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MACROECONOMICS

William A.

MICHAEL ACHERN

A Contemporary Introduction

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THE WALL STREET JOURNAL. **EDITION**

MACROECONOMICS

A Contemporary Introduction

SIXTH EDITION

William A. McEachern

Professor of Economics

University of Connecticut

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Macroeconomics: A Contemporary Introduction, 6e

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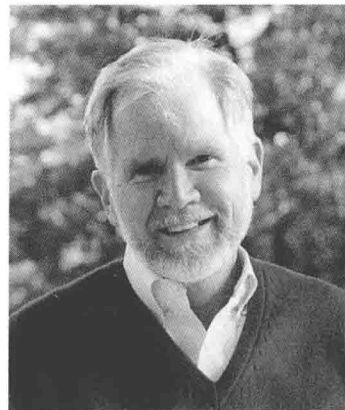
About the Author

William A. McEachern began teaching large sections of economic principles when he joined the University of Connecticut in 1973. In 1980, he started offering teaching workshops around the country. In 2000, the University of Connecticut Alumni Association conferred on him its Faculty Excellence in Teaching Award.

He has published books and monographs in public finance, public policy, and industrial organization. His research has also appeared in a variety of journals, including *Economic Inquiry*, *National Tax Journal*, *Journal of Industrial Economics*, *Kyklos*, and *Public Choice*. He is Founding Editor of *The Teaching Economist*, a newsletter that focuses on teaching economics at the college level, and is Founding Editor of *The Connecticut Economy: A University of Connecticut Quarterly Review*.

Professor McEachern has advised federal, state, and local governments on policy matters and directed a bipartisan commission examining Connecticut's finances. He has been quoted in media such as the *New York Times*, *London Times*, *Wall Street Journal*, *Christian Science Monitor*, *USA Today*, and *Reader's Digest*.

He was born in Portsmouth, N.H., earned an undergraduate degree with honors from Holy Cross College, spent three years in the army, and earned an M.A. and Ph.D. from the University of Virginia.



To the Student Reader

HOW TO GET THE MOST OUT OF YOUR LEARNING EXPERIENCE

McEachern's *Economics: A Contemporary Introduction* recognizes that each student has an individual learning style and that different learning styles require different tools. Today's technology enables this textbook to reach out to a variety of students with a variety of learning styles, and to make sure the needs of all students, regardless of learning style, are addressed. This edition of the text was built with technology in mind, integrating it throughout to enhance its effectiveness. The result is a deeper and richer understanding of the material on many different levels – that comes not just from reading the text, but also from seeing, from hearing, and from doing.

To use this text most effectively, you might first want to review the various perceptual learning styles and find the ones that fit you best (most people have a combination of learning styles). This will help you identify those features of the book's learning system that you might begin with as you approach the material for the first time, or that might help you the most in clarifying confusing concepts.

PERCEPTUAL LEARNING STYLES

THE VISUAL LEARNER

- Learns by seeing and by watching demonstrations
- Likes visual stimuli such as pictures, slides, graphs, demonstrations, etc.
- Conjures up the image of a form by seeing it in the "mind's eye"
- Often has a vivid imagination
- Needs something to watch
- Is often quiet and does not talk at length
- Prefers the visual arts and media

THE INTERACTIVE LEARNER

- Learns best through verbalization
- Often hums or talks to self or others
- Usually is not quiet for great lengths of time
- Often talks at length
- Likes to use other people as a sounding board
- Enjoys question/answer sessions
- Finds small group discussions stimulating and informative
- Prefers to discuss things with others

THE HAPTIC LEARNER

- Likes a "hands-on" approach to learning
- Involves the sense of touch in learning
- Likes to do artwork
- Likes to piece things together
- May be fond of doodling
- Likes to trace words and pictures
- Is often seen "fiddling" with something
- Is successful with tasks requiring manipulation

THE PRINT ORIENTED LEARNER

- Often takes notes
- May like to write on the blackboard
- Remembers quickly and easily what is read
- Learns better after seeing or writing something
- Is often perceived as a "bookworm"
- Grasps important concepts on first reading of material
- Loves to read books, journals, magazines

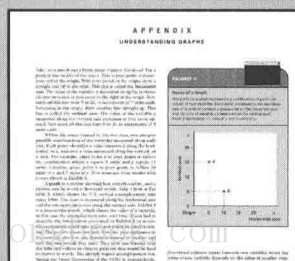
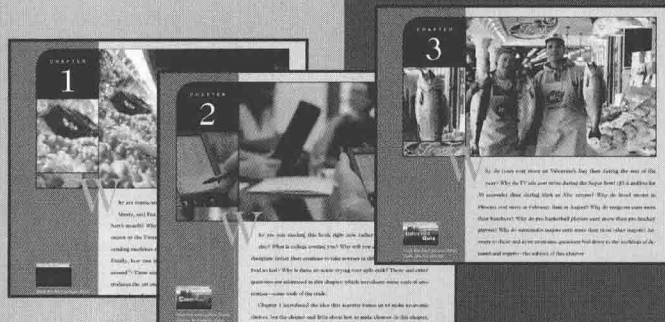
THE AURAL LEARNER

- Tends to remember and repeat ideas that are verbally presented
- Learns well through lectures
- Is an excellent listener
- Can reproduce symbols, letters or words by hearing them
- Likes to talk
- Enjoys plays, dialogues, dramas
- Can learn concepts by listening to tapes
- Enjoys music
- Can repeat or fulfill verbal instructions

On the next few pages you can tour through the key elements of the McEachern Learning System that provide you with an integrated, multi-faceted approach to learning economics. Each element has an icon that is associated with each perceptual learning style shown in the above chart. This will give you an overview of the various learning features, and of how you can use them to select the path through the material that best suits your own individual learning style.

IN-TEXT WEB EXTENSIONS

Each chapter opener presents one of three icons (Case Study, The Graphing Workshop, or Online Quizzing) that alerts you to a specific additional activity that you can do to enhance your understanding of the chapter. You'll also find, in particular, that throughout each chapter, graphs with available Graphing Workshop tutorials are identified with an icon.



McEachern Xtra!

A McEachern Xtra! CD is included with every new copy of the textbook. This CD provides you with complimentary access to a robust set of additional online learning tools. If you bought a used copy of the text, you can preview and purchase online access to McEachern Xtra! at [HTTP://MCEACHERNXTRA.SWCOLLEGE.COM](http://MCEACHERNXTRA.SWCOLLEGE.COM)



Xtra!

M c E A C H E R N

DEMO

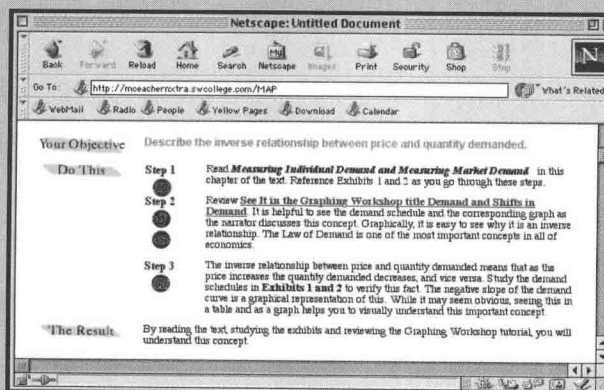
ENTER

REGISTER

PURCHASE

MAP (McEachern Assistance Program) to Learning Success is the central navigational tool for McEachern Xtra!, and is your complete McEachern *Economics* e-learning guide. Step-by-step instructions associated with each learning objective systematically guide you through all available text and Xtra! multimedia tools (each identified with the perceptual

learning style for which it is most appropriate) to deepen your understanding of that particular concept. You can use this feature to manage your study time and to choose the most appropriate tools to support your own learning style. As a result, you will achieve a new level of understanding through experiencing a variety of instructional media. McEachern Xtra! tools include:



THE GRAPHING WORKSHOP



The Graphing Workshop is your one-stop learning resource for help in mastering the language of graphs, one of the more difficult aspects of the economics course for many students. It enables you to explore important economic concepts through a unique learning system made up of tutorials, interactive tools, and exercises that teach how to interpret, reproduce, and explain graphs.

SEE IT

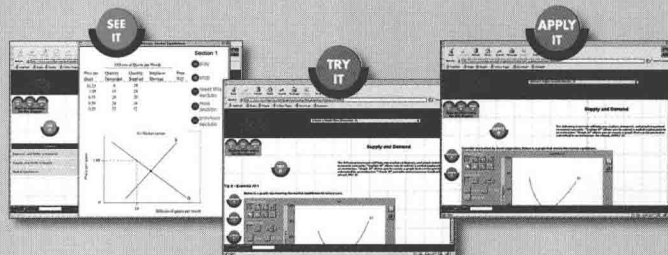
SEE IT! Animated graphing tutorials provide step-by-step graphical presentations and audio explanations.

TRY IT

TRY IT! Interactive graphing exercises encourage students to practice manipulating and interpreting graphs with hands-on Java graphing tools. You can check your work online.

APPLY IT

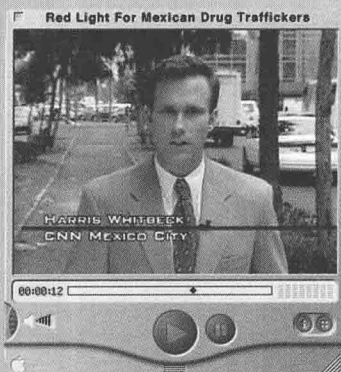
APPLY IT! Interactive graphing assignments challenge you to apply what you have learned by creating your own graphs from scratch to analyze a specific scenario. Answers can be printed out and/or e-mailed to your instructor for grading.



CNN ONLINE



CNN video segments bring the "real world" right to your desktop. The accompanying CNN video exercises help to illustrate how economics is an important part of your daily life, and help you learn the material by applying it to current events.



ASK THE INSTRUCTOR



Ask the Instructor

Via streaming video, difficult concepts from each chapter are explained and illustrated. These video clips are extremely helpful review and clarification tools if a student has trouble understanding an in-class lecture or is a visual learner.

XTRA! QUIZZING



Xtra! Quizzing

In addition to the open-access chapter-by-chapter quizzes found at the McEachern Product Support Web site, McEachern Xtra! offers you an opportunity to practice for midterms and finals by taking interactive quizzes that span multiple chapters.



E-CON @PPS



e-con @pps

e-con @pps - EconDebate Online, EconData Online, and EconLinks Online – deepen your understanding of theoretical concepts through hands-on exploration and analysis of the latest economic news stories, policy debates, data and Web sites.

McEachern Product Support Site

The McEachern Web Site (<http://mceachern.swcollege.com>) provides you with open access to a variety of additional learning support tools:

The Interactive Study Center provides a comprehensive chapter-by-chapter online study guide that includes interactive quizzing, a glossary, updated and extended applications from the text, and numerous other features. Some of the highlights include:

Interactive Study Center

Select a Chapter

Key Terms Interactive Quizzes Wall Street Journal Q and A Experiential Exercises Net Bookmarks Case Studies Online Research

Interactive Study Center Features

Once you select a chapter, use the Interactive Study Center links to access the following features:

Key Terms: A full list of Key Terms from the text is available for your use online.

Interactive Quizzes: Test your understanding of a chapter's concepts by taking an interactive quiz. Each quiz contains multiple-choice and true-false questions like those found on a typical exam. Questions include detailed feedback for each answer, so that you may know instantly why you have answered correctly or incorrectly. In addition, you may email yourself and/or your instructor the results of the quiz, with a listing of correct and incorrect answers.

EOC Wall Street Journal Questions and Answers: End of chapter Wall Street Journal questions and answers to can be found here.

QUIZZES

Interactive quizzes help you test your understanding of the chapter's concepts. Each quiz contains fifteen multiple-choice questions, like those found on a typical exam. Questions include detailed feedback for each answer, so that you can know instantly why the answer is correct or incorrect. You may e-mail yourself and/or your instructor the results of the quiz, with a listing of correct and incorrect answers.

McEachern Interactive Study Center

Select a Chapter

Key Terms Interactive Quizzes Wall Street Journal Q and A Experiential Exercises Net Bookmarks Case Studies Online Research

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EOC Wall Street Journal Questions and Answers: End of chapter Wall Street Journal questions and answers to can be found here.

McEACHERN INTERACTIVE STUDY CENTER

GLOSSARY

The Market System

Term	Definition	Example
Substitution Goods	Goods that are used in place of one another.	Butter and margarine.
Complement Goods	Goods that are used together.	Shirts and ties.
Substitution Goods, such as Coke and Pepsi, that are not related in such a way that an increase in the price of one shifts the demand for the other rightward.		
Complement Goods, such as milk and cookies, that are related in such a way that an increase in the price of one shifts the demand for the other rightward.		

Complements

Goods that are related in such a way that an increase in the price of one leads to a decrease in the demand for the other.

KEY TERMS GLOSSARY

A convenient, online glossary enables you to easily locate definitions to key terms found in each chapter. You can also use the point-and-click flashcard functionality of the glossary to test yourself on key terminology.

EXTENSIONS OF IN-TEXT WEB FEATURES

Web sites discussed in the Internet-enhanced in-text features for each chapter - Net Bookmarks, Case Studies and end-of-chapter Experiential Exercises - are directly linked from the Study Center to streamline navigation. These applications provide you with opportunities to interact with the material by performing real-world analysis. Your comments and answers to questions posed in these features can be e-mailed to your instructor.

McEACHERN INTERACTIVE STUDY CENTER

Experiential Exercises

Unemployment and Inflation

Exercise 1: Click here to submit your answer.

Exercise 2: Click here to submit your answer.

Exercise 3: Click here to submit your answer.

Exhibit 2: Basics of a Graph

The graph shows a coordinate system with a vertical axis (y) and a horizontal axis (x). The origin is labeled 'Origin'. The vertical axis is labeled 'Vertical axis' and the horizontal axis is labeled 'Horizontal axis'. A point 'a' is plotted at (5, 15) and a point 'b' is plotted at (10, 5). A line segment connects points 'a' and 'b'.

POWERPOINT SLIDES

One of the more frustrating aspects of the economics course for a student can be trying to draw the graphs an instructor shows during a lecture while also trying to listen to what s/he is saying. Downloadable PowerPoint slides by chapter are provided as an aid to notetaking, giving you an outline of the key graphs and lecture points for each chapter, so that you can concentrate on your instructor's explanations rather than on reproducing her/his diagrams.

STUDENT RESOURCES

Downloadable supplements and supplement samples are available for you to review.

TALK TO US

Your opportunity to communicate with the author or the publisher.



THE WALL STREET JOURNAL

a free subscription to both *The Wall Street Journal Print** and *WSJ.COM* versions. Be sure to take advantage of all *The Wall Street Journal* has to offer by returning your subscription card. This authoritative publication – synonymous with the latest word on business, economics, and public policy – provides an excellent resource for you to observe economics concepts in action, in the real world, every day, and helps you prepare long-term for your successful economics/business career.

McEachern's *Economics: A Contemporary Introduction* provides an unprecedented number of opportunities for you to relate economic concepts to late-breaking news stories from *The Wall Street Journal*:

- A special handbook packaged with the text guides you in your use of *The Wall Street Journal*.
- “Reading It Right” margin notes throughout the text excerpt a quote from *The Wall Street Journal* for you to interpret based on the economic concepts you have learned.

If you bought a new copy of the McEachern textbook, you received a card entitling you to

In economics, there are no certainties. This article can be found at <http://www.wsj.com/economics/regions/09-12/colleges.html>

What's the relevance of the following statement from the Wall Street Journal: "With economics the most popular undergraduate major at many top colleges, demand for economics professors has led to a bidding war for the most highly-regarded candidates."

seems to exceed its expected marginal cost. We'll discuss the cost of college in the next chapter and focus here on the benefits of college, particularly expected earnings.

Among college graduates, all kinds of factors affect earnings, such as ability, choice of occupation, personal characteristics, college attended, college major, and highest degree earned. Until recently, there was little systematic evidence linking earnings to college major, but then the National Science Foundation sponsored a huge survey of college graduates to examine that relationship. To isolate effects of college major on earnings, the survey focused on people in specific groups who worked full time and had earned a bachelor's as their highest degree. Exhibit 3 shows the median earnings in 1993 by major for men and women aged 35 to 44. As a point of reference, the median annual earnings for men was \$43,199 (half earned more and half earned less). The median earnings for women was \$32,155, only 74 percent of the median for men. Among men, the top median pay was the \$53,286 earned by engineering majors; that pay was 23 percent above the median for all men aged 35 to 44. Among women, the top median was the \$49,170 earned by economics majors; that pay was 53 percent above median for all surveyed women aged 35 to 44.

Incidentally, men who majored in economics earned a median of \$49,170 ranking them seventh among 27 majors and 14 percent above the median for men aged 35 to 44 in the survey. Thus, even though the median pay for all women was only 74 percent of the median pay for all men, women who majored in economics earned about the same as men. We can say that economics majors earn more than most, and they experienced no pay difference based on gender.

Notice that among both men and women, the majors ranked toward the top of the list tend to be the most quantitative and analytical. According to the study's author, "Employers may view certain majors as more difficult and assume that graduates in these fields are more able and hard working, who upon their entry receive higher salaries." The selection of a relatively more challenging major such as economics sends a favorable signal to future employers.

The study also examined the kinds of jobs different majors actually find. Those who majored in economics became top and mid-level managers, executives, and administrators. They also found jobs in sales, computer fields, financial analysis, and economic analysis. Remember, the survey was limited to those with higher degrees, so the occupations, we've excluded the many economists who work in government, industry, and academia.

PROBLEMS AND EXERCISES

- (Rational Self-Interest)* Discuss the impact of rational self-interest on each of the following decisions:
 - Whether to attend college full time or enter the full-time workforce
 - Whether to buy a new or a used textbook
 - Whether to attend a local college or an out-of-town college
- (Rational Self-Interest)* If behavior is governed by rational self-interest, why do people make contributions to charity?
- (Marginal Analysis)* The owner of a small pizzeria is deciding whether to increase the radius of its delivery area by one mile. What considerations must be taken into account if such a decision is to contribute to profitability?
- (Time and Information)* It is often costly to obtain the information necessary to make good decisions. Yet your own interests can be best served by rationally weighing all options available to you. This requires completely informed decision making. Does this mean that making uninformed decisions is irrational? How do you determine what amount of information is the right amount?
- (Cause/Effect: A Lin for Vending Machines)* Do vending machines conserve on any resources other than labor? Does your answer offer any additional insight into the widespread use of vending machines in Japan?

- (Cause/Effect: A Lin for Vending Machines)* Suppose you had the choice of purchasing identically priced bushes from a vending machine or at a catalog. Which would you choose? Why?
- (Opportunity Costs)* Review the discussion of pitfalls in economic thinking in this chapter. Then identify the fallacy or mistake in thinking in each of the following statements:
 - Raising taxes will always increase government revenues.
 - Whenever there is a recession, imports decrease. Therefore, to stop a recession, we should increase imports.
 - Raising the tariff on imported steel will help the U.S. steel industry. Therefore, the entire economy will be helped.
 - Gold sells for about \$300 per ounce. Therefore, the U.S. government should sell off the gold in Fort Knox at \$300 per ounce and eliminate the national debt.
- (Assumptions Versus Conclusions)* Suppose I observe that communication with lots of doctors tend to have relatively high rates of illness. I conclude that doctors cause illness. What's wrong with this reasoning?

EXPERIENTIAL EXERCISES

- (Micro Versus Macro)* Go to the Bank of Sweden's page on the Nobel Prize in economic science at <http://www.nobel.se/economics/>. Review the descriptions of some recent awards, and try to determine whether these particular awards were primarily for work in macroeconomics or in microeconomics.
- (Cause/Effect: College Major and Career Earnings)* The Bureau of Labor Statistics maintains online copies of articles from their *Monthly Labor Review*. Go to the site (<http://stats.bls.gov/econ/relres/mr.htm>), click on "Archives" and find the article by Daniel Becker entitled "Earnings of College Graduates: Women Caught with Men" (March 1998). What can you learn about the payoff to college education for both women and men? (Note: You will need Adobe Acrobat Reader to get the full text of this article. You can download a copy of Reader at <http://www.adobe.com/acrobat/readstep2/index.html>.)
- (Wall Street Journal)* Detecting economic fallacies is an important skill. Review the section titled "Some Pitfalls of Faulty Economic Analysis" in this chapter. Then use the Wall Street Journal to find at least one example of faulty reasoning. (Hint: Begin with the "Markets Diary" column in the "Money & Investing" section.)

The Art and Science of Economic Analysis Chapter 1

- Questions at the end of each chapter ask you to read and analyze information from *The Wall Street Journal*. These questions also appear on the McEachern Interactive Study Center Web site, so that you can submit your responses to your instructor via e-mail.

Preface

Economics has a short history but a long past. As a distinct discipline, economics has been studied for only a few hundred years, yet civilizations have confronted the economic problem of scarce resources but unlimited wants for millennia. Economics, the discipline, may be centuries old, but it's renewed every day by fresh evidence that reshapes and extends economic theory. In *Economics: A Contemporary Introduction*, I draw upon more than a quarter century of teaching and research to convey the vitality, timeliness, and evolving nature of economics.

LEADING BY EXAMPLE

Remember the last time you were in unfamiliar parts and had to ask for directions? Along with the directions came the standard comment, "You can't miss it!" So how come you missed it? Because the "landmark," so obvious to locals, was invisible to you, a stranger. Writing a principles text is much like giving directions. The author must be familiar with the material, but that same familiarity can dull the author's perceptions, making it difficult to see the material through the fresh eyes of a new student. Some authors revert to a tell-all approach, which can overwhelm students who find learning from so much information like trying to drink from a fire hose. Opting for the minimalist approach, some authors write abstractly about good x and good y , units of labor and units of capital, or the proverbial widget. But that alternative turns economics into a foreign language.

Good directions rely on landmarks familiar to us all—a stoplight, a fork in the road, a white picket fence. Likewise, a good textbook builds bridges from the familiar to the new. That's what I try to do—*lead by example*. By beginning with examples that draw on students' common experience, I create graphic images that need little explanation, thereby eliciting from the reader that light of recognition, that "Aha!" Examples should be self-explanatory and convey the point quickly and directly. Having to explain an example is like having to explain a joke—the point gets lost. Throughout the book, I try to provide just enough intuition and institutional detail to get the point across without overwhelming students with information. The emphasis is on economic ideas, not economic jargon.

Students show up the first day of class with at least 18 years of experience with economic choices, economic institutions, and economic events. Each grew up in a household—the central economic institution. As consumers, students are familiar with fast-food outlets, cineplexes, car dealerships, online retailers, and dozens of stores at the mall. Most students have been resource suppliers—more than half held jobs in high school. Students also have experience with government—they know about taxes, drivers' licenses, speed limits, and public education. And students have a growing familiarity with the rest of the world. Thus, students have abundant experience with the stuff of economics. Yet some principles books neglect this rich lode of personal experience and instead try to create for students a new world of economics. Such an approach fails to connect economics with what Alfred Marshall called "the ordinary business of life."

Because instructors can cover only a fraction of the textbook in class, material should be self-explanatory, providing instructors with enough flexibility to focus on topics of special interest. This book starts where students are, not where instructors would like them to be. For example, to explain the division of labor, rather than discuss Adam Smith's pin factory, I begin with McDonald's. And to explain resource substitution, rather than rely on abstract units of labor and capital, I begin with washing a car, where the mix can vary from a drive-through car wash (much capital and little labor) to a Saturday morning charity car wash (much labor and little capital). This edition is filled with similar down-to-earth examples that turn the abstract into the concrete to help students learn.

SIXTH EDITION CONTENT AND CHANGES

This edition builds on the success of previous editions to make the material even more student-friendly through additional concrete examples, more questions along the way, and extra summaries as a chapter unfolds. By making the material both more natural and more personal, I try to draw students into a collaborative discussion.

Introductory Chapters Topics common to both macro- and microeconomics are covered in the first four chapters. Limiting introductory material to four chapters saves precious class time, particularly at institutions where students can take macro and micro courses in either order (and so must cover introductory chapters twice).

Macroeconomics Rather than focus on the differences among competing schools of thought, I use the aggregate demand and aggregate supply model to underscore the fundamental distinction between the *active approach*, which views the economy as unstable and in need of government intervention when it gets off track, and the *passive approach*, which views the economy as essentially stable and self-correcting.

Wherever possible, I rely on student experience and intuition to help explain the theory behind macroeconomic abstractions such as aggregate demand and aggregate supply. For example, to explain how employment can temporarily exceed its natural rate, I note how students, as the term draws to a close, can temporarily shift into high gear, studying for exams and finishing term papers. And to reinforce the link between income and consumption, I point out how easy it is to figure out the relative income in a neighborhood just by driving through it.

This edition includes added emphasis on the economy's "rules of the game"—the laws, customs, conventions, and other institutional elements that nurture production and exchange. The terrorist attacks of September 11 underscore the effect of economic institutions on stability and growth. Those attacks are addressed in this revision, including a new case study titled "The Fear of Flying." Other topics getting special treatment include banking trends, banking troubles in Japan, monetary policy in the short and long runs, the recent revival of discretionary fiscal policy, and the recession that began in March 2001.

International This edition reflects the growing impact of the world economy on U.S. economic welfare. International issues are introduced early and discussed often. For example, the rest of the world is introduced in Chapter 1 and

profiled in Chapter 4. Comparative advantage and the production possibilities frontier are discussed from a global perspective in Chapter 2.

International coverage is woven throughout the text. By comparing the U.S. experience with that of other countries around the world, students gain a better perspective about such topics as economic growth, productivity, unemployment, inflation, central bank independence, and public budgets. Exhibits have been added to show comparisons across countries of various economic measures, such as government outlays as a percentage of GDP. International references are scattered throughout the book, including a number of relevant case studies.

Case Studies Some books use case studies as boxed asides to cover material that otherwise doesn't quite fit. I use case studies as real-world applications to reinforce ideas in the chapter and to demonstrate the relevance of economic theory. My case studies are different enough to offer variety in the presentation yet are integrated enough into the flow of the chapter to let students know they should be read. This edition offers four categories of case studies: (1) *Bringing Theory to Life* draws on student experience to reinforce economic theory, (2) *Public Policy* highlights trade-offs in the public sector, (3) *The World of Business* offers students a feel for the range of choices confronting business decision makers today, and (4) *The Information Economy* underscores the critical role of information in the economy. This edition makes technology more helpful by featuring an even tighter integration of text and technology. For example, all case studies include relevant Web addresses and questions for further analysis. These links plus navigation tips and other information can also be accessed through the McEachern Interactive Study Center at <http://mceachern.swcollege.com/>.

CLARITY BY DESIGN

In many principles textbooks, chapters are broken up by boxed material, qualifying footnotes, and other distractions that disrupt the flow of the material. Students remain uncertain about when or if they should read such segregated elements. But this book has a natural flow. Each chapter opens with a few stimulating questions and then follows with a logical narrative. As noted already, case studies appear in the natural sequence of the chapter, not in a separate box. Students can thus read each chapter from the opening questions to the conclusion and summary. I also adhere to a "just-in-time" philosophy, introducing material just as it is needed to build an argument.

This edition is more visual than its predecessors were, with more exhibits to reinforce key ideas. For example, added to the first chapter are exhibits for the circular-flow model and for the steps of the scientific method. Exhibit titles are also more descriptive to convey the central points. More section summaries have been added along the way, and economics jargon has been reduced. Although the number of terms defined in the margin has increased, the definitions have been pared to make them clearer, more concise, and less like entries from a dictionary. In short, economic principles are more transparent (a textbook should not be like some giant Easter egg hunt, where it's up to the student to figure out what the author is trying to say). Over all, the sixth edition is a cleaner presentation, a straighter shot into the student's brain. It omits needless words without tightening things too much. Despite the addition of fresh examples and some new topics, this edition has about 5 percent fewer words than the previous one had.

Form Follows Function In most textbooks, the page design—the layout of the page and the use of color—is an afterthought, chosen with little regard for how students learn. No element in the design of this book has been wasted, and all work together for the maximum pedagogical value. By design, all elements of each chapter have been carefully integrated. Every effort has been made to present students with an open, readable page design. The size of the font, the length of the text line, and the amount of white space were all chosen to make learning easier. Graphs are uncluttered and are accompanied by captions explaining the key features. These features are optimal for students encountering college textbooks for the first time.

Color Coordinated Color is used systematically within graphs, charts, and tables to ensure that students can quickly and easily see what's going on. Throughout the book, demand curves are blue and supply curves are red. In each comparative statics example, the curves determining the final equilibrium point are lighter than the initial curves. Color shading distinguishes key areas of many graphs, such as measures of economic profit or loss, tax incidence, consumer and producer surplus, output above or below the economy's potential, and the welfare effects of tariffs and quotas. In short, color is more than mere eye entertainment—it is coordinated consistently and with forethought to help students learn.

Net Bookmarks Each chapter includes a Net Bookmark. These margin notes identify interesting Web sites that illustrate real-world examples, giving students a chance to develop their economic research skills. And these bookmarks are extended at our Web site with additional information on resources as well as step-by-step navigation hints. They can be accessed through the McEachern Interactive Study Center at <http://mceachern.swcollege.com/>.

The Wall Street Journal Edition This *Wall Street Journal* edition makes it easy to bring the real world into the classroom, providing numerous opportunities to relate economic concepts to daily news stories. Every new copy of the McEachern textbook includes a card entitling students to free subscriptions to *The Wall Street Journal* and *WSJ.com*, as well as a student guide in how to use *The Wall Street Journal*. Each chapter also contains special pedagogical features to facilitate classroom use of *The Wall Street Journal*. “Reading It Right” margin notes ask students to explain the relevance of statements drawn from the *Wall Street Journal*. There are also end-of-chapter questions asking students to read and analyze information from the *Wall Street Journal*. Instructors with seven or more students who redeem their subscription offers will receive their own free subscription.

Experiential Exercises Some end-of-chapter questions encourage students to develop their research and critical-thinking skills. These experiential exercises ask students to apply what they have learned to real-world, hands-on economic analysis. Most of these exercises involve the Internet, the *Wall Street Journal*, or other media resources.

THE INTERNET

As mentioned already, we devoted careful attention to capitalizing on the vast array of economic resources and alternative learning technologies the Internet can deliver. I gave much thought to two basic questions: What can this technology do that a textbook cannot do? And how can Web-based enhancements be employed to bring the greatest value to teaching and learning?

It's clear that students learn more when they are involved and engaged. The Internet provides a way to heighten student involvement while keeping the introductory economics course as current as today's news. With these ideas in mind, we have designed the text's supporting Web site to tightly integrate the book and the Internet. We have done this in a way that exploits the comparative advantage of each medium and in a structure that optimizes both teaching and learning experiences.

Each chapter opener presents one of three icons (Case Study, The Graphing Workshop, or Internet Quiz) that alert students to a specific online activity they can do to enhance their understanding of the chapter. In addition, graphs throughout the text that are enhanced in McEachern Xtra!'s Graphing Workshop are identified with a special icon.



The McEachern Interactive Study Center (<http://mceachern.swcollege.com/>) The Web site designed to be used with this text provides a comprehensive chapter-by-chapter online study guide that includes interactive quizzing, a glossary, updated and extended applications from the text, and numerous other features. Some of the highlights include:

Quizzes Interactive quizzes help students test their understanding of the chapter's concepts. Multiple-choice questions include detailed feedback for each answer. Students can e-mail the results of a quiz to themselves and/or their instructor.

Key Terms Glossary A convenient, online glossary enables students to use the point-and-click flashcard functionality of the glossary to test themselves on key terminology.

Extensions of In-Text Web Features To streamline navigation, the Study Center links directly to Web sites discussed in the Internet-enhanced in-text features for each chapter—Net Bookmarks, case studies, and end-of-chapter experiential exercises. These applications provide students with opportunities to interact with the material by performing real-world analyses. Their comments and answers to the questions posed in these features can be e-mailed to the instructor.

PowerPoint Slides Downloadable PowerPoint slides include lecture outlines and key figures for each chapter.

McEachern Xtra! CD-ROM and Web Site (<http://mceachernxtra.swcollege.com/>) Each student has an individual learning style, and different learning styles require different tools. By tapping into today's technology, this textbook can reach out to a variety of students with a variety of learning styles and can help instructors ensure that they address the needs of all students. The McEachern Xtra! CD-ROM included with every new copy of the text provides access to a robust set of additional online learning tools. Students buying used books can purchase online access to McEachern Xtra! online. McEachern Xtra! contains these key features:

MAP (McEachern Assistance Program) to Learning Success is the central navigational tool for McEachern Xtra! Step-by-step instructions associated with each learning objective systematically guide students through all available text and Xtra! multimedia tools to deepen their understanding of that particular concept. Each tool is accompanied by icons that identify the learning styles

(print, aural, tactile, haptic, interactive, visual) for which it is most appropriate. Students can thus choose the most appropriate tools to support their own learning styles.

Graphing Workshop The Graphing Workshop is a one-stop learning resource for help in mastering the language of graphs, one of the more difficult aspects of an economics course for many students. It enables students to explore important economic concepts through a unique learning system made up of tutorials, interactive drawing tools, and exercises that teach how to interpret, reproduce, and explain graphs.

CNN Online Video segments from the Cable News Network (CNN) bring the real world right to your desktop. The accompanying exercises illustrate how economics is an important part of daily life and how the material applies to current events.

Ask the Instructor Streaming video explains and illustrates difficult concepts from each chapter. These video clips are extremely helpful review and clarification tools if a student has trouble understanding an in-class lecture or is a visual learner.

Xtra! Quizzing In addition to the open-access chapter-by-chapter quizzes found at the McEachern Product Support Web site, McEachern Xtra! offers students the opportunity to practice for midterms and finals by taking interactive quizzes that span multiple chapters.

e-con @pps EconNews Online, EconDebate Online, EconData Online, and EconLinks Online help to deepen students' understanding of theoretical concepts through hands-on exploration and analysis of the latest economic news stories, policy debates, and data.

None of these features requires detailed knowledge of the Internet. Nor are they required for a successful classroom experience if an instructor wants to assign only the materials contained within the text. The online enhancements simply offer optional paths for further study and exploration—new ways for students to use their individual learning styles and new ways for instructors to experiment with technology and a wider range of assignment materials.

THE SUPPORT PACKAGE

The teaching and learning support package that accompanies *Economics: A Contemporary Introduction* provides instructors and students with focused, accurate, and innovative supplements to the textbook.

Study Guides Written by John Lunn of Hope College, study guides are available for the full textbook, as well as for the micro and macro “split” versions. Every chapter of each study guide corresponds to a chapter in the text and offers (1) an introduction; (2) a chapter outline, with definitions of all terms; (3) a discussion of the chapter's main points; (4) a *lagniappe*, or bonus, which supplements material in the chapter and includes a “Question to Think About”; (5) a list of key terms; (6) a variety of true-false, multiple-choice, and discussion questions; and (7) answers to all the questions. Visit the McEachern Interactive Study Center at <http://mceachern.swcollege.com/> for more details.

Instructor's Manual The *Instructor's Manual*, revised by Bridget Lyons of Sacred Heart University, is keyed to the text. For each text chapter, it includes (1) a detailed lecture outline and brief overview, (2) a summary of main points, (3) pedagogical tips that expand on points raised in the chapter, and (4) suggested answers to all end-of-chapter questions and problems. Tina Mosleh of Ohlone College revised each classroom economics experiment to include an abstract, an overview, a clear set of instructions for running the experiment, and forms for recording the results.

Teaching Assistance Manual I have revised the *Teaching Assistance Manual* to provide additional support beyond the *Instructor's Manual*. It is especially useful to new instructors, graduate assistants, and teachers interested in generating more class discussion. This manual offers (1) overviews and outlines of each chapter, (2) chapter objectives and quiz material, (3) material for class discussion, (4) topics warranting special attention, (5) supplementary examples, and (6) "What if?" discussion questions. Appendices provide guidance on (1) presenting material; (2) generating and sustaining class discussion; (3) preparing, administering, and grading quizzes; and (4) coping with the special problems confronting foreign graduate assistants.

Test Banks Thoroughly revised for currency and accuracy by Dale Bails of Christian Brothers University, the microeconomics and macroeconomics test banks contain over 6,600 questions in multiple-choice and true-false formats. All multiple-choice questions have five possible responses, and each is rated by degree of difficulty.

ExamView—Computerized Testing Software *ExamView* is an easy-to-use test-creation software package available in versions compatible with Microsoft Windows and Apple Macintosh. It contains all the questions in the printed test banks. Instructors can add or edit questions, instructions, and answers; select questions by previewing them on the screen; and then choose them by number or at random. Instructors can also create and administer quizzes online, either over the Internet, through a local area network (LAN), or through a wide area network (WAN).

Microsoft PowerPoint Lecture Slides Lecture slides, created by Dale Bails of Christian Brothers University, contain tables and graphs from the text, as well as additional instructional materials, and are intended to enhance lectures and help integrate technology into the classroom.

Microsoft PowerPoint Figure Slides These PowerPoint slides contain key figures from the text. Instructors who prefer to prepare their own lecture slides can use these figures as an alternative to the PowerPoint lecture slides.

Transparency Acetates Many of the key tables and graphs from this text are reproduced as full-color transparency acetates.

CNN Economics Video The CNN Economics Video provides a variety of brief video clips, taken from Cable News Network (CNN) programs, that illustrate various aspects of economics.

Online learning is growing at a rapid pace. Whether instructors are looking to offer courses at a distance or to offer a Web-enhanced classroom, South-