

F O U R T H E D I T I O N

# ECONOMICS



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# U\$A

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**W. W. NORTON AND COMPANY**

NEW YORK • LONDON

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4th Edition

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Printed in the United States of America

The text of this book is composed in Zapf Book  
with the display set in Gill Sans

Composition by University Graphics, Inc.

Manufacturing by Quebecor, Hawkins

Book design by Martin Lubin

#### Library of Congress Cataloging-in-Publication Data

Mansfield, Edwin.

Economics USA / Edwin Mansfield, Nariman Behravesesh.—4th ed.

p. cm.

Includes index.

ISBN 0-393-96641-0

1. Economics. 2. United States—Economic conditions—1945–

I. Behravesesh, Nariman. II. Title. III. Title: Economics USA.

HB171.M325 1995

330—dc20

94-20561

CIP

W. W. Norton & Company, Inc., 500 Fifth Avenue, New York, N.Y. 10110

W. W. Norton & Company Ltd., 10 Coptic Street, London WC1A 1PU

2 3 4 5 6 7 8 9 0

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FOURTH EDITION



# **ECONOMICS**

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# Preface

This book has been prepared to accompany the telecourse *Economics USA*, which was developed under a grant from the Annenberg/CPB Project. The telecourse is designed to use economic events in America, present and past, to help teach the principles of economics. The elements of this telecourse include: a 28-part television series, this textbook, a telecourse study guide, a text review guide, a 28-part audio series, a faculty manual, and a test bank. The aim of this integrated approach to teaching introductory economics is to use actual economic events to motivate study of the principles of economics, and to show how these principles can help us understand the complex and dynamic American economy.

This text is an adaptation of Edwin Manfield's *Economics: Principles, Problems, Decisions*. The chapters in the text follow the same sequence as the television programs, and there is much overlap in content between text and video. All chapters include case studies that focus on economic events covered in the corresponding television programs. The telecourse also includes a set of audio programs, intended especially for two-semester principles courses, that helps students review major points and explore subjects further through additional interviews. *Economics USA* integrates text, video, and audio to an unprecedented degree in introductory economics.

Among the new features contained in this fourth edition are the following case studies: (1) GDP versus GNP, (2) SEMATECH: Should Government Subsidize Semiconductors? (3) McKinsey on Manufacturing Productivity, (4) A Commission Whacks a Telephone Company. Also, considerable changes have been made in the following case studies: (1) Unemployment and Inflation, (2) What Happened to the Peace Dividend? (3) Eastern Europe: Problems in Instituting the Price System, (4) Can International Policy Coordination Work? In addition, this new edition contains a variety of new topics, such as the discussion of endogenous technological change in Chapter 25 and the addition of new material on GDP. Further, all of the tables and figures, as well as the discussion of events and relationships, have been updated.

To deepen and enliven the discussion of contemporaneous economic issues, a new book, *Leading Economic Controversies of 1995*, edited by Edwin Mansfield, will be provided to purchasers of *Economics USA*, Fourth Edition. To arouse students' interests in present-day controversies, this book presents contrasting (or in some cases, complementary) views by leading policy makers (like Alan Greenspan and Boris Yeltsin), prominent scholars (like James Tobin), and major business executives and labor leaders (like Robert Lutz and Lane Kirkland). The articles, many of which are

based on speeches, tend to be lighter in tone—and hence more palatable to students—than many other discussions of these issues.

As an aid to students enrolled in the telecourse, the Southern California Consortium and Elizabeth Sawyer Kelly of the University of Wisconsin have prepared a Telecourse Study Guide, which includes learning objectives, key terms, overviews of text and video, questions and problems (with answers), and “Extended Learning” sections for the two-semester course. The Telecourse Study Guide will help students bridge the material in the text, the video, and the audio programs.

This book can be used as the text in a telecourse based on the entire *Economics USA* television series, and can stand on its own as the text in a traditional lecture course. (If they like, teachers of such courses can supplement their lectures with individual television programs from the series.) The text is suitable for the one-semester survey of economics or, with the supplementary “Exploring Further” sections at the ends of chapters, for the two-semester principles course.

In courses where this book is used on its own, many students will want to use the accompanying *Text Review Guide*, prepared by Edwin Mansfield. Each chapter of the *Text Review Guide* contains many completion questions, true-false questions, multiple-choice questions, discussion questions, and problem sets. These batteries of questions can be used by students for review, as well as for classroom discussion. All of these questions have withstood the test of widespread classroom use.

In this edition, the *Text Review Guide* contains the following five cases: (1) Effects on GDP of the 1994 California Earthquake (by the WEFA group), (2) Promoting Technology and Economic Growth (by the Council of Economic Advisers), (3) Cable Television and Government Regulation (by Robert Crandall and Edward Markey), (4) The Well-Paid Receptionist (by Roland Cousins), and (5) Ownership and Pricing of Natural Resources (by the Council of Economic Advisers). This is a major feature of this new edition of the *Text Review Guide*.

While it is difficult in many jointly authored works to assign responsibility, in this case it is relatively easy. Nariman Behravesch reorganized and edited the material in Mansfield's *Economics* to make it parallel the telecourse; in addition, he was responsible for the case studies that appear over his initials, as well as the glossary of terms. He was assisted in this effort by Mary Yates of Wharton Econometric Forecasting Associates. Edwin Mansfield is responsible for the text itself (other than Behravesch's case studies and glossary); also, he performed a detailed edit of the final version of the manuscript.

We are grateful to the following teachers, who commented in detail on a preliminary version of the manuscript: Robert C. Augur, Pasadena City College; Carlos Aguilar, El Paso Community College; James E. Clark, Wichita State University; Curtis Clarke, Eastfield College; Peter Dorman, University of Massachusetts; Dorsey Dyer, Davidson County Community College; Clinton Greene, College of St. Benedict; Paul Grimes, Mississippi State

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**PREFACE**

University; Dan Harrison, Murray State University; Bruce Herrick, Washington and Lee University; Ralph F. Lewis, Economics Research, Inc.; James Phillips, Cypress College; Victor H. Rieck, Miami-Dade Community College; David L. Schwartz, Albright College; Steve Smith, Rose State College; John Somers, Portland Community College; and Michael Vaughan, Weber State College. In addition, we would like to thank Catherine Wick and Drake McFeely for their efficient handling of the publishing end of the work.

Philadelphia, PA

E.M.

N.B.





**PART I**

**INTRODUCTION**

**TO ECONOMICS**

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