ECONOMIC REASONING

WILLIAM D. ROHLF, JR.
THIRD EDITION

Introduction to Economic Reasoning

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William D. Rohlf, Jr. Drury College



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Preface

Almost one hundred years ago, Alfred Marshall defined economics as "the study of mankind in the ordinary business of life." Today, the ordinary business of life has become incredibly complex. The purpose of this textbook is to help prepare students for that life.

Introduction to Economic Reasoning is intended for students taking the oneterm course in introductory economics. Many of these students, perhaps a majority, will take only one course in economics. They have a variety of interests and educational objectives. Some are enrolled in preprofessional programs; others will pursue majors in areas such as business, psychology, or the liberal arts. At a number of institutions, the one-term course also enrolls firstyear students in MBA programs and other graduate business programs. Many of these students pursued nonbusiness majors as undergraduates and did not elect to take an economics course. Others desire to review economics before entering the graduate program. Although the students enrolling in the oneterm course have diverse objectives and interests, they can all benefit from a course that prepares them to understand economic issues better and helps them to become better decision makers.

The Focus of the Book

How do we prepare students to understand economic issues and help them become better decision makers? I am convinced that we cannot accomplish these objectives by focusing solely on economic issues and short-cutting a discussion of economic concepts. This approach might provide students with ready answers to existing problems, but it would do little to prepare students for coping with new social problems and little to refine their decision-making skills. To accomplish those objectives, we must teach students something about economic reasoning.

Economists are fond of saying that economics is a way of thinking, or a way of reasoning about problems. The essence of economic reasoning is the

ability to use theories or models to make sense out of the real world and devise policy solutions to economic problems. If we want students to use economic reasoning, we have to help them to learn and understand the basic economic theories. Without an understanding of economic theory, a course in economics can leave the student with little more than memorized solutions to current economic problems.

The Need to Make Choices

Obviously, we can't do everything in a one-term course in introductory economics. And unless we can keep the student's interest and show the relevance of economics, we can't accomplish anything. So the instructor in a one-term course (and the author of a one-term text) must make choices. He or she must decide what to include and what to exclude, how to balance theory with application, and how to motivate the student without sounding too much like a cheerleader. This textbook attempts to bridge these extremes.

Because economists use theories or models in problem solving, the core of this text is economic theory. No essential micro or macro concept is omitted. Many refinements are omitted, however, so that more time can be devoted to the careful development of the most important concepts. This is one of the distinctive features of the text: a very careful development of the core ideas in economic theory.

Making Economics Relevant

Today's student wants to know why he or she should be studying economics. What problems or issues will it help to clarify? What decisions will it help to improve? In *Introduction to Economic Reasoning*, the relevance of economics is illustrated by the use of examples in the text and through special features entitled "Use Your Economic Reasoning." These features, which are listed in a separate table of contents on pages xxv–xxvii, contain current news articles that have been carefully selected to illustrate the relevance of the economic principles being discussed and to provide the student with an opportunity to test his or her knowledge of those principles. Each article is accompanied by a set of questions to ensure that the student gains the maximum benefit from the article, and the features themselves have been designed to make them easy to locate.

Writing Style

In writing this text, my overriding objective has been to make economics accessible to the average student. I have been careful to avoid unnecessarily sophisticated vocabulary and needlessly long sentences. Most important, I have worked to ensure that my explanations of economic concepts are carefully and clearly developed. While professors may adopt a text for a wide variety of reasons, I am convinced that the most common reason for discontinuing its use is because students can't understand it. Your students will be able to read this text and understand it.

Aids in Learning

In addition to a clear writing style, the text contains a number of additional learning aids:

- 1. Learning objectives are stated at the beginning of each chapter.
- New terms are presented in boldface italic type and are always defined when they are introduced.
- "Use Your Economic Reasoning" news article selections not only generate student interest but also give the student an opportunity to apply the concepts that have been presented and thereby reinforce learning.
- 4. Careful summaries highlight the contents of the chapter.
- A glossary of new terms appears at the end of each chapter so that a student can easily review definitions.
- 6. A study guide including fill-in-the-blank and multiple-choice questions (with answers) and problems and questions for discussion appears at the end of each chapter. This increases the likelihood that the study guide will be used, and encourages the student to review the chapter to correct deficiencies.

Additional Features

 The demand and supply model (the core of micro theory) is more fully developed than in other one-semester texts, and the student is given numerous opportunities to test his or her understanding of the model.

- 2. The organization of the macroeconomics chapters provides for maximum flexibility in use. Instructors wishing to employ only the aggregate demand-aggregate supply framework can do so, while those desiring to integrate the Keynesian total expenditures model have that option.
- Modern developments in macroeconomic theory, such as the theory of rational expectations, are presented in a manner that is accessible to the beginning student.
- 4. The student is exposed to important areas of debate among economists (the activist-nonactivist debate in macroeconomics, for example) without being left with the impression that economic analysis is solely a matter of opinion.

Third Edition Changes

International economics receives increased attention in this third edition. The benefits of trade are introduced in the first chapter, and international examples and issues have been integrated throughout the text. Chapter 16 (International Trade) has been updated with expanded coverage of nontariff/nonquota barriers to trade and up-to-date coverage of the GATT and NAFTA agreements. In addition, Chapter 17 (International Finance) has been completely rewritten to simplify and update the coverage.

Additional changes in the third edition include an expanded discussion of common property resources and the contributions of Nobel laureate Ronald Coase, new coverage of price discrimination, game theory, and public choice economics, and modifications to make it possible for instructors to bypass the Keynesian model completely and concentrate on the aggregate demand–aggregate supply framework if they choose to do so. The third edition also contains almost thirty new "Use Your Economic Reasoning" selections drawn from such publications as the *Wall Street Journal*, *Forbes*, *Fortune*, and the *New York Times*.

Strategies for Using the Text

Introduction to Economic Reasoning provides balanced coverage of microeconomics and macroeconomics. The book is divided into four parts. A two-chapter introduction (Part 1) examines the basic economic problem and economic systems. This is followed by six chapters on microeconomics (Part 2), seven chapters on macroeconomics (Part 3), and two chapters on international economics (Part 4).

The chapters in the text are arranged in micro-macro sequence, but an instructor could easily reverse this order by covering Chapters 1, 2, and 3 and then moving directly to Part 3. The remaining micro chapters and Part 4 could then be covered in sequence.

If an instructor desired to shorten the micro portion of the course, Chapter 4 ("The Elasticity of Demand and Supply") and Chapter 8 ("Market Failure") could be omitted with no loss in continuity. Chapter 7 ("Industry Structure and Public Policy") extends the analysis presented in Chapter 6 and could also be skipped if necessary.

The macro coverage can also be reduced. Instructors wishing to omit the Keynesian model and concentrate on the aggregate demand–aggregate supply framework can skip Chapter 11 and the first part of Chapter 12 with no loss in continuity. Coverage can be further reduced by omitting Chapter 14 (which develops the model of a self-correcting economy) and Chapter 15 (the activist-nonactivist debate). The remaining chapters would provide an introduction to the *AD-AS* model (Chapter 10), along with coverage of both fiscal policy (Chapter 12) and monetary policy (Chapter 13).

International economics is the last part of the book. This material has traditionally been the first to be omitted whenever an instructor found it necessary to shorten his or her course. Today, the growing importance of this subject matter may call for a different strategy. As a compromise course of action, an instructor might cover Chapter 16 ("International Trade") and omit Chapter 17 ("International Finance").

The Instructor's Manual, Test Bank, and Transparency Masters

The instructor's manual that accompanies this book is intended to make the instructor's job easier. New instructors may benefit from the teaching tips provided for each chapter. The manual also contains answers to the "Use Your Economic Reasoning" questions, answers to the "Problems and Questions for Discussion" at the end of each chapter, and a test bank of essay, multiple-choice, and true-false questions. Transparency masters of text images are located in the back of the instructor's manual. A computerized test bank is also available.

Acknowledgments

One author is listed on the cover of this textbook, but there are many people who have helped in its preparation and to whom I owe my thanks.

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Springfield, MO W.D.R.

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