of each 1,000 live births die before reaching their first birthday, the rate explodes to well over 1 in 10 in places such as Ethiopia, Pakistan, and Tanzania. At the opposite end of life, the typical Ethiopian can expect to die about 30 years earlier than his or her contemporary in the United States. Recognition that the misery of poverty is the lot of the largest part of the world's population leads us to ask the questions: Why is it so? What are the causes? How can it be alleviated? This in turn leads us directly into the province of economics. An assessment and an analysis of poverty problems require an explicit understanding of the