

# Economics

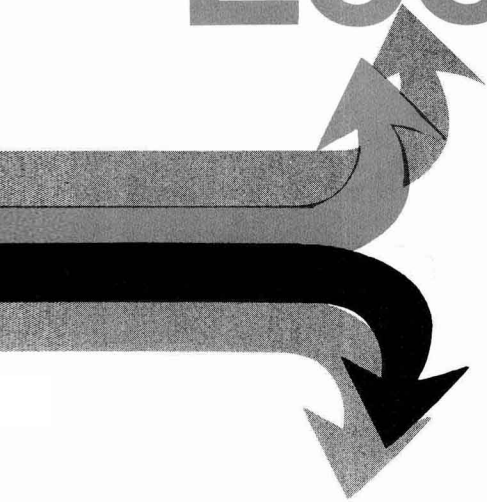
## A Modern View

LINDAUER

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# Economics



**A Modern View**

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Economics: A Modern View

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# preface

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This is a comprehensive and easy-to-use examination of the basic ideas and relationships of modern economics. It integrates the concepts previously studied by beginning economics students with the theories, facts, and interpretations that have surfaced (and resurfaced) during the past few years. The materials traditionally emphasized in introductory studies of economics are restated and substantially expanded in this text. Those modern concepts and analyses applicable to the economic realities of today's world are particularly emphasized.

Such a general integration and restatement of economics seems to be needed every twenty or thirty years. This one may be particularly overdue; recent analyses and empirical findings suggest that many of the theories and concepts usually presented to beginning students are merely elegant intellectual exercises that contribute little, if anything, to understanding the economies and conditions of the real world. For example, the study of economics has long emphasized profit-maximizing business firms and inflations that occur when there is too much money in circulation. Yet much of the world's production is provided by nonprofit organizations such as public hospitals; business organizations whose profits are limited to fair rates of return such as telephone companies and airlines; and organizations that could price and produce so as to maximize profits but do not do so because their decision makers have them pursue other goals. Such alternatives to profit maximization must be considered. Similarly, in the economies of the real world both nonprofit and profit-seeking firms cause inflations as they raise their prices in response to many conditions other than the spending associated with the amount of money in circulation. They might raise their prices because of higher production costs, new government pricing regulations, or cash-flow pressures resulting from too few customers.

This is an effort to increase understanding by going beyond the ideas that most beginning courses include. Even so, the traditional material is fully presented in the traditional manner so that students can understand it both as the base from which modern economics evolved and as the source of many of today's economic misconceptions and irrelevant policies. The ultimate goal of this restatement is to provide citizens and policy makers with a better understanding and appreciation of the complexities of the economic forces and institutions operating in the real world.

Another aspect of this book is its emphasis on the universal application of most economic concepts to all the world's money-using economies. Most of us like to think that our economies and economic systems are unique. In fact, the world's economies and economic systems tend to be far more similar than different. They all use money, produce primarily for consumers, pay wages, accumulate capital, have financial institutions, and engage in international trade. Similarly, the basic problem of all economies is scarcity and their basic

goal is to produce goods and services efficiently for their peoples and to distribute those goods and services equitably.

The volume is divided into 56 chapters, each dealing with a major aspect of economics. These are almost evenly divided between microeconomics and macroeconomics to facilitate use of the text in two-semester courses. The first five chapters can be used to introduce either the micro or the macro chapters. A two-chapter section dealing with money and financial institutions provides a bridge between them. A particular effort was made to organize the chapters logically so that they could be used within existing course outlines.

Numerous economists and students have helped seed this volume with ideas and facts. The various contributions arrived via everything from informal discussions to detailed reviews to class testing. Those who contributed are not responsible for the weeds growing herein and the good ideas that are not yet fully developed.

Specific thanks are due Molly Ross, Edna Vaughn, and Lois Padgett for their typing assistance; and to Andrew Westhoff and Mark Chapman for their research assistance. The following helped shape this book by reviewing and class testing it: John R. Aidem, Miami-Dade Community College; Om P. Batish, Loras College; Miltiades Chacholiades, Georgia State University; James Crawford, Georgia State University; Thomas R. Hawk, Community College of Philadelphia; Willie Henderson, University of Keele; Bernard Luskin, Coastline Community College; Margaret J. Naumes, Temple University—Ambler; Ivy Papps, University of Durham; James Parrish, University of North Florida; Arvind Phatak, Temple University; Frederick A. Raffa, Florida Technological University; William Ruckstuhl, College of Life Underwriters; Alan Severn, Temple University; Dana Stevens, Georgia State University; Wanda Teitloff, Dalton Junior College; and William Zahka, Widener College.

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**book I**

introduction  
and  
orientation

---

This book is to introduce you to economics, a world in which people speak of market forces and economic plans, of supply and demand, of scarcity, of production, of curves and schedules. This paragraph is to remind you at the beginning that demand is people wanting things—like washing machines, good health, and transportation—enough to pay for them; that scarcity requires that choices be made by people who cannot get all they want; that curves and schedules represent what happens as a result of people's sweat, people's willingness, people's hunger, or people's well being.

The five chapters of Book I are meant to provide the basic terminology and framework for the analysis ahead. When you have worked through them, you should have grasped the following:

1. what economics is about and what economists do
  2. how the terminology of economics describes conditions, actions, and concerns that affect people
  3. the concept of scarcity and the types of decisions it requires all economies to make
  4. the basic economic process and the roles of money and prices in that process
  5. the basic similarities between all economies
  6. the significance of production
  7. the potential of an efficiently functioning economy
  8. the definitive meaning of supply and demand and how they come together in markets
  9. the concept of utility
  10. the concept of elasticity in all its degrees
  11. the differences among the long run, the short run, and the very short run
  12. the concept of equilibrium
  13. the causes and effects of shortages and surpluses
  14. the relationships between markets
-

*Old John: Our leaders are  
such kindly men. I just don't  
understand why prices keep  
going up.*

*Alice: Don't take it so  
hard. It's a relief something  
is happening in the economy  
now that there are no jobs.*

What are economic matters?

Why are there economic matters?

What is the problem of scarcity?

What are the aspects of scarcity?

What are opportunity costs?

What decisions does scarcity require?

Why bother with all this?

Where do economists fit in?

# 1 economics and economic problems



Economic matters are those concerning the goods and services we want, their production, and their distribution. Almost any news story in any day's paper or television broadcast is related to economic matters in some way. On one day, *The New York Times* quoted an out-of-power politician who complained about inflation and who suggested a general wage freeze to keep labor costs down. He thought this would prevent manufacturers from having to raise prices of goods to cover increased labor costs. A front-page story in the *San Francisco Examiner* announced that one in three American urban dwellers has been mugged or robbed or has suffered property damage in the past year. On page 4, the *Los Angeles Times* reported that the United Nations had been asked to prevent an African country from closing off its mutual border with another.

And in the agricultural section of the *Kansas City Star* was word that during the past year worldwide drought had caused drastic cuts in wheat production; consequently, the Soviet Union, China, and India again had to purchase grain from the rest of the world.

Often the economic connections of such news events are obvious. Even without knowing much about economics, you would probably recognize that wage and price controls affect who gets what goods and services. Thus, if Ira Goodfellow's income cannot rise \$10 a week, he does not have that \$10 to spend on a television set. On the other hand, if his income does rise \$10 a week but the prices of the food and other things he buys also rise, then he is no better off; he still does not have enough money for a television set.

You can probably also see that urban