

MACROECONOMICS



Fourth Edition

David N. Hyman

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David N. Hyman
North Carolina State University



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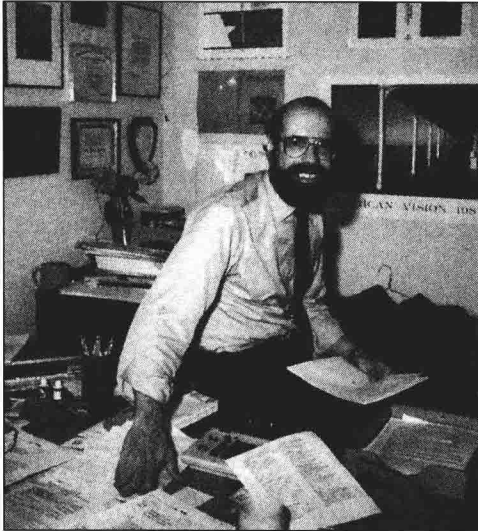


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About the Author

David N. Hyman is Professor of Economics at North Carolina State University, where he has taught since receiving his Ph.D. in economics from Princeton University in 1969. In addition to being the author of *Economics*, Dr. Hyman is the author of widely used texts on public finance and microeconomics and is one of the most experienced textbook authors in the field of



economics. Professor Hyman has taught principles of economics to large numbers of students of the past 28 years and has been the recipient of several awards for outstanding teaching. His research on economic issues has been published in respected academic journals.

Professor Hyman's broad range of professional experience outside academia gives him the breadth of knowledge required to write a comprehensive and relevant text. He was a Senior Fulbright Research Scholar in Italy in 1980 and held a CNR (National Research Council of Italy) Fellowship from 1976 to 1977 while doing research at the University of Turin in Italy. He has had considerable government experience in Washington, D.C., where he has worked as a budget analyst and has served on the staffs of the Office of the U.S. Comptroller of the Currency of the Treasury Department and the Board of Governors of the Federal Reserve System. In 1988 he was a consultant to President Reagan's Council of Economic Advisers. During this time he authored Chapter 2, "Fiscal Policy and Economic Expansion" of the *Economic Report of the President* (1989). In 1989 he was senior staff economist on President Bush's Council of Economic Advisers.

Professor Hyman is also a professional fine art photographer whose works are in the permanent collect of the Corcoran Gallery of Art in Washington, D.C. His photographs have been exhibited in many galleries and museums and have been published in art photography books and on the covers of several novels. For recreation, he enjoys the flute and working in his garden.

Preface

Economics is a vital component of any student's education because an understanding of economic principles is essential for success in the modern world. The rapid evolution of global interdependence among both highly industrialized and less developed economies affects students' lives. My goal in writing this book has been to communicate the relevance of economics to everyday life by blending examples and applications with economic theory in each chapter. In this edition I've revised to update information and to consolidate some of the chapters. You will find many new relevant and interesting applications to current events and emerging issues. There is more analysis of both the role of government in our lives and the latest innovations in business management. In this edition every chapter has a set off analysis of a global or international issue to help you understand how the world you live in is changing.

Using the Text

This text has been designed with your learning in mind. Besides its careful and detailed unfolding of basic economic principles, the book contains a number of useful learning aids that will help improve your comprehension of the material. The introduction to each chapter is followed by a **Concept Preview** that outlines the key points you'll be exploring and that you should understand when you've finished the chapter. At the end of each major chapter section is a **Concept Check**: a series of questions that will help you test your grasp of what you've just read. Stop and respond to these questions to make sure you've acquired the background you'll need to go on to the next section. The Concept Checks will also be useful when you're reviewing material for a test. You'll notice, too, the **Concept Symbols** in the margins. These point the way to the discussions that explain chapter objectives. You'll see them again in the end-of-chapter questions—if you need to reread to answer question, the concept symbols will help you quickly find the appropriate section(s).

Throughout each chapter, **Key Terms** are highlighted in color type and defined when introduced. These terms are defined in the margins and are also listed at the end of the chapter. The marginal definitions will be a valuable aid in building your economic vocabulary. In the back of the book you'll find all of the text's key terms in a comprehensive **Glossary**.

Learning economic theory is first-rate mental exercise—but how do we translate theory into application? In addition to the many relevant real-world examples provided throughout the text, each chapter also contains one or more boxed analyses that enlarge on and illustrate an important concept discussed in the text. Entitled **Principles in Practice**, each of these commentaries offers you a close-up view of an economic theory in action, from supply and demand to the pros and cons of trade protectionism.

Some of the commentaries have a business focus and are subtitled either **Managerial Methods** or **Business Briefs**. These business-oriented features concentrate on decision making within business and on the competitive environment in which business firms operate. Those that carry the subtitle **Policy Perspective** apply economic principles to policy issues.

The Global Economy highlights important international trade or global economic issues to help you appreciate the increased international dimensions of the subject of economics. A global economy feature appears in almost every chapter of the text and often provides you with an opportunity to see how the theory discussed in each chapter can be applied to better understand a key international or global issue.

Inside Information highlights the sources and uses of economic information. To effectively operate in the modern world requires information. This feature helps you learn *where* to go to get economic information. You will learn the important sources of federal government data and of business-related data. This information will be useful to you for term papers and will help you later on as you move into a career as a guide to information that you will need to perform your job.

You'll encounter throughout the text a series of profiles of leading economists entitled **Economic Thinkers**, ranging from Adam Smith to Karl Marx. These profiles provide information about the subjects' major contributions to economic thought and also offer some intriguing personal sidelights. Additionally, to give you an idea of the diversity of careers available to students who choose to major in economics, we present a series of **Career Profiles** of professionals with a degree in economics.

When you read the **Prologue** to the text you will begin to see how economic issues affect you. Integrated into the text you will also find interviews with distinguished economists, including some who have been awarded Nobel Prizes, who have studied these issues in depth. As you read these **Insights on Issues** you will have a better idea about how economic policies affect you and the economy. Your instructor might use some of these interviews as a basis of class discussion.

The **Summary** at the end of each chapter enumerates the important concepts you've just learned; the **Concept Review** gives you one more check of your understanding of the chapter objectives; and the **Problems and Applications** give you the opportunity to demonstrate your understanding of these concepts in both expository and graphic form. Like the Concept Checks, these end-of-chapter features are helpful review aids.

The Study Guide

An excellent Study Guide prepared by Donald P. Maxwell of Central State University, Edmond, Oklahoma, accompanies the text. Each chapter contains learning objectives, a fill-in summary

of chapter content, vocabulary exercises using key terms, and a series of activities—work with graphs, fill-in charts and tables, completion exercises, and more. These exercises are followed up by a mini-exam to check your learning and to help you prepare for taking your exams. Many of the chapters include a news item with questions to help you analyze how economic principles work in the world. Time invested with this invaluable resource will yield maximum returns for you.

Some Tips

1. Talk to Your Instructor Your instructor is an experienced, knowledgeable professional who wants to serve as a resource for you and your classmates. If you consider this text a blueprint for the study of the relationships among economic principles, your instructor can provide the guidance you need to comprehend and connect the details of the blueprint and can serve as your interpreter as you learn the language of economics. In class and after class, ask your instructor questions. Challenge points you disagree with; request clarification of those you don't fully understand. Ask your instructor to recommend additional readings; seek his or her advice about career paths.

2. Keep Up with Current Events People in business read a variety of publications; among them are *The Wall Street Journal*, *The Economist*, *The New York Times*, *U.S. News & World Report*, *Business Week*, and *Fortune*. Alone and in combination, these resources contain a wealth of information you'll find pertinent to your study of economics. All of these publications are available free at your library, and you should plan to become a regular reader. Their analyses, editorials, and features will bring into sharp focus the material you'll be studying, from the economics of pollution control to the cost of agricultural subsidies and government assistance to the poor. In the pages of these publications you'll be introduced to new industries and growing companies (your future job market!); to talented young entrepreneurs and corporate leaders with decades of experience; to high government officials and foreign heads of state. Reading these publications regularly gives you the chance to expand your horizons beyond the classroom and to see how the economic principles you're learning work in the real world.

3. Talk to Your Classmates Outside of Class Discuss what you're learning and how it fits in with your curriculum and your ambitions. Their interests, family backgrounds, job experience, and career plans can be a productive resource for you. Classmates may be related to or acquainted with someone who's succeeding in a career to which you're attracted—and you may be helpful to them in the same way. Consider forming a study group for review and discussion of the material you're covering, or enhance your personal interaction skills by organizing a team to prepare a class project.

4. Consider Economics as a Major Talk to or read about people who have degrees in economics. You'll find them in literally dozens of fields. The Career Profiles in the book show you just a few of the choices that can be made, but you'll find economics majors are succeeding as entrepreneurs, diplomats, bankers, journalists, Cabinet heads, corporate leaders, consultants, judges, and politicians.

Because economics is such a wide-ranging discipline, it's an excellent adjunct to many programs of study. If your major is business administration, political science, or international relations, a minor in economics will provide valuable insights into the contemporary social environment. If you elect to concentrate in marketing or finance, you can profitably pursue economics as a second major or a minor. A pairing of economics and journalism can help you lay the groundwork for a successful career in business communications. An undergraduate degree in economics also serves as an excellent foundation for graduate work in a variety of fields: business, law, public administration, and health, to name a few.

If you decide to become a professional economist, you almost certainly will need a graduate degree and will be pursuing career opportunities in business, teaching, research, or government. The National Association of Business Economists publishes a helpful booklet, *Careers in Business Economics*,¹ that describes the responsibilities of economists in government, insurance, banking, consulting, investments, industry, and communications. The booklet also outlines the education requirements for business economists and provides information on salaries.

5. Apply Economics in Your Life Above all, recognize that your "laboratory" for economics is no less than the world you live in. In this wider environment are valuable examples that will reinforce the economics you'll be learning from this text and from your class discussion. Be in tune with these applications wherever you find them—newspapers, magazines, television and radio; or from discussions with teachers, friends, and family; or from the everyday experiences of your own life.

I think you'll find that in all your endeavors, you'll be well served by the discipline of the economic way of reasoning. It's hard to think of a situation in which you wouldn't benefit from thinking logically and weighing alternatives. Good luck as you begin your exciting adventure.

David N. Hyman

¹Copies of this booklet may be obtained from the National Association of Business Economists, 28349 Chagrin Blvd., Suite 201, Cleveland, OH 44122. Single copies are free; quantity discounts are available.

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D. N. H.

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