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RUDIGER DORNBUSCH

INTRODUCTION TO



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Introduction to
Macroeconomics

To

Michael, David, and Jonathan
and
Sergio

Introduction to Macroeconomics

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Introduction to Macroeconomics

Introduction to Macroeconomics, along with its companion volume *Introduction to Microeconomics*, is written with two notions about the level and range of material covered. The first is that there is an essential, simple, usable body of economics that has to be learned in any introductory course. The second is that modern economics is more interesting and more readily applicable to analysis of the real world than traditional approaches suggest.

Preface

The Core Chapters

The material covered in the core of the text (Chapters 3–9) is fundamental. We start with national income accounting, and go on to present aggregate demand, fiscal policy, money and banking, monetary policy, and international trade.

Even in these core chapters, our approach to economics emphasizes a blend of theory, applications, and policy discussions that brings economics across as the relevant and live social science that it is. Whenever possible—and it is almost always possible—we illustrate the use of the analysis developed in each chapter by applying it to an example from the U.S. economy or the economy of a foreign country. From the start we emphasize the view that economics can be used in understanding and analyzing real-world problems.

Beyond the Core

The remainder of the book shows how to use and extend the material of the core chapters. The most important extension is the development, at an appropriately simple level, of the theory of aggregate supply and demand. We present a complete analysis of the determination of output and of the price level and the rate of inflation. *Supply side economics* is introduced in discussing the determinants of full employment output. There are separate chapters on unemployment, and on the costs and effects of inflation. Chapter 15, on money, deficits, and inflation, discusses topics of current interest in a lively way—and at the same time presents evidence from the German hyperinflation that emphasizes the basic links between money and inflation in extreme circumstances. Chapter 16, on growth and investment, continues the discussion of supply side economics and productivity growth. This material is topical and of fundamental long-run importance, and

it is presented at a level that is easily understandable by the student.

With exports now accounting for 12 percent of GNP and imports a growing policy problem, it is time that international trade be moved out of the shadows. Chapter 17 introduces trade and the balance of payments, presenting facts and definitions. This chapter is supplemented by Chapter 18, which analyzes the real side of trade—comparative advantage, intra-industry trade, and tariffs and export subsidies—and by Chapter 19, on exchange rates and international finance. In these three chapters, as in the rest of the book, we draw continually on the real world for examples to illustrate concepts and analyses.

The book concludes with two chapters on big questions. Chapter 20 explains the problems that have led the developing countries to push for a New International Economic Order, and assesses the likely outcome. Chapter 21 discusses alternative economic approaches and systems.

Economics for the Eighties

Most of our examples, applications, and extensions of the basic material are drawn from and apply to the economic environment of the 1980s. We give extensive treatment to such issues as government deficits and inflation, the merits of balanced budgets and the limits of both Keynesian economics and monetarism, problems of the international monetary system, competition from foreign producers of automobiles, and interest rates and inflation.

Level of Exposition

We cover the essential principles material slowly and thoroughly. Even where we discuss topics that are usually thought of as more advanced, we believe we succeed in keeping the exposition at a level appropriate to the beginning student. We do not rely on algebra, or the geometry of maximiza-

tion, or macroeconomic general equilibrium.

Instructor's Manual

An instructor's manual which includes test questions is available from McGraw-Hill. Professor Michael Morgan of Western Kentucky University has written the questions. We have written the introductions to the chapters, briefly outlining in each case what the student should get from that chapter.

TO THE STUDENT

There is no denying that it takes many years of study to become a complete economist with a professional's command of the subject. Most of you probably have no wish to become professional economists. But fortunately the basic issues studied by economists, the framework of analysis, and many of the conclusions can be understood very quickly in an introductory course. Our emphasis on applications is designed to convince you that the economics you are learning is about the real world and is not just a set of textbook exercises.

There is an old complaint that economists never agree about anything. This complaint is simply wrong. The press, cab drivers, and your uncle and aunt love to talk about topics on which there is disagreement. It would be a boring news show that presented two people with the same view, so the directors of TV programs search for economists who will disagree.

But economics is not a field in which there is always an argument for everything. There are answers to some questions and not to others. One of the aims of the book is to show why we understand some issues, and what the disagreements are about others. In choosing the applications in this book, and especially in policy discussions, we have tried to develop this perspective on economics.

How to Study

There is a world of difference between reading about economics and actually *doing* and understanding economics. The aim of the book is *not* to tell you what economics is about. Rather, we hope the book will enable you to both learn how to use economics and understand how to attack and analyze problems.

To *do* economics you have to learn *actively*. Reading is not enough. You should be fighting with the text. When the book says “clearly,” ask yourself why. When the text makes three points, check back to the first when you hit the third. Above all, when the text applies the analysis, follow the application with care. When a line is drawn one way, ask why. See if it can be drawn differently. Do the problems.

Be on guard against our attempts to make the text clear. Each paragraph may be easy reading, but you also have to keep check on how the paragraphs add up to a complete picture. At the end of each section ask yourself what you have learned. And to make sure, you may want to jump ahead to the chapter summary.

Study Guide

Professor Michael Morgan of Western Kentucky University has prepared an excellent study guide that accompanies the textbook. It briefly reviews each chapter and then provides many questions that enable you actively to learn the material of the chapter. The questions in the *Study Guide* in effect take you step-by-step through the analysis of the chapter.

Anyone who has worked through the *Study Guide* will understand the material in the book.

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and gave us the benefit of their own teaching experience, by students who used and commented—quite frankly—on earlier drafts, by the McGraw-Hill team, and by our assistants.

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