
Macro- economics

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MACROECONOMICS

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Macroeconomics

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Macroeconomics reflects our conviction that principles of economics texts have become too long and encyclopedic. *Macroeconomics* is meant to teach students the most important economic principles—not *every* principle and its qualifications—and how these concepts can be applied to the real world in which we live. We have sought to provide a nontechnical, modern, policy-oriented text that can be covered in the normal-length course.

Macroeconomics meets three basic needs of first-time students of economics. First, it teaches the core theory of economics in an up-to-date format. Second, it addresses the key economic policy issues of the day, from growth and deficits to unemployment and international competition. Third, it teaches students to apply economics to the real world. Each chapter contains two or more real-world applications of theory to practice.

The emphasis on policy is achieved through a structural innovation. Each chapter begins with a “policy focus” to illustrate the policy issues that the chapter addresses. Each chapter ends with a “policy example” that applies the material of the chapter to a selected policy issue. This structure reinforces the importance of policy. This strengthens the student’s interest in such policy issues as the independence of the Fed, balanced-budget amendments, and assistance to the former Soviet Union.

The “Doing Economics” sections at the end of each chapter, written by Jeffrey Parker of Reed College, challenge students to apply what they have learned in the chapter to a small project. The assignment poses an economic question and tells the student how and where to gather the information necessary to complete the assignment. In this way, students can test concepts they have learned and round out their understanding.

In recent years, many instructors have expressed a desire to teach macroeconomics using the tools of aggregate demand and supply entirely in place of the income-expenditure and multiplier approach of Keynes. *Macroeconomics* allows the instructor to follow either approach. The aggregate demand and aggregate supply chapter is placed before the Keynesian model. This placement allows the instructor either to go directly from aggregate demand and supply to the remaining macro chapters or to the Keynesian income-expenditure model.

ORGANIZATION

Macroeconomics is organized into four parts. Part One (Chapters 1–4) introduces the building blocks of economics that should be learned before proceeding to the

study of macroeconomics. These chapters discuss scarcity, opportunity costs, the production-possibilities frontier, the law of comparative advantage, the price system, the laws of supply and demand, and the role of government. An appendix to Chapter 1 explains how to read graphs.

The development of macroeconomic theory begins in Part Two with an outline of the basic concepts of unemployment and inflation (Chapter 5) and the basic principles of national-income accounting (Chapter 6). Chapter 7 covers the core of macroeconomic theory by introducing aggregate demand and aggregate supply. Chapter 8 covers Keynes's income-expenditure model and multipliers.

Part Three is devoted to problems and policies in macroeconomics, beginning with fiscal policy and national debt (Chapter 9), the monetary sector (Chapters 10–12), and ending with a discussion of the problems of stagflation and stabilization (Chapters 13–14).

Part Four examines the global economy by first examining the determinants of economic growth (Chapter 15) and then moving to the discussion of international economics in Chapters 16 and 17. Chapter 16 shows how the law of comparative advantage applies on an international scale and gives an analysis of protectionism. Chapter 17 studies the foreign exchange market, the balance of payments, and the problems of international monetary coordination. Chapter 18 rounds out Part Four by studying capitalism and socialism.

SUGGESTIONS FOR COURSE PLANNING

This book is intended for the macroeconomics part of the two-semester sequence in economics that is traditionally taught as a first- or second-year college course. The instructor teaching a quarter course in macroeconomics can build a course around the chapters listed below.

Introduction

1. What Is Economics?
2. The Price System
3. Supply and Demand
4. Government and the Economy

Macroeconomics

5. Unemployment, Inflation, and the Business Cycle
6. Measuring Gross Domestic Product
7. Aggregate Demand and Aggregate Supply
8. The Keynesian Income-Expenditure Model
9. Fiscal Policy and National Debt
10. Money and Prices
11. Commercial Banking and the Federal Reserve
12. Monetary Policy
13. Inflation, Unemployment, and Stagflation
14. Stabilization Policy

Instructors who wish to eliminate the Keynesian model can do so by dropping Chapter 8 and making proper adjustments in the chapter on fiscal policy.

SUPPLEMENTS

This book's supplements include an *Instructor's Manual*, *Study Guide* and *Test Bank* (available in both print and computer form for the IBM-PC and compatibles).

The *Instructor's Manual*, prepared by Henry Thompson of Auburn University, is a valuable teaching aid because it supplies the instructor with examples and real-world illustrations in addition to those in the text. A chapter outline gives a brief overview of the material; it assists the instructor in preparing lecture outlines and in seeing the logical development of the chapter. Each chapter contains teaching hints designed to bring economic concepts to the student level, key points, examples, short-answer questions and problems, and answers to questions and problems in the text.

The *Study Guide*, prepared by Jeffrey Parker of Reed College, contains an extensive review section for each chapter/appendix. The "Key Graphs" subsection features important in-text graphs, along with a detailed explanation of the meaning of each. "Key Equations" takes important in-text equations and links the symbolic representation to the verbal explanation. "Preparing Yourself for This Chapter" informs students of prior theories or chapters that should be reviewed to better understand the chapter at hand. "Foundations for Future Chapters" indicates what material in the present chapter will be built upon in future chapters. Multiple-choice problems, true/false questions, essay questions, and more advanced challenge problems all teach as well as test. Full solutions are available.

The *Test Bank* contains 2,200 questions, mainly multiple choice, and some short-answer questions.

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Many students find economics a difficult subject because economics cannot be mastered through memorization. Economics relies on economic theories to explain real-world occurrences—such as why people buy less when prices rise or why increased government taxation may increase unemployment. An economic theory is simply a logical explanation of how the facts fit together in a particular way. If the theory were not logical, or if the theory failed to be confirmed by real-world facts, it would be readily discarded by economists.

The successful student will be the one who learns that economics is built upon a number of fairly simple and easy-to-understand propositions. These propositions and assumptions—that businesses seek to maximize profits or that consumers base their expenditure decisions on disposable income—form the building blocks upon which economics is based. These propositions are typically little more than common sense. If a major building block is missing, however, the whole structure can fall apart. To prevent the student from overlooking or forgetting a critical building block, we frequently engage in pedagogical review. In other words, when a new proposition is added to a theoretical structure, the underlying propositions are briefly reviewed.

Economics—like other academic disciplines—has its own vocabulary. Unlike the physical sciences, however, where the student is encountering terms for the first time, much of the vocabulary of economics—terms such as *efficiency*, *capital*, *stock*, *labor*—has a common usage that is already familiar to the student. Economists, however, use the vocabulary of economics in a very exact way, and often the common usage of a term is not the same as the economic usage. In this book, each key term appears in boldface type where it is first discussed in text. Immediately following the paragraph where the term first appears in boldface type, the formal, economic definition of the term is set off in color. At the end of each chapter is a list of all the key terms that have been boldfaced and given formal definitions in that chapter; a glossary at the end of the book contains all the definitions of key terms and gives the chapter number in which the term was defined.

Economics attempts to explain in a logical manner how the facts bind together. Modern developments have occurred because established theories were not doing a good job of explaining the world around us. Fortunately, the major building blocks of modern theory—that people attempt to anticipate the future, that rising prices motivate wealth holders to spend less, that people and businesses gather information and make decisions in a rational manner—rely on commonsense logic.

Economics is valuable only if it explains the real world. Economics should be able to answer very specific questions like: Why are there three major domestic producers of automobiles and hundreds or even thousands of producers of textiles? Why is there a positive association between the growth of the money

supply and inflation? Why does the United States export computers and corn to the rest of the world? Why do restaurants rope off space during less busy hours? If Iowa corn land is the best land for growing corn, why is corn also grown in Texas while some land stands idle in Iowa? Why do interest rates rise when people expect the inflation rate to increase? What is the impact of the well-publicized government deficit? The successful student will be able to apply the knowledge he or she gains of real-world economic behavior to explain any number of events that have already occurred or are yet to occur.

In writing this book, we have made a conscious effort to present arguments and evidence on both sides of every economic controversy. We attempt to make a case for each distinct viewpoint, even if it would be more interesting and less complicated to come out strongly in one camp. We believe it is best to allow the student to keep an open mind at this very early stage in the study of economics.

This book contains a number of important learning aids.

1. The *Learning Objectives* that precede each chapter provide a brief overview of the important points to be learned in that chapter.
2. *Definitions* are set off in color following the paragraphs in which key terms are introduced in context.
3. *Key Ideas*—important economic principles or conclusions—appear in the margins.
4. *Boxed Examples* allow the student to appreciate how economic concepts apply in real-world settings, without disrupting the flow of the text, and supplement the numerous examples already found in the text discussions.
5. A *Chapter Summary* of the main points of each chapter is found at the end of each chapter.
6. *Key Terms* that were defined in color in the chapter are listed at the end of each chapter.
7. *Questions and Problems* that test the reader's understanding of the chapter following each chapter.
8. A *Glossary*—containing definitions of all key terms defined in color in chapters and listed in chapter "Key Terms" sections—appears at the end of the book. Each entry contains the complete economic definition as well as the number of the chapter where the term was first defined.
9. A thorough *Index* catalogs the names, concepts, terms, and topics covered in the book.
10. The *Doing Economics* sections are end-of-chapter assignments and projects concerning the theoretical material in that chapter.

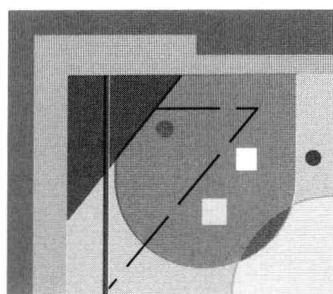
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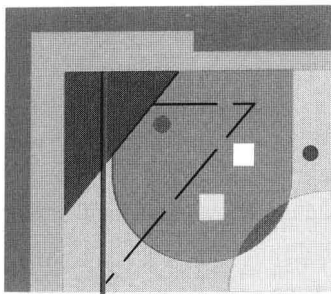
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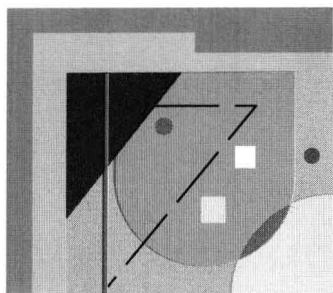
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