

Richard B. McKenzie & Gordon Tullock



Sixth Edition

THE NEW WORLD OF ECONOMICS

*A Remake of a Classic for New Generations
of Economics Students*



Springer

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The economist's stock in trade—his tools—lies in his ability to and proclivity to think about all questions in terms of alternatives. The truth judgment of the moralist, which says that something is either wholly right or wholly wrong, is foreign to him. The win-lose, yes-no discussion of politics is not within his purview. He does not recognize the either-or, the all-or-nothing situation as his own. His is not the world of the mutually exclusive. Instead, his is the world of adjustment, of coordinated conflict, of mutual gain.

James M. Buchanan
(1966, p. 168)

Preface

Economics has traditionally been defined by both its methods and its subject matter. That is to say, there are economic methods—models and statistical tests—that are based on a set of assumptions about the way people behave and interact with one another. Moreover, there is a distinct set of “tools” or “principles” economists employ in their analyses.

Economists have studied the world of “business” extensively. As may be obvious from the table of contents of this book, we believe that the economic methods that have been used to study business issues over the centuries can also be applied to many other areas of human behavior. Indeed, while we acknowledge that economics is only a partial view of human behavior, we see no practical limit to the application of economic methods to all areas of human behavior. Even a “partial view” can often offer insights that could be overlooked if economics were not employed. The test of the applicability of economic methods to areas of human (or, for that matter, animal) behavior is whether insights that stand up to empirical tests are found. We remain firmly convinced that these new applications make the study of economics more exciting, more interesting, and more relevant.

When *The New World of Economics* was first published in the 1970s, it was (would you believe?) controversial because many economists were not comfortable extending the application of economic methods to politics, sex, crime, marriage, family, divorce, riots and panics, and learning, among other topics. We heard from hostile economists who were stunned by our audaciousness.

Given its widespread use in college and university classrooms over the decades, we are pleased to say that *The New World of Economics* has changed a number of professional minds. It was the first introductory economics reader to discuss (among a host of other topics) public choice economics, the economics of marriage and family, and law and economics. Several Nobel Prizes have since been given to economists who have worked in these areas. We have also heard from economists and their students who have written to say, in effect, “Right on! About time.”

Many of the subjects we have covered in *The New World* over its first five editions now have extensive scholarly literatures and have been integrated into

“conventional” or “mainstream” economics textbooks published since *The New World* first appeared. A host of other popular books have since been released that have more broadly applied economic methods, most notably *Freakonomics*, which had a long run on *The New York Times* bestseller list.¹

Indeed, we have chosen to reissue this major revision of *The New World* because many current practicing economists are too young to remember the success and impact of its first five editions and because many professors of economics of all generations want to show their students the “new, new worlds” of economic inquiry that have emerged within the professional lifetimes of the last generation of economists. We have included a number of these “new, new” topics in this edition. However, our overall objective remains the same, namely, to show students how the principles of economics are applicable to their everyday experiences and to a variety of issues studied in other courses, not the least of which are business and social science courses that are grounded in psychology, neuroscience, and evolutionary biology.

Accordingly, we have retained many of the topics covered in the first five editions, but we have also added a heavy emphasis on pricing strategies and behavioral economics, now a burgeoning subdiscipline within economics, which is grounded on serious criticisms of conventional economics’ underlying assumptions and conclusions. We review the “behavioralist” approach and its arguments, but we also point to problem areas within behavioral economics.

Most budding economists understand that businesses can become successful by developing “better mousetraps.” We stress how businesses have improved the profitability of their products by careful construction of their pricing strategies to take advantage of their market positions. In any number of topics covered in the following chapters, we describe the insights of another subdiscipline—organizational economics—which has radically expanded since the first edition of *The New World* was released.

Most introductory economics textbooks are, literally, encyclopedias of just about everything known in the subject. We have always believed that the first and most important principle in economics should be economy in the principles that are taught and studied. The critical concern in education is not how much is *taught*, but how much is learned and what insights can be drawn from what is learned. Accordingly, students will probably be relieved and pleased to know that we introduce a relatively small number of principles through coverage of the various disparate topics in the chapters. However, we make those few principles work, applying them broadly, to just about every nook and cranny of human behavior. We strive to keep the analysis simple in order to make the learning process productive (incidentally, a topic which we elaborate on in Chaps. 18 and 19). An often-cited adage applies to economic education: “less is more.”

The New World of Economics has been developed on the premise that economics is, at its disciplinary core, *a way of thinking*. We believe that students will *want* to read this book because of our focused emphasis on honing their thinking skills, as well as applications to interesting topics. And by the end of the book, we believe students and readers will be thinking much like economists do, all very naturally (or

as if by second nature). We have been told numerous times by students and professors alike that this book simply *works* in changing the way students see the world.

We are, of course, indebted to our many colleagues around the country who have contributed directly or indirectly to the development of chapters in this book in the form of their recommendations for improvements. We are also immensely indebted to our students; they have taught us much that is reflected in this (and past) editions. Nothing helps improve a book more than classroom use, and this book has been used, at one time or another, in most of the country's colleges and universities and in many foreign universities. Over the years, both authors have continued to extend the application of economics to an ever-expanding arena of ideas, and in redeveloping *The New World* we have drawn on our published works for other audiences.² We welcome students to what could be for many the educational trip of their college careers.

Irvine, CA, USA
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Part I

The New World of Economic Thinking

In the first four chapters of this book, we seek to lay out the broad outlines of the “economic way of thinking” about everything and anything, mainly by illustrating how a very few economic concepts, principles, and lines of argument can illuminate a variety of topics. In Chap. 3, we clarify the economic way of thinking by comparing and contrasting economists’ view of consumer purchases with that of psychologists [as partially represented by “Maslow’s Hierarchy of Needs,” which is employed in a variety of business courses (most notably marketing)]. As we move through the book, we will gradually apply the lines of argument developed in this section to more complicated and sophisticated topics. However, be assured that while the topics considered might grow in complexity and sophistication, you will find that they easily succumb to understanding. This is the case because economics is a very powerful and nimble “engine of analysis.”

