

ECONOMICS

and the Modern World



M AURICE **L** EVI

ECONOMICS AND THE MODERN WORLD

MAURICE LEVI

University of British Columbia

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Address editorial correspondence to:

D. C. Heath and Company
125 Spring Street
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Developmental Editor:	Stephen Wasserstein
Production Editor:	Carolyn Ingalls
Designer:	Jan Shapiro
Photo Researcher:	Nancy Hale
Art Editor:	Diane Grossman
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ECONOMICS AND THE MODERN WORLD

To the new owners of Levi genes,
Adam, Naomi, and Jonathan

*No profit grows where is no pleasure ta'en;
In brief, study what you most affect.*

William Shakespeare
The Taming of the Shrew

A WORD TO THE INSTRUCTOR

In writing this brief introduction to economics, I have kept two important objectives in mind, namely, to produce a book that despite its brevity,

1. does not sacrifice the analytical content of the very best two-semester texts, and
2. captures the student's interest early on by showing how useful it is to learn economics and holds that interest by showing how closely connected economics is to other disciplines.

Of course, maintaining analytical content and student motivation in half the number of pages of a typical full-length text means confronting the essence of the economic problem itself, requiring very difficult choices over what subject matter to include. Fortunately, so much material has been assimilated into most longer texts that while the task of meeting the stated objectives seemed formidable at first, I feel comfortable that the completed book has, if anything, gained from making careful choices about content. These gains arise from the smoother flow between central economic principles that occurs when nonessential matter is avoided and from the quicker pace of learning that brevity allows. Furthermore, by demonstrating the close connections of economics with the other areas of inquiry from which introductory economics students are typically drawn, the chance of capturing and holding the student's interest is greatly enhanced.

The importance of capturing the student's interest, and doing this early on, can be given no stronger testimony than by the lament so many instructors have heard near the end of their introductory courses: "If I had known how interesting this course would have been, I would have studied harder." To avoid this lamentable situation, this book demonstrates in the opening chapter how economic principles can be applied usefully to a problem the student has certainly faced—that of deciding whether to enter college, and if already in college, whether to remain. This immediately brings economics within the students' experience and vividly demonstrates the value of mastering the subject.

Of course, in learning economics, students must be prepared for unrealistic-sounding assumptions and not immediately discount everything that follows before seeing how helpful the assumptions can be. Therefore, the nature and role of assumptions are described in the context of the opening example. This keeps the explanation from being abstract and allows us to show immediately that assumptions are just a step in reaching testable implications. The opening example also shows how predictions of economics can be subjected to the evidence in order to judge the validity of theories.

As the book proceeds and deals with the analytical material that is usually covered in full-length texts, Crossing Bridges sections show the interconnectedness of economics and a wide range of subject areas that students are also studying. The connections that are drawn link economics to an eclectic array of subjects from theology to physics, history, law, psychology, sociology, anthropology, mathematics, and literature. The purpose of showing the connections between economics and other disciplines is to demonstrate that economics does not exist in a vacuum, having influenced other disciplines, having been greatly influenced itself, and having interests in common with other disciplines. With so many students in introductory economics courses being majors (or intended majors) in the humanities, natural sciences, business, and other social sciences, it is particularly important to link economics to their principal areas of inquiry; no presumption can be made that such students come with a strong motivation to learn economics, as might be so for two-semester courses which may contain economics majors. Indeed, many one-semester students take economics as a program requirement, often with great reluctance. The quick demonstration of the payoffs from learning economics and the steady stream of connections explained in the Crossing Bridges sections are especially aimed at such skeptical students.

Economics instructors, whose passion by choice of discipline is economics, can easily forget that students' interests lie elsewhere. Therefore, even though some instructors may consider bridges between economics and psychology, engineering, biology, marketing, theology, physics, or literature a distraction, the student majoring or interested in one of these fields may view the matter very differently. Indeed, identification of just one or two close connections might be the spark that lights the fire of interest in economics, showing that it is not detached from the student's other subjects. The variety of bridges considered is purposely large to provide lots of sparks. This should appeal particularly to economics instructors in liberal arts colleges, but instructors should explain that the Crossing Bridges sections are not for studying or learning in the same way as the main body of the text. Rather, these sections are for reading to gain a sense of how economics connects to the student's principal interest and to the body of human knowledge. Every effort has been made to make the material accessible and include something of interest to everyone.

It should be emphasized that it is *connections*, broadly defined, that are traced in the Crossing Bridges sections. That is, these sections do not simply describe the contributions that economics has made to other disciplines. Nor do they simply describe the debts owed by economics to other fields. Indeed, the connections go beyond the busy two-way flow of traffic of ideas between economics and other areas of scholarly inquiry. Some of the connections involve no intellectual arbitrage between economics and other fields but represent, for example, a common interest in a matter, even if the matter may be viewed from a very different perspective. The idea is to show the reader that an education in just about any field is

likely to touch on subjects dealt with in economics, just as an education in economics is likely to touch on subjects in other fields.

As well as being distinct in its preservation of analytical content and in its relating of economics to an eclectic array of disciplines, this book has a few other idiosyncratic features. One difference is that rather than describe concepts and methods at the beginning of the book in an abstract way as is done in many textbooks, this book defines terms and explains concepts as they are used. They therefore appear, not in a vacuum, but in the context of the initial application. This is a more natural way of learning and corresponds to what has been learned in language education. (Extensive research has shown the rote method of learning lists of vocabulary, verb conjugation, and so on is an ineffective way of learning a foreign language. Just as we grow up learning our mother tongue by using it in practical situations, so we can learn foreign languages most effectively by using them in practical situations and in context.)

This book differs from many other introductory texts by dealing with the background to the supply and demand curves before introducing the laws of supply and demand. I believe that presenting the laws of supply and demand before the background to these curves, as is so often done, is like reading a celebrated period novel without knowledge of the period or like viewing a painting without knowledge of its context; qualities are missed without the relevant background. By developing the background to the demand curve and supply curve before putting them together for the laws of supply and demand, it is possible to provide a deeper appreciation of this central economic paradigm.

Another difference of this book from many other introductory texts is that the approach to macroeconomics is one of topical orientation rather than methodological orientation. In particular, the chapters revolve around the central economic issues on the student's mind, such as inflation, unemployment, interest rates, and exchange rates, rather than revolve around the circular flow of income, goods market equilibrium, and other abstract matters. Of course, the methodology that is used is that of the circular flow of income and so on found in traditional texts. The way the treatment differs is in the organization of material to fit it around the issues. This is done so that as students read, for example, about inflation, they find the answers to the questions they already had in their minds, such as "What causes inflation?" "Who gains and loses from inflation?" and so on. The idea is to open the door on the students' existing curiosity.

Two background chapters lead into the macro section; the first describes the national income and product accounts, and the second deals with money and financial intermediation. This book puts money early in the macro chapter sequence so that references can later be made to money supply and monetary policy. The consequences of macroeconomic policies are explained in the context of the phenomena, or variables, that the policies affect rather than in a separate chapter about macroeconomic policy. The consequences of policies are dealt with after explaining how each macroeconomic variable is measured, what factors affect the variable, and what effects the variable has on ordinary people.

A further characteristic of the book involves the description of the gains from international trade, which, rather than being left to the end of the book, is covered very early on along with the gains from domestic trade. Given that the gains have the very same sources, it would seem only natural to discuss them at the same time.

If the instructor elects to skip the generally more challenging sections marked as “omittable without loss of continuity” and if some of the stand-alone examples are skipped, the pace and level are similar to other middle-level brief texts. The reason the slightly more challenging, omittable sections are included is to allow introductory students who are so turned on by economics that they want to take further courses to be able to get up to speed with students having a full-length introductory experience. The reason the stand-alone examples concerning recent news stories are included is to show students that economics can help them make sense of what they read and hear. I feel that it is better to offer too much and have the instructor elect whether to cover certain material than to offer too little. Furthermore, many students are up to the challenge of covering the entire book.

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Maurice Levi
Bank of Montreal Professor
University of British Columbia

A WORD TO THE STUDENT

While most of the steps in economic arguments are not difficult to follow, the cumulative effect of the many steps it can often take to reach conclusions sometimes leaves the student dizzy. This problem can be overcome by taking a number of precautions.

In order to ensure that you recall conclusions when they are used later as a part of an argument, it helps periodically to close the textbook and to retrace the argument you have just read. This can be done by jotting it down on a writing pad, making sure to include all graphical figures, complete with labeling of the axes. This procedure of retracing arguments with the book closed is useful both for committing the material to memory and for checking whether you are ready to move ahead. You should be meticulous about rereading the parts you are unable to retrace. Even if it takes several rereadings, it is well worth doing. If you try to push ahead when you have been unable to retrace the preceding few pages, you are almost certain eventually to become stuck. Moreover, once stuck, it may not be obvious where you need to turn to find the step needed to clear up your confusion. It is difficult to overstate this need to ensure that you follow everything before moving ahead, because otherwise at some point, after a long chain of reasoning, “if A then B , if B then C ” and so on, you may face the statement, “if A then D ,” and you won’t know where it came from or even where to look in order to find out.

After you have opened and closed the book and reached the end of a chapter, you should look over the Summary that is provided to ensure that every point is completely clear. Only after you feel comfortable with the statements in the Summary should you move on to the next chapter.

The preceding warning should make it clear that economics is not the sort of subject you can read casually during the semester and expect to learn during the last couple of weeks to take the final exam. Economics is a subject you must work at. In this sense it is like mathematics. However, it doesn’t take any mathematics beyond that from high school to read this book. What it takes is your own patient testing that you properly understand what you are reading before you move ahead. If you do this, you will not only move ahead with little difficulty, you will also know what you need to know when the final exam rolls around.

On the subject of exams, it might comfort you to know that I have included the Crossing Bridges sections at the end of each chapter not to be studied and learned like the main body of the text but to be read for a sense of how economics relates to other areas of enquiry. Students majoring in the sciences, history, political science, literature, and so on could be surprised at the connections between their principal interest and economics. They will almost certainly be surprised by how many connections there are between economics and a vast array of subjects. Because of their different purpose, you can read the Crossing Bridges sections more quickly than the other parts of the book. However, you are advised to read them all. They give the broadest possible perspective on economics, and like *The Wizard of Oz* connections drawn in Chapter 18, they can be fun.

Finally, please note that sections marked with an asterisk are generally more difficult than other sections and can be omitted without a loss of continuity; nothing that follows depends on these sections. Questions and summary items relating to sections marked with an asterisk are also marked with an asterisk.

M. L.



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