

Kamerschen  
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Nardinelli

# **ECONOMICS**

SECOND EDITION





# ECONOMICS

## SECOND EDITION

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### Chapter Epigraphs

- CHAPTER 1. Frank H. Knight, "Economics, Political Science, and Education," in *Freedom and Reform: Essays in Economics and Social Philosophy* (Indianapolis, Ind.: Liberty Press, 1982), p. 386.
- CHAPTER 2. Lionel Robbins, *The Nature and Significance of Economic Science*, 2nd ed. (New York: Macmillan, 1973), p. 16.
- CHAPTER 3. Friedrich A. Hayek, *Law, Legislation, and Liberty* (Chicago: University of Chicago Press, 1979) III, p. 74.
- CHAPTER 4. John Locke, *The Second Treatise of Government*, ed. Thomas P. Peardon (New York: The Liberal Arts Press, 1954), pp. 32–33.
- CHAPTER 5. Lewis Carroll, *Through the Looking Glass and What Alice Found There* (A number of modern sources are available.)
- CHAPTER 6. Henry C. Wallich, "Honest Money," *Macroeconomics 1979: Readings on Contemporary Issues* (Ithaca, N.Y.: Cornell University Press, 1979), p. 43.
- CHAPTER 7. David T. Bazelon, *The Paper Economy* (New York: Vintage Books, 1965), p. 73.
- CHAPTER 8. Milton Friedman, *Dollars and Deficits: Inflation, Monetary Policy, and the Balance of Payments* (Englewood Cliffs, N.J.: Prentice-Hall, 1968), p. 165.
- CHAPTER 9. Roger Leroy Miller, Raburn M. Williams, *The Economics of Natural Issues* (San Francisco: Canfield Press, 1972), p. 114.
- CHAPTER 10. E. Ray Canterbury, *Economics on a New Frontier* (Belmont, Calif.: Wadsworth Publishing, 1968), p. i.
- CHAPTER 11. Alvin H. Hansen, "The General Theory," in M. G. Mueller, ed., *Readings in Macroeconomics*, 2nd ed. (New York: Holt, Rinehart and Winston, 1971), p. 23.

(Continued at the end of the book.)

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## DEDICATIONS

To Gena, my wife and best friend, for her love,  
understanding, and companionship DRK

To my wife Karen with love RBM

To Laurie, who makes everything else possible CN



# Preface

Whether or not we realize it, we all make countless economic decisions every day. Is it better to live in the Northeast or the Southwest? Better to buy clothes or books? Better to eat at home or go to a restaurant? Economics plays a prominent role in all our lives, but we often don't understand how or why.

On the surface, economics seems to be a complex—even arcane—welter of facts and figures. In reality, however, economics is based on a few central theories. Our aim in this text is to explore these economic principles in order to clarify the science of economics for the student. Using theory as the “engine of analysis” to provide the necessary structure and methodology, this text applies it to the economic policies that affect us and the economic problems we all face. The intent is that students completing this text will have a better understanding of why inflation and unemployment occur, how the market power of a monopoly affects the way a market works, the power and limits of governments to remedy economic problems, and other issues.

Consensus among economists has been hard to achieve in the 1980s. Old solutions have failed to work, new solutions have been proposed, and we are typically confronted by several quite different answers to any given question. But another central purpose of this text is to show students that a surprisingly small number of concepts, principles, and models are common to any proposed solution, and that the different views of different economists are more a matter of interpretation than of methodology.

## The Text

With these central purposes in mind, *ECONOMICS*, Second Edition, has been designed to be comprehensible and adaptable to most curricula, to be rich in applications, and to make economics easier to learn.

### **A Text That is Comprehensive and Adaptable to Most Curricula**

Part I forms an introduction to macroeconomics (Parts II through V) or microeconomics (Parts VI through IX), so *ECONOMICS*, Second Edition, is equally suited for a macro/micro sequence or a micro/macro sequence.

#### *Macro*

Parts II through V form the core of the macro section, and treat money and monetary policy before covering national income and fiscal policy. Part IV ends with a thorough development of aggregate supply and demand, which was introduced in Chapter 6. In Part V, “Alternative Views of the Macroeconomy,” monetarism, supply-side economics, and rational expectations theory are covered in three self-contained chapters. They are unified by reference to the aggregate supply/demand model, but each is complete in itself, allowing instructors to choose whether or not to assign any or all of these chapters.

#### *Micro*

Parts VI through VIII form the core of the micro section. Appendices treating indifference curves, isoquants, isocosts, and several other optional topics allow instructors to choose whether or not to cover them in their principles course. In Part IX, optional chapters covering market failures, government controls, agriculture, and public choice provide further flexibility in choosing specific areas of microeconomics applications.

## Key Features of the Second Edition

In revising *ECONOMICS*, Second Edition, we sought the advice of many users of the first edition. We were heartened by their encouragements and attentive to their criticisms. In general, we feel the second edition reflects the improved coverage that three authors, each writing extensively within his own specialty areas, can bring to an introductory text. More specifically, the second edition features:

- New chapter pedagogy
- Fully integrated ancillary package
- Extensively revised Macroeconomics, especially in the coverage of monetarism and money and banking

- Increased coverage of production and cost in Microeconomics, plus a continued focus on applications
- Revised coverage of industrial market theory
- Improved coverage of international economics
- New coverage of the national debt and the balance of payments
- Many new “Perspectives” boxes
- Nine special “Dialogues,” in which economists argue two sides of an important issue
- An all new Appendix, “The Nobel Laureates in Economics,” which includes biographical information and drawings of these premier economists.
- A new computerized Test Bank, which can draw all the figures that accompany graphing-type questions
- A new computerized version of the Study Guide with graph manipulation capabilities and exercises designed to make graphs and graphing useful tools (rather than painful obstacles) for introductory-level Economics students.

### **A Text That is Rich in Issues and Applications**

“Perspectives”—most written specifically for this text—draw on the experiences and insights of a wide range of economists to illuminate current issues, applications, and historical background. Flat tax proposals, the federal deficit, the “underground” economy, Perestroika, and many other topics are covered. Informative, authoritative, and thought-provoking, these short essays show the many perspectives of economic analysis, and acquaint students with the kinds of questions economists ask and some of the answers they propose. Short biographical “Perspectives” on well-known and influential economists offer insights into the thoughts and teachings of these men and women. “Dialogues” present opposing views on a variety of topics that frequently provoke debate—sex discrimination, the minimum wage, and the like. These “Dialogues” acquaint students with the tools of discourse economists use.

### **A Text That Makes Economics Easier to Learn**

Right from Chapter 1, in which the concepts of scarcity and choice are clarified through an eyewitness account of life in a prisoner-of-war camp, abstract terms are presented in the context of realistic, integrated examples. All new terms are highlighted, defined immediately in the margins, reviewed at the end of the chapter, and defined again in the end-of-text glossary. In addition, the index indicates the page on which each new term was initially defined in context.

Kamerschen/McKenzie/Nardinelli *ECONOMICS*, Second Edition, is the first economics text to use a fully integrated pedagogical system. Each



chapter begins with a list of Key Questions that focus on the central concepts to be introduced in the chapter. The Key Questions are then repeated in the margin next to the text area where the questions are “answered”—where the concepts are discussed. The chapter review includes a Review of Key Questions, and all Review Questions are cross-referenced to the Key Questions.

The ancillary package makes full use of the text Key Questions as well. In the Study Guide, the Chapter Summary is organized around the Key Questions; all Discussion Questions and Multiple Choice Questions are also cross-referenced to the text Key Questions. In the Test Bank, all questions are cross-referenced to the text Key Questions, and are also designated by level of difficulty. The instructor can select questions to test the student’s ability to recall (R), apply (A), or analyze (N) the economic concepts they have learned. The Instructor’s Handbook includes the Review of Key Questions section from the text, and cross-references all Teaching Tips to the Key Questions.

## The Complete Teaching/Learning System

### For the Instructor

**Instructor’s Manual**, prepared by the authors. For each chapter, provides:

- Chapter Objectives
- New Terms
- Review of Key Questions
- Teaching Tips, cross-referenced to Key Questions
- Suggested answers to all Review Questions in the text

**Transparency Masters** for every figure in the book are also provided in the Instructor’s Manual.

**Test Bank**, by Douglas Copeland, Avila College, contains over 2,000 test items with level of difficulty designations (R for Recall, A for Application, and N for Analysis) and Key Question references.

**Computerized Test Bank with Graphing Capabilities**, available for IBM PCs or compatibles with at least 256K of memory, two disk drives, and a graphics-quality printer (Epson or compatible) will print out any test the instructor selects and draw all the graphs in the selected questions, eliminating the need to paste the graphs in later.

**Two-Color Overhead Transparencies**, with 104 key figures from the text, reproduced on Mylar for clear, legible projection.

### For the Student

**Economics**, Second Edition, hardcover text

**Macroeconomics**, Second Edition and

**Microeconomics**, Second Edition, paperbacks.



Both volumes include chapters on introduction to economics, public choice, international trade and finance, comparative economic systems, and economic development.

**Study Guide**, by Douglas Copeland, Avila College. For every chapter, the Study Guide provides:

Chapter Summary organized around text Key Questions

Review Terms and Concepts

Completion Exercises

Problems and Applications

True/False Questions

Multiple Choice Questions, cross-referenced to text Key Questions

Discussion Questions, cross-referenced to text Key Questions

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Several of our colleagues helped bring economics issues to life by contributing articles for the “Perspectives” and “Dialogues” in the text. For their assistance, we would like to thank (in order of appearance): Rudolph White, University of Georgia; William F. Shughart II, University of Mississippi; Dennis Placone, International Trade Commission; Thomas Humphrey, Federal Reserve Bank of Richmond; Dwight Lee, University of Georgia; N. Keith Womer, University of Mississippi; Courtenay C. Stone and Daniel Thornton, Federal Reserve Bank of St. Louis; Thomas M. Humbert, Office of Congressman Jack Kemp; Clinton Whitehurst, Clemson University; Calvin Kent, Baylor University; E. Thomas Sullivan, Washington University; Bruce Yandle, Clemson University; John Warner, Clemson University; Adele Ernst Wick, Tulane University; Catherine England, Cato Institute; Terry L. Anderson, Montana State University; Robert Valero, U.S. Department of Transportation; Edward L. Hudgins, Heritage Foundation; Russell Shannon, Clemson University; Katsuro Sakoh, Johns Hopkins University; Lawrence S. Moss, Babson College; and Martin Snitzer, Virginia Tech. We also thank Kate Salley Palmer for her drawings of the Nobel Laureates.

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# Suggested Outlines for One-Term Courses

Chapter	Macro Emphasis	Micro Emphasis	Public Policy Emphasis	Combined Macro-Micro
1. The Economic Way of Thinking	■	■	■	■
2. Scarcity and Production Possibilities	■	■	■	■
3. The Elements of Supply and Demand	■	■	■	■
4. The Public Sector	■	■	■	■
5. Measurements of the Macroeconomy	■	□	■	■
6. Macroeconomic Problems and Policies	■		■	■
7. The Meaning and Creation of Money	■	□	■	■
8. The Federal Reserve and the Money Stock	■			■
9. The Costs and Benefits of Inflation	■		■	
10. Unemployment and the Equilibrium Income Level: An Introduction	■	□	■	■
11. Unemployment and the Equilibrium Income Level: A More Complicated Model	■		□	□
12. Keynesian Fiscal Policy	■			□
13. Aggregate Supply and Demand	■			
14. The Monetarist View of Unemployment and Inflation	■			
15. Supply-Side Economics	■			
16. Rational Expectations	■			
17. Principles of Rational Behavior		■		■
18. Consumer Choice and Demand		■		■
19. Business Organizations			□	

■ = recommended      □ = optional

Chapter	Macro Emphasis	Micro Emphasis	Public Policy Emphasis	Combined Macro-Micro
20. Cost and Producer Choice		■		■
21. Cost in the Short Run and the Long Run		■		■
22. Perfect Competition		■		■
23. Pure Monopoly		■		■
24. Imperfect Competition				
25. Business Regulation				
26. The Competitive Labor Market		■		■
27. Monopsonies and Unions		■		■
28. Rent, Interest, and Profit		■		
29. Poverty and Poverty Relief	□	□	■	
30. Market Failures: External Costs and Benefits		■	■	□
31. Government Controls: Price Controls and Consumer Protection			■	
32. Agriculture and Government Agricultural Policy			■	
33. Public Choice: The Economics of Government	□	□	■	□
34. International Trade		■	■	
35. International Finance		■		
36. International Trade and the Macroeconomy	■		■	
37. Comparative Economic Systems			□	
38. Economic Growth and Development	□			

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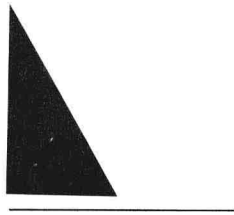
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