

ANNUAL EDITIONS

# Economics

03/04



# Economics

03/04

*Thirty-Second Edition*

## EDITOR

**Don Cole**

*Drew University*

Don Cole, professor of economics at Drew University, received his Ph.D. from Ohio State University. He has served as consultant to a variety of public and private organizations, and he is cofounder of the Drew University Semester on the European Union in Brussels, Belgium. An innovator in the use of computer-assisted instruction in economics, Dr. Cole is the author of articles on various subjects, including economic policy, monetary theory, and economic education. He is also the editor of other McGraw-Hill/Dushkin publications, including *The Encyclopedic Dictionary of Economics* and two other *Annual Editions* anthologies, *Macroeconomics* and *Microeconomics*.

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Members of the Advisory Board are instrumental in the final selection of articles for each edition of ANNUAL EDITIONS. Their review of articles for content, level, currentness, and appropriateness provides critical direction to the editor and staff. We think that you will find their careful consideration well reflected in this volume.

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# To the Reader

In publishing ANNUAL EDITIONS we recognize the enormous role played by the magazines, newspapers, and journals of the public press in providing current, first-rate educational information in a broad spectrum of interest areas. Many of these articles are appropriate for students, researchers, and professionals seeking accurate, current material to help bridge the gap between principles and theories and the real world. These articles, however, become more useful for study when those of lasting value are carefully collected, organized, indexed, and reproduced in a low-cost format, which provides easy and permanent access when the material is needed. That is the role played by ANNUAL EDITIONS.

**T**his thirty-second edition of *Annual Editions: Economics* has been largely revised since previous editions and continues the tradition of providing the most up-to-date readings on contemporary economic issues. In view of the recent explosion of interest in the subject of economics, it is important that students are given opportunities to observe how economic science can help them to understand events in the real world. This anthology is designed to meet such a need.

The volume is divided into five major units. Unit 1 introduces several general concepts involving economic analysis. At the heart of economics is the notion of "opportunity cost," the idea that in choosing one economic alternative, we must forgo other choices. What, for example, is the opportunity cost of a human life? How might a knowledge of economic reasoning assist us in making daily decisions? Where does economic wealth come from?

Unit 2 presents articles that treat economic issues from a microeconomic perspective. Microeconomics studies the way in which market values are established through the interaction of consumers (households) and producers (firms). For instance, what role does the Internet play in the choices consumers make and the size of business enterprises? How do mergers affect the business climate? How does government regulation of industry affect market competition? What does the failure of such giants as Enron and WorldCom portend for the U.S. economy?

Issues of income distribution and economic justice are examined in unit 3. You will find that this is an area of intense controversy, particularly as it relates to government programs that attempt to alter the distribution of income and wealth. Questions raised include: What are the causes of growing income disparities in America? Should the federal government attempt to eradicate poverty and, if so, how? Is federal welfare reform working? Should Social Security be privatized?

Broader economic issues are the focus of the next two units, which involve macroeconomics (unit 4) and the global economy (unit 5). The economy-wide perspective of macroeconomics leads us to consider ways of gauging an economy's health, vis-à-vis levels of employment, the degree of price stability, and the rate of economic growth over time. Readings selected for this unit raise questions of great consequence to the United States. For example, What is the current outlook for the U.S. economy? How do

tax cuts and changes in the money supply affect the economy? Should the Federal Reserve intervene when stock prices tumble?

Finally, unit 5 examines recent changes in the world economy. In the last decade we have witnessed a series of unforeseen events: the globalization of the world economy, the aftershocks of the 9/11 terrorist attacks, the rush by many former communist states to embrace the market system, and the impoverishment of many developing countries burdened by staggering international obligations. How did such developments come about, and what do they portend as the global economy enters a new century?

In this edition of *Annual Editions: Economics 03/04*, in addition to a *table of contents* with abstracts that summarize each article, there are *World Wide Web* sites that can be used to further explore the topics, a *topic guide* that suggests how the selections in this book may relate to your course subjects, a *glossary* of relevant terms, and a list of relevant documents.

Whether you are currently pursuing studies in economics or are just a casual reader eager to learn more about some of the major economic issues of the day, you will find *Annual Editions: Economics 03/04* to be one of the most useful and up-to-date anthologies available. Your input can be valuable for the next edition. Please offer your opinions by filling out and returning to us the postage-paid *article rating form* on the last page of this book.

Don Col  
Editor

# Topic Guide

This topic guide suggests how the selections in this book relate to the subjects covered in your course. You may want to use the topics listed on these pages to search the Web more easily.

On the following pages a number of Web sites have been gathered specifically for this book. They are arranged to reflect the units of this *Annual Edition*. You can link to these sites by going to the DUSHKIN ONLINE support site at <http://www.dushkin.com/online/>.

**ALL THE ARTICLES THAT RELATE TO EACH TOPIC ARE LISTED BELOW THE BOLD-FACED TERM.**

## Antitrust policy

- 12. The Slippery Scope of Antitrust Law

## Banking

- 10. Deregulation Harms Public, Group Claims
- 26. The Unfinished Recession
- 33. The Science (and Art) of Monetary Policy
- 34. Steps the Federal Reserve Must Take Include Action on 'Too Big to Fail'
- 37. Who Needs Money?

## Chinese economy

- 46. China Joins the WTO: How, Why; and What Now?

## Common resource problems

- 16. The Eco-Economic Revolution: Getting the Market in Sync With Nature
- 17. Congested Parks—A Pricing Dilemma

## Competition

- 3. Could Capitalists Actually Bring Down Capitalism?
- 4. The Company We'll Keep
- 7. How Burger King Got Burned in Quest to Make the Perfect Fry
- 8. Can Target Thrive in Wal-Mart's Cross Hairs?
- 9. Broadband Policy: Did Somebody Say Oligopoly?
- 10. Deregulation Harms Public, Group Claims
- 11. The Giants Stumble: WorldCom Is Only the Latest to Lose Its Balance
- 12. The Slippery Scope of Antitrust Law
- 13. OPEC Is Back in the Driver's Seat
- 45. Competition and Business Entry in Russia

## Consumers

- 5. Smoke Signals
- 6. Entree Economics
- 7. How Burger King Got Burned in Quest to Make the Perfect Fry
- 8. Can Target Thrive in Wal-Mart's Cross Hairs?
- 10. Deregulation Harms Public, Group Claims
- 15. Patent Medicine
- 19. How to Define Poverty? Let Us Count the Ways
- 50. Changing Today's Consumption Patterns—for Tomorrow's Human Development

## Corporate responsibility

- 3. Could Capitalists Actually Bring Down Capitalism?
- 11. The Giants Stumble: WorldCom Is Only the Latest to Lose Its Balance
- 36. The Cycles of Financial Scandal

## Cost-benefit analysis of incarceration

- 1. How Much for a Life? Try \$3 Million to \$5 Million

## Deregulation

- 9. Broadband Policy: Did Somebody Say Oligopoly?
- 10. Deregulation Harms Public, Group Claims
- 41. The Internet Economy

## Electronic money

- 37. Who Needs Money?
- 41. The Internet Economy

## Environment

- 14. The Real Price of Gas
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- 50. Changing Today's Consumption Patterns—for Tomorrow's Human Development

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- 44. Ready for a Rebound?

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- 26. The Unfinished Recession
- 27. Call It the (Pick Your Poison) Recovery
- 28. Bush: Grow Slowly and Carry a Big Debt
- 29. The Deficit That Didn't Just Happen: A Sober Perspective on the Budget
- 32. Taxing Terminology: A Primer

## Globalization

- 26. The Unfinished Recession
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- 39. Master of Disaster
- 40. Workers' Rights: Labor Standards and Global Trade

## Health care

- 15. Patent Medicine
- 24. A New Medicare for the New Economy

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- 17. Congested Parks—A Pricing Dilemma
- 19. How to Define Poverty? Let Us Count the Ways
- 20. The Power of the Super-Rich
- 21. Debating the Minimum Wage
- 22. Liberal Lessons From Welfare Reform
- 24. A New Medicare for the New Economy
- 25. How to Slip Out of America's Housing Squeeze
- 30. Restating the '90s
- 32. Taxing Terminology: A Primer
- 36. The Cycles of Financial Scandal
- 50. Changing Today's Consumption Patterns—for Tomorrow's Human Development

## Inflation

- 13. OPEC Is Back in the Driver's Seat
- 33. The Science (and Art) of Monetary Policy
- 35. Worst Economic Idea of 2002

## Infrastructure

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- 16. The Eco-Economic Revolution: Getting the Market in Sync With Nature

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- 42. Economic Hypochondria
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- 45. Competition and Business Entry in Russia
- 48. Post-Crisis Asia: Economic Recovery and the Challenges Ahead

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- 2. Building Wealth
- 30. Restating the '90s
- 38. Managing a Globalizing World: An Overview
- 39. Master of Disaster
- 40. Workers' Rights: Labor Standards and Global Trade
- 41. The Internet Economy
- 43. Free Trade Area of the Americas: NAFTA Marches South
- 46. China Joins the WTO: How, Why; and What Now?
- 47. Some Nations Fail to Close Gap
- 49. Eliminating Child Labor
- 50. Changing Today's Consumption Patterns—for Tomorrow's Human Development

## Internet

- 2. Building Wealth
- 4. The Company We'll Keep
- 9. Broadband Policy: Did Somebody Say Oligopoly?
- 12. The Slippery Slope of Antitrust Law
- 41. The Internet Economy

## Labor-management relations

- 2. Building Wealth
- 21. Debating the Minimum Wage
- 40. Workers' Rights: Labor Standards and Global Trade

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- 43. Free Trade Area of the Americas: NAFTA Marches South

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- 3. Could Capitalists Actually Bring Down Capitalism?
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- 24. A New Medicare for the New Economy
- 25. How to Slip Out of America's Housing Squeeze

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- 11. The Giants Stumble: WorldCom Is Only the Latest to Lose Its Balance
- 34. Steps the Federal Reserve Must Take Include Action on 'Too Big to Fail'

## Monetary policy

- 26. The Unfinished Recession
- 33. The Science (and Art) of Monetary Policy
- 34. Steps the Federal Reserve Must Take Include Action on 'Too Big to Fail'
- 35. Worst Economic Idea of 2002
- 36. The Cycles of Financial Scandal
- 37. Who Needs Money?
- 42. Economic Hypochondria

## New economy view

- 2. Building Wealth
- 28. Bush: Grow Slowly and Carry a Big Debt
- 30. Restating the '90s

## Patents

- 15. Patent Medicine

## Poverty

- 18. Indifferent to Inequality?
- 19. How to Define Poverty? Let Us Count the Ways
- 20. The Power of the Super-Rich
- 23. Social Security: Note to Congress—Compromise
- 25. How to Slip Out of America's Housing Squeeze
- 38. Managing a Globalizing World: An Overview
- 47. Some Nations Fail to Close Gap
- 50. Changing Today's Consumption Patterns—for Tomorrow's Human Development

## Protectionism

- 38. Managing a Globalizing World: An Overview
- 40. Workers' Rights: Labor Standards and Global Trade
- 43. Free Trade Area of the Americas: NAFTA Marches South
- 45. Competition and Business Entry in Russia
- 46. China Joins the WTO: How, Why; and What Now?

## Recession

- 26. The Unfinished Recession

## Russian economy

- 45. Competition and Business Entry in Russia

## Social Security

- 23. Social Security: Note to Congress—Compromise
- 28. Bush: Grow Slowly and Carry a Big Debt

## Stock market

- 3. Could Capitalists Actually Bring Down Capitalism?
- 11. The Giants Stumble: WorldCom Is Only the Latest to Lose Its Balance
- 20. The Power of the Super-Rich
- 27. Call It the (Pick Your Poison) Recovery
- 30. Restating the '90s
- 34. Steps the Federal Reserve Must Take Include Action on 'Too Big to Fail'
- 36. The Cycles of Financial Scandal

## Taxation

- 20. The Power of the Super-Rich
- 23. Social Security: Note to Congress—Compromise
- 28. Bush: Grow Slowly and Carry a Big Debt
- 29. The Deficit That Didn't Just Happen: A Sober Perspective on the Budget
- 32. Taxing Terminology: A Primer

## Telecommunications industry

- 4. The Company We'll Keep
- 9. Broadband Policy: Did Somebody Say Oligopoly?
- 10. Deregulation Harms Public, Group Claims

## Underground economy

- 31. Notes From Underground: Money That People Earn and Spend Outside the Realm of Official Economic Calculations Is Nonetheless

## Unemployment

- 21. Debating the Minimum Wage
- 27. Call It the (Pick Your Poison) Recovery
- 33. The Science (and Art) of Monetary Policy

## Welfare reform

- 22. Liberal Lessons From Welfare Reform

# World Wide Web Sites

The following World Wide Web sites have been carefully researched and selected to support the articles found in this reader. The easiest way to access these selected sites is to go to our DUSHKIN ONLINE support site at <http://www.dushkin.com/online/>.

## AE: Economics 03/04

The following sites were available at the time of publication. Visit our Web site—we update DUSHKIN ONLINE regularly to reflect any changes.

### General Sources

#### AmosWEB

<http://www.amosweb.com>

This site seeks to be the premier Internet site for instructional economic information. Main features include a glossary of over 500 economic terms and concepts, a reading room, and an interactive question-and-answer resource.

#### The Dismal Scientist

<http://www.dismal.com>

Often referred to as the “best free lunch on the Web,” this is an excellent site with many interactive features. It provides access to economic data, briefings on the current state of the economy, and original articles on economic issues.

### UNIT 1: Introduction

#### Economics: Complete Guide to Economic Resources on the Web

<http://economics.miningco.com>

This frequently updated resource “mines the Net” for information on economic subjects. It includes a large number of links and online articles from economics magazines and journals.

#### Litigation Analytics: How Much for a Human Life?

<http://www.humanlifevalue.com/index.html>

“How much is a human life worth?” This site provides an interesting interactive exercise involving this question.

#### Resources for Economists on the Internet

<http://econwpa.wustl.edu/EconFAQ.html>

Sponsored by the American Economic Association, this Web site is an excellent starting place for any research in economics by academic and practicing economists.

### UNIT 2: Microeconomics

#### Antitrust Policy

<http://www.antitrust.org>

Sponsored by the Owen Graduate School of Management at Vanderbilt University, this site provides detailed information on such topics as case studies in price fixing, merger simulations, and the evolution of U.S. antitrust policy.

#### CEO Express—Business and Financial News

<http://www.ceoexpress.com>

A comprehensive source of news on business, finance, and technology, this site provides users with extensive tools for researching companies through direct links to the home pages of *Fortune* 500 and many other firms.

#### Corporate Watch

<http://www.corpwatch.org>

Corporate Watch is an online magazine and resource center designed to provide an array of tools for investigating and analyzing the activities of transnational corporations.

#### Internet Public Library: Business and Economics Reference

<http://iopl.org/ref/RR/static/bus0000.html>

This comprehensive reference library on the production, distribution, and consumption of goods and services includes many subtopics about consumer issues, employment, business and industry, and labor and the workplace.

#### New York Times Business Connections

<http://www.nytimes.com/library/cyber/reference/busconn.html>

This page of links to business and economics sites on the Web was prepared for use by journalists of the *New York Times* for their own research purposes. It includes links to such categories as Markets, Companies, Business News, Banking and Finance, and Government.

#### Small Business Administration

<http://www.sbaonline.sba.gov>

The U.S. Small Business Administration provides financial, technical, and management assistance to 23 million small businesses.

### UNIT 3: Income Distribution and Economic Justice

#### Center on Budget and Policy Priorities

<http://www.cbpp.org>

This nonpartisan research organization and policy institute conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and moderate-income people.

#### Joint Center for Poverty Research

<http://www.jcpr.org>

This site examines what it means to be poor and to live in America. Issues considered include changing labor markets, the causes of inequality, family functioning, the impact of concentrated urban poverty, and implications for public policy.

#### Today's Unions

<http://www.aflcio.org>

The AFL-CIO Web page provides access to a large number of topics concerning ways in which labor unions might improve the lives of working families.

#### The Urban Institute

<http://www.urban.org>

The Urban Institute investigates national social and economic problems and analyzes solutions.

#### U.S. Department of Health and Human Services

<http://www.hhs.gov>

The Department of Health and Human Services is the U.S. government's principal agency for protecting the health of all Americans and providing essential human services, especially for those who are least able to help themselves.



## U.S. Department of Labor

<http://www.dol.gov>

This Department of Labor Web site includes information about the department and its agencies, labor laws and trends, press releases, and texts of regulations.

## U.S. Immigration and Naturalization Service (INS)

<http://www.ins.usdoj.gov>

The INS is responsible for enforcing laws regulating the admission of foreign-born persons to the United States and for administering various immigration benefits.

## Welfare-to-Work

<http://wtw.doleta.gov>

A federal government Web site that examines the transition from welfare-to-work from the perspective of individuals, employers, and communities is found here.

## Workindex

<http://workindex.com>

This index is an annotated guide to Internet resources in human resources, labor relations, benefits, training, technology, staffing, recruiting, leadership, motivation, insurance, relocation, legal issues and more.

## UNIT 4: Macroeconomics

### Bureau of Economic Analysis (BEA)

<http://www.bea.doc.gov>

The BEA is the nation's accountant. It issues the Survey of Current Business and is a good source for data on industrial and regional development.

### Citizens for Tax Justice

<http://www.ctj.org>

Citizens for Tax Justice is a research and advocacy organization that "seeks to give ordinary people a greater voice in the development of tax laws."

### Congressional Budget Office

<http://www.cbo.gov>

The Congressional Budget Office seeks to provide "objective, timely, nonpartisan analyses needed for economic and budget decisions and with the information and estimates required for the Congressional budget process."

### Federal Reserve Board

<http://www.federalreserve.gov>

The Web site of the Federal Reserve Board (the Fed) links to all the Federal Reserve Banks and other federal agencies. It provides access to the Fed's "Beige Book," a report published eight times each year on current economic conditions by Federal Reserve district.

### History of Money

<http://www.ex.ac.uk/~RDavies/arian/llyfr.html>

An award-winning site that provides a comprehensive chronology of money from ancient times to the present day, this page includes articles on the Origins of Banking, Money in North American History, Britain and the European Monetary Union, and Third World Debt in the 20th Century.

### The Public Debt

<http://www.publicdebt.treas.gov/opd/opd.htm>

Features of this site include estimates of "daily amounts to the penny of the debt," interest costs of the outstanding public debt, and long-term trends.

## UNIT 5: The Changing Global Economy

### The European Union in the U.S.

<http://www.eurunion.org>

Here is a comprehensive Web site for those interested in the nature and origin of the European Union. Topics include EU policies and legislation, information on member states, and EU-U.S. relations.

### Institute for International Economics

<http://www.iie.com>

Since its founding in 1981, the Institute for International Economics has provided objective analysis of key international economic problems and has proposed concrete solutions.

### Inter-American Development Bank (IDB)

<http://www.iadb.org>

The Inter-American Development Bank was established in 1959 to help accelerate economic and social development in Latin America and the Caribbean. This site offers access to IDB reports and information on member countries.

### North American Free Trade Association (NAFTA)

<http://www.nafta-sec-alena.org>

NAFTA's objective is "to provide accurate and timely information to U.S. exporters experiencing market access barriers in Canada or Mexico."

### Organization for Economic Co-operation and Development (OECD)

<http://www.oecd.org>

The Web site of the OECD page provides information on OECD activities, news, and documentation. One interesting feature is links to the Centre for Co-operation with Non-members.

### Sustainable Development.Org

<http://www.sustainabledevelopment.org>

Extensive links at this site lead to such sustainable development categories as agriculture, energy, environment, finance, health, microenterprise, public policy, and technologies.

### United Nations Development Programme (UNDP)

<http://www.undp.org>

The UNDP helps people in 174 countries to help themselves by focusing on poverty elimination, environmental regeneration, job creation, and the advancement of women.

### World Resources Institute

<http://www.wri.org>

The World Resources Institute provides information and practical proposals for policy and institutional change that will foster environmentally sound, socially equitable development.

We highly recommend that you review our Web site for expanded information and our other product lines. We are continually updating and adding links to our Web site in order to offer you the most usable and useful information that will support and expand the value of your Annual Editions. You can reach us at: <http://www.dushkin.com/annualeditions/>.

# UNIT 1

# Introduction

## Unit Selections

1. **How Much for a Life? Try \$3 Million to \$5 Million**, Peter Passell
2. **Building Wealth**, Lester C. Thurow
3. **Could Capitalists Actually Bring Down Capitalism?** Kurt Eichenwald

## Key Points to Consider

- Is life priceless? Explain your answer in terms of the opportunity cost principle.
- Where does economic wealth come from, and how might it be increased?
- How did such corporate debacles as Enron and Global Crossing come about, and what might these failures portend for U.S. capitalism?



**Links: [www.dushkin.com/online/](http://www.dushkin.com/online/)**

These sites are annotated in the World Wide Web pages.

### **Economics: Complete Guide to Economic Resources on the Web**

<http://economics.miningco.com>

### **Litigation Analytics: How Much for a Human Life?**

<http://www.humanlifevalue.com/index.html>

### **Resources for Economists on the Internet**

<http://econwpa.wustl.edu/EconFAQ.html>

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## UNIT 1 Introduction

Three articles discuss some of the basic theories that make up the foundations of the study of economics.

### Unit Overview

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1. **How Much for a Life? Try \$3 Million to \$5 Million**, Peter Passell, *New York Times*, January 29, 1995

Much economic reasoning is based on the **opportunity cost** principle, the idea that any decision involving scarce resources must involve costs in terms of **for-gone alternatives** elsewhere. Peter Passell applies this principle to an age-old question: What is the value of a human life?

2

2. **Building Wealth**, Lester C. Thurow, *The Atlantic Monthly*, June 1999

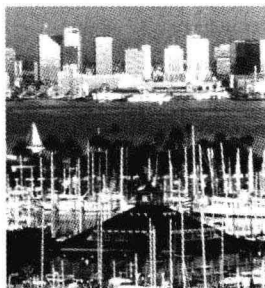
Lester Thurow maintains that the world is currently in the throes of a **third industrial revolution**, in which knowledge—rather than natural resources—is the key to success. The knowledge-based economy is asking new questions, giving new answers, and developing new rules for generating wealth.

5

3. **Could Capitalists Actually Bring Down Capitalism?**, Kurt Eichenwald, *New York Times*, June 30, 2002

Recently, a staggering number of corporate debacles is raising a disturbing question: **Can capitalism survive the capitalists themselves?** Kurt Eichenwald argues that the system has a built-in corrective factor that kicks in when abuses—such as those found at Enron, Global Crossing, and WorldCom—go too far.

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## UNIT 2 Microeconomics

Fourteen articles examine various concepts of microeconomics such as laws of supply and demand, government regulation, oligopoly, competition, and delivery of services.

### Unit Overview

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4. **The Company We'll Keep**, Joseph B. White, *Wall Street Journal*, December 31, 1999

Joseph White claims that in the **new millennium, corporations will be little more than brand names**, covers for frequent-flying, cyberspace-cruising freelancers who form virtual teams on wireless networks.

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5. **Smoke Signals**, *New York Times*, New Jersey Sunday Edition, January 10, 1999

One of the more useful concepts in microeconomics is **demand elasticity**, which measures the responsiveness of consumer demand to changes in prices. Recently, the New Jersey legislature doubled the state cigarette tax in an effort to reduce smoking. This article examines the impact that this has had on cigarette sales in both New Jersey and nearby states.

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6. **Entree Economics**, Eileen Daspin, *Wall Street Journal*, March 10, 2000  
***What does that restaurant meal really cost?*** Eileen Daspin calculates the prices that six American eateries pay for the food they serve and finds some surprises. Among them are that markups can amount to several hundred percent and that vegetarians tend to subsidize meat-eaters. 22
  
7. **How Burger King Got Burned in Quest to Make the Perfect Fry**, Jennifer Ordonez, *Wall Street Journal*, January 16, 2001  
Burger King wanted to be french fry king. Instead, as Jennifer Ordonez shows, it created a fast-food fiasco. This case study provides interesting details on the ***importance of product differentiation*** as a strategic device used by highly competitive firms. 25
  
8. **Can Target Thrive in Wal-Mart's Cross Hairs?**, Constance L. Hays, *New York Times*, June 9, 2002  
With Kmart hobbled by bankruptcy, it is Target that now gets the attention of Wal-Mart stores, the biggest retailer in the United States and also the biggest company. At stake are the wallets of the growing number of consumers who shop ***discount stores*** by choice. 28
  
9. **Broadband Policy: Did Somebody Say Oligopoly?**, Steve Rosenbush, *Business Week*, March 18, 2002  
The glorious, competitive free-for-all envisioned in the Telecommunications Act of 1996 hasn't arrived. The chairman of the Federal Communications Commission suggests that it is time to let the ***oligopolies*** fight it out themselves. 32
  
10. **Deregulation Harms Public, Group Claims**, Marilyn Geewax, *Atlanta-Journal Constitution*, June 11, 2002  
Consumer's Union, the nonprofit consumer organization, once originally supported ***deregulation*** as a way to lower prices. However, in a recent study of government deregulation of five major industries—airlines, telecommunications, cable television, banking, and electricity—the organization concludes that this policy has caused a sharp deterioration in service and dramatic increases in hidden fees. 34
  
11. **The Giants Stumble**, Karen Lowry Miller, *Newsweek*, July 8, 2002  
There have been five great waves of mergers in past centuries, each one building in some way toward the unprecedented mania of the late 1990s. The world economy is now littered with some \$2 trillion in ***failed or failing corporate giants***—Enron, WorldCom, and Vivendi among them—and that's from the year 2000 alone. 36
  
12. **The Slippery Scope of Antitrust Law**, Leslie Walker, *Washington Post*, June 19, 2002  
Leslie Walker says that attempting ***to regulate antitrust*** in the age of convergence is like trying to grab jellyfish in the ocean. More and more companies are combining themselves into strange globs as they seek to compete in digital markets as murky as the sea. 39
  
13. **OPEC Is Back in the Driver's Seat**, Anna Bernasek, *Fortune*, July 9, 2001  
"Three years ago energy problems appeared to be the economic equivalent of smallpox—a once frightful scourge that had been eradicated." Then, in February 1999, the price of oil suddenly began to climb, and soon oil prices nearly quadrupled. Anna Bernasek explains ***the crucial role that OPEC has played in this process***. 41
  
14. **The Real Price of Gas**, *International Center for Technology Assessment*, November 1998  
The retail price that Americans pay for gasoline appears to be very low in comparison with prices prevailing in most other nations. Adding in the many ***external costs*** that consumers pay indirectly by way of increased taxes, insurance costs, and retail prices in other sectors, this study estimates that ***real per gallon price to be in excess of fifteen dollars***. 44

15. **Patent Medicine**, Dean Baker, *The American Prospect*, January 29, 2001  
Absurdly high prices have put lifesaving prescription drugs out of reach for millions of Americans and for hundreds of millions of people in developing countries. According to Dean Baker, in large part, **patent protection** is to blame. 46
16. **The Eco-Economic Revolution: Getting the Market in Sync With Nature**, Lester R. Brown, *The Futurist*, March/April 2002  
Because the economy is largely dependent on the consumption of fossil fuels that result in carbon emission byproducts, concerns exist about the economy's ability to reduce these emissions without sacrificing output and employment. Lester Brown shows how **responsible policies might benefit both the environment and the economy**. 49
17. **Congested Parks—A Pricing Dilemma**, Dan M. Bechter, *Monthly Review (Federal Reserve Bank of Kansas City)*, June 1971  
Overcrowding at public parks creates a **classic microeconomic dilemma**: Outdoor recreationists face insufficient parking spaces, which must be allocated through adjusting park fees. Dan Bechter investigates possible solutions to the problem. 58



## UNIT 3

### Income Distribution and Economic Justice

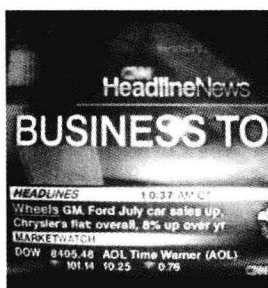
Eight articles discuss income distribution and economic growth by looking at income equality and welfare reform.

#### Unit Overview

18. **Indifferent to Inequality?**, Robert J. Samuelson, *Newsweek*, May 7, 2001  
For the better part of two decades, the **gap in earnings between rich and poor Americans** has increased steadily. Many factors—both economic and noneconomic—affect this inequality. Robert Samuelson says that only about a third of the increase in income inequality reflects the faster-growing wages and salaries of the well-off. 64
19. **How to Define Poverty? Let Us Count the Ways**, Louis Uchitelle, *New York Times*, May 26, 2001  
In public opinion polls, most Americans say that **poverty** begins at an annual income of \$20,000 or less for a family of four. Not even the Census Bureau (the official agency charged with gathering income statistics) believes its poverty numbers. The question is, How much (or little) money is enough? 66
20. **The Power of the Super-Rich**, Jeff Madrick, *The New York Review of Books*, July 18, 2002  
Kevin Phillips, a former Republican adviser, demonstrates in his new book, *Wealth and Democracy*, how the **growth of private wealth in the 1990s** was analogous to the rise of private wealth in previous eras, especially the Gilded Age of the late nineteenth century and the 1920s. 71
21. **Debating the Minimum Wage**, *The Economist*, February 3, 2001  
According to conventional economic analysis, increases in the **minimum wage** could result in two things: those who remain employed get higher incomes, while other, less productive workers lose jobs as employers trim payrolls. *The Economist* examines recent evidence and finds that this view may (or may not) be incorrect. 76
22. **Liberal Lessons From Welfare Reform**, Christopher Jencks, *The American Prospect*, Summer 2002  
Christopher Jencks argues that the critics of **welfare reform** were wrong because almost everyone underestimated how much government aid was being redirected from welfare support to work support. But will this continue? 78



23. **Social Security: Note to Congress—Compromise**, R. Kent Weaver, *Los Angeles Times*, March 17, 2002  
Given a predicted long-term imbalance by 2041 between the costs of benefits and projected income for the **Social Security System**, a lively debate is under way over ways to reform the system. R. Kent Weaver outlines the compromises that true reform will require. 82
24. **A New Medicare for the New Economy**, Jeff Lemieux, *Blueprint*, Winter 2001  
Jeff Lemieux argues that **Medicare reform** requires not only improving benefits for recipients but also using market forces to shore up the system's creaky inner workings. 84
25. **How to Slip Out of America's Housing Squeeze**, Christopher Farrell, *Business Week Online*, February 16, 2001  
A close look at the supply-and-demand equation suggests that the **affordable housing squeeze** is relatively easy to fix. As Christopher Farrell demonstrates, it is politics, not economics, that makes this problem so difficult. 88



## UNIT 4 Macroeconomics

Twelve articles examine various concepts of macroeconomics such as unemployment, the deficit, fiscal policy, taxes, U.S. monetary policy, and globalization.

### Unit Overview

26. **The Unfinished Recession**, *The Economist*, September 28, 2002  
Everything you might need to know about **recessions** can be found in this in-depth article. 90 92
27. **Call It the (Pick Your Poison) Recovery**, Louis Uchitelle, *New York Times*, July 7, 2002  
Despite some setbacks, the data say that the U.S. economy is experiencing a **recovery**. If so, Louis Uchitelle says, why doesn't it feel better? 108
28. **Bush: Grow Slowly and Carry a Big Debt**, Robert J. Shapiro, *Blueprint*, March/April 2002  
Public policies during the booming 1990s fostered an environment that actively encouraged private investment, ingenuity, and personal initiative. However, Robert Shapiro maintains that the current administration has revived **supply-side policies that produce slower growth and exploding debt**. 110
29. **The Deficit That Didn't Just Happen: A Sober Perspective on the Budget**, Allen Schick, *Brookings Review*, Spring 2002  
**Do budget surpluses lead to bigger government?** If this is so, the prudent thing to do is to get rid of surpluses; otherwise, government will grow bigger. Allen Schick says that the problem with this point of view is that, even if the government is broke, it will spend more. 113
30. **Restating the '90s**, Michael J. Mandel, *Business Week*, April 1, 2002  
With the recession apparently over, it is now possible to make a more realistic assessment of the **entire business cycle of the 1990s**: the sluggish recovery that started in March 1991, the extraordinary boom, the tech bust, and the downturn of 2001. Michael Mandel uncovers some surprising findings involving **productivity trends**. 116
31. **Notes From Underground: Money That People Earn and Spend Outside the Realm of Official Economic Calculations Is Nonetheless Real**, Elia Kacapyr, *American Demographics*, January 1998  
A large share of economic activity occurs in the **underground economy**, where goods and services—some legal, some not—are produced but not reported. Elia Kacapyr considers possible implications of proposals for regulating such activity. 122

32. **Taxing Terminology: A Primer**, Albert B. Crenshaw, *Washington Post*, February 11, 2001  
The debate over President Bush's tax cut has produced a good deal of ill-informed or outright tendentious rhetoric from both sides, which serves as a reminder of how confusing the working of our tax laws are to ordinary citizens and to some government leaders. Albert Crenshaw shows how ***an understanding of basic tax concepts*** can demystify the debate over tax cuts. 123
33. **The Science (and Art) of Monetary Policy**, Carl E. Walsh, *FRBSF Economic Letter (Federal Reserve Bank of San Francisco)*, May 4, 2001  
While economists have identified broad principles to guide monetary policy makers, making policy is not a science. Good policy making requires good policymakers since it requires ***combining the science of the economist with the art of the practitioner***. 126
34. **Steps the Federal Reserve Must Take Include Action on 'Too Big to Fail'**, Allen I. Olson and Robert Meyerson, *American Banker*, February 1, 2002  
The Federal Reserve cut interest rates 11 times in 2001, and yet the economy remains sluggish. Allen Olson and Robert Meyerson assert that ***the Fed needs greater powers***, including increased ability to exert its influence over Wall Street. 129
35. **Worst Economic Idea of 2002**, Rob Norton, *Fortune*, June 24, 2002  
Adam Smith once observed that when business people meet, they usually wind up talking about "some contrivance to raise prices." Rob Norton explains how Smith's idea might apply to those who advocate ***"pricing power" as a device for keeping interest rates low***. 130
36. **The Cycles of Financial Scandal**, Kevin Phillips, *New York Times*, July 17, 2002  
In the last few decades, the U.S. economy has been transformed through what Kevin Phillips calls ***"financialization."*** Securities management, corporate reorganization, derivatives trading, and other forms of financial packaging are steadily replacing the act of making, growing, and transporting things. He asks: ***Will an era of reform follow a decade of excess?*** 132
37. **Who Needs Money?**, *The Economist*, January 22, 2000  
***"E-cash" (or electronic money)*** is money that moves along multiple channels largely outside the established network of banks, checks, and paper currency that are overseen by the Federal Reserve. *The Economist* discusses what e-money might mean for the future of banking and the monetary system. 134



## UNIT 5

### The Changing Global Economy

Thirteen articles examine the impact that current events have on the overall stability and alignment of the world economy.

- Unit Overview 136
38. **Managing a Globalizing World: An Overview**, Barry Bosworth and Philip H. Gordon, *Brookings Review*, Fall 2001  
While ***globalization*** has reduced barriers to the movement of goods and capital across national boundaries, it ***has also created a series of problems***, including job losses, increasing income inequality, and stagnant or deteriorating real wages. The authors consider various controversies that globalization raises. 138
39. **Master of Disaster**, John Cassidy, *The New Yorker*, July 15, 2002  
Joseph Stiglitz, a Nobel Prize winner and former chief economist of the World Bank, challenges the view that sees the expansion of free-market capitalism as the route to global prosperity. According to Stiglitz, the rich countries have hijacked ***globalization***, using as weapons the I.M.F., the World Trade Organization, and other international bodies that are supposed to act in the interests of all countries. 142

40. **Workers' Rights: Labor Standards and Global Trade**, Gary Burtless, *Brookings Review*, Fall 2001  
Of all the debates surrounding globalization, one of the most contentious involves **trade and workers' rights**. Gary Burtless maintains that while the moral case for requiring trading partners to respect labor rights is compelling, the case for removing trade barriers that limit the product markets and incomes of the world's poorest workers is just as powerful. 146
41. **The Internet Economy**, Robert E. Litan, *Foreign Policy*, March/April 2001  
New technologies change the ways that firms throughout the economy do business. Governments are starting to regulate the **Internet**. Robert Litan asks whether some kind of international collective action will be necessary to ensure that various national regulations do not artificially choke global Internet commerce in the future. 150
42. **Economic Hypochondria**, Rob Norton, *Fortune*, May 27, 2002  
Some economists and politicians are concerned about **America's "unsustainable" current account deficit**. Eventually, the argument goes, the foreigners who are investing hundreds of billions of dollars in the United States each year will find more attractive places to put their money. Rob Norton takes issue with this view. 154
43. **Free Trade Area of the Americas: NAFTA Marches South**, Claudio Katz, *NACLA Report on the Americas*, January/February 2002  
The **Free Trade Area of the Americas (FTAA)** would create the world's largest **trading zone**, stretching from Alaska to Argentina. Claudio Katz considers possible implications for international trade if such an organization were established. 156
44. **Ready for a Rebound?**, Bruce Barnard, *Europe*, April 2002  
The European Union's high-risk gamble on a common currency is facing a critical moment as 12 member countries of the **euro zone** struggle to grow their economies against the backdrop of a global slowdown that could easily slide into recession. 160
45. **Competition and Business Entry in Russia**, Harry G. Broadman, *Finance & Development*, June 2001  
Since the start of reforms in 1992, significant progress has been made in many areas of the **Russian economy**. However, despite privatization, robust competition is still lacking in much of the economy, stifled by anticompetitive business structures and entry barriers. 162
46. **China Joins the WTO: How, Why; and What Now?**, Penelope B. Prime, *Business Economics*, April 2002  
The prospect of **Chinese membership in the World Trade Organization (WTO)** has been controversial, both within China and in the international community. A key factor pushing China's application forward has been its significant move toward a market-oriented economy in the 1990s. Penelope Prime considers possible next steps. 166
47. **Some Nations Fail to Close Gap**, Lester C. Thurow, *Boston Globe*, February 20, 2001  
Big **differences in per capita GDPs across countries** are a rather recent phenomenon. Poor countries like to talk about the digital divide making the economic divide bigger, but, according to Lester Thurow, the digital divide is not a divide among rich and poor—it is a divide between those with and without education. 173
48. **Post-Crisis Asia: Economic Recovery and the Challenges Ahead**, Shalendra D. Sharma, *Current History*, April 2002  
Almost all the **East Asian economies** have recaptured the economic momentum disrupted by the 1997 financial crisis in the region. Shalendra Sharma examines some of the challenges ahead. 175
49. **Eliminating Child Labor**, Miriam Wasserman, *Regional Review*, Second Quarter 2000  
Much of the developing world continues to rely on **child labor**. Miriam Wasserman asks what we can learn from the U.S. experience about what is required for its elimination. 181

**50. Changing Today's Consumption Patterns—for Tomorrow's Human Development, *UN Human Development Report*, May 1998**

***World consumption*** has expanded at an unprecedented pace over the twentieth century. As this United Nations report shows, competitive spending and conspicuous consumption have turned the affluence of some into the social exclusion of many.

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**Appendix I. Economic Indicators Documents** Total Output, Income, and Spending, **199**; Disposition of Personal Income, **200**; Sources of Personal Income, **201**; Corporate Profits, **201**; Consumer Prices, **202**; Real Personal Consumption Expenditures, **203**; Consumer Credit, **203**; Share of Aggregate Income: 1986 to 2001, **204–205**; Employment, Unemployment, and Wages, **206**; Average Weekly Hours, Hourly Earnings, and Weekly Earnings, **207**; Employment Cost Index—Private Industry, **207**; Federal Receipts, Outlays, and Debt, **208**; U.S. International Transactions, **209**

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