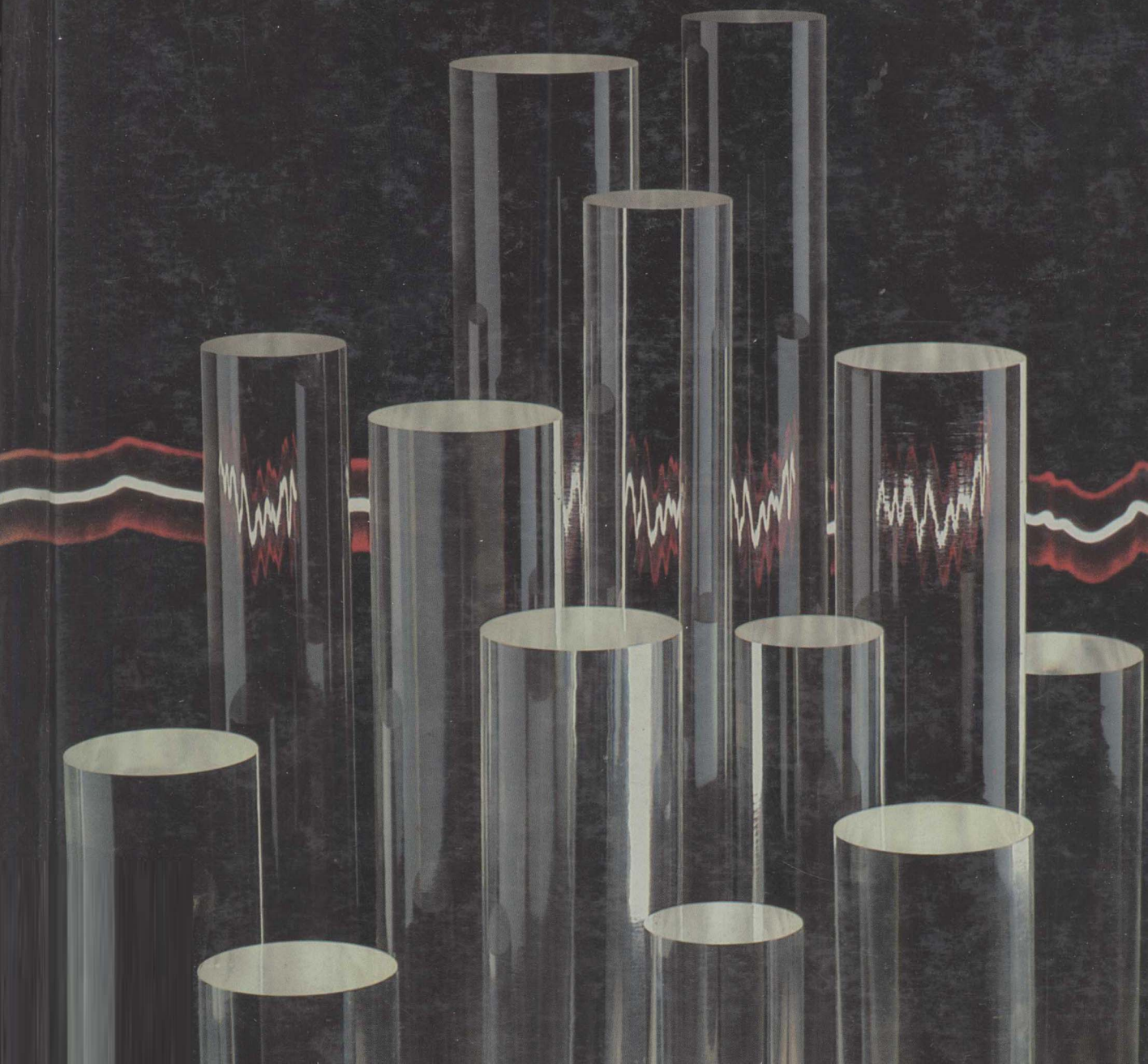


ECONOMICS

BRONFENBRENNER · SICHEL · GARDNER · Second Edition



Economics

Second Edition

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To our colleagues everywhere who helped make the first edition of this book a great success so that we have the opportunity to offer this substantially improved second edition.

MB WS WG

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Preface

From the beginning, our goal has been to write a text which would answer the needs of students and instructors concerning the well-established as well as the controversial topics in economics. To accomplish this goal, we believe that a beginning text should be (1) open-minded and searching for the best in all schools of thought where there is disagreement, (2) thorough and realistic in presenting material that is generally accepted, and (3) flexible and oriented to a broad view in matters like international trade, economic development, and comparative economic systems.

We have built these characteristics into our book. We believe that they make it an appropriate text for the late nineteen eighties. We also believe that they form the basis for the kind of “economic literacy” which sees the *applicability* of economic principles beyond the specific applications in any one topic or any one period of time.

NEW FEATURES IN THE SECOND EDITION

We have benefited greatly from suggestions offered by users of our first edition and have incorporated many of these ideas into our second edition. The following is a check-list of the more important new features in our second edition.

- Shortened and restructured introductory section.

- Improved sequence of macroeconomics material.
- Revised and simplified presentation of the Keynesian model.
- Strengthened treatment of monetary economics.
- Improved coverage of aggregate demand and aggregate supply.
- Greater integration of expectations theories.
- More applications of microeconomic concepts and tools.
- Broadened discussion of the “fourth merger wave.”
- Up-to-date analysis of OPEC.
- New chapter on Government and Taxation.
- Expanded analysis of the shifting U.S. international trade position.
- New discussion of farm debt problems and U.S. farm programs.
- New material on China’s economy under Deng Xiaoping.
- Several new and revised essays.
- Integrated study guide and testbank.
- New computerized ancillaries.

ORGANIZATION

Introductory Chapters

The first five chapters provide the basic groundwork for all that is to come. In the first chapter, we present a broad overview of economics. It

goes beyond explaining what microeconomics and macroeconomics are about, and considers alternative economic systems and several criteria for judging them. Chapter 2 introduces the “actors on the economic stage”—households, business firms, governments, and the rest of the world. This is a new chapter in the second edition, consisting of selected materials from two chapters of the introductory section of the first edition plus information about the stock market, which was not included in the first edition. The remaining three chapters of the introductory section outline the methodology of economics, present scarcity as *the* economic problem, and introduce the basic concepts of supply and demand. From Chapter 5, which outlines supply and demand (including aggregate supply and demand), students can proceed easily to either the macroeconomics or the microeconomics section of the book.

Macroeconomics

In our second edition, macroeconomics is covered in four parts, each consisting of three chapters. The first part provides basic definitions and measurements (unemployment, inflation, index numbers, national income accounting, and the circular flow) that students need as a foundation for the theories that follow. The material on unemployment and inflation, which leads off the macroeconomics section, appeared as Chapter 15 in the first edition.

The Keynesian approach to the determination of output and employment is presented in the second part of the macroeconomics material—Chapters 9, 10, and 11. In our second edition, we have simplified these models by using the concept of autonomous consumption expenditure and by assuming a lump-sum net tax rather than the 20 percent income tax assumed in the first edition. This has enabled us to reduce the number of charts and graphs needed to present the basic Keynesian model. As in our first edition, exports, imports, and government purchases are part of the expenditures model from the very start of the exposition. They are not “add-ons,” as in some texts.

Monetary economics and monetarism are presented in the third part of the macroeconomics material—Chapters 12, 13, and 14. In describing money (Chapter 12), we have added the concept of money as “a standard for deferred payments” and, in discussing monetary control institutions (Chapter 13), we have updated the material to include information about the *Garn-St. Germaine Depository Institutions Act*. We have strengthened the chapter on monetarism (Chapter 14) by (a) adding material on the “direct” mechanism for transmitting the effects of monetary actions, (b) by adding a discussion of inflationary expectations, and (c) by moving the discussion of the loanable funds market to the end of the chapter, to distinguish it more clearly from the money market and to provide a stronger presentation of modern monetarism.

Aggregate demand and aggregate supply, which are introduced in the introductory section (Chapter 5) are developed fully in Chapter 15—the lead-off chapter of the fourth part of the macroeconomics material. New in our second edition are (a) a simple graphic derivation of the aggregate-demand curve, connecting this concept with both Keynesian and monetarist models, and (b) a wage-cost-lag theory of the aggregate-supply curve to go along with the money-illusion theory of the first edition. The aggregate demand and aggregate supply presentation is thus substantially strengthened in our second edition. In Chapter 16, on demand-side macroeconomic policies, we offer new graphs to illustrate differing views about the demand-for-money curve and in Chapter 17, on supply-side policies, we have (a) enhanced our discussion of inflationary expectations theories and (b) provided a graph applying aggregate demand and aggregate supply reasoning to wage and price controls. As before, our presentations are designed to be analytical rather than political.

International Macroeconomics and Economic Development

The international aspects of economics are becoming much more important to Americans. Part

Six of our second edition begins with international macroeconomics (Chapter 18), in which we explain exchange rates and balance of payments accounting. Our second edition includes (a) a revised and simplified format for the U.S. International Accounts and (b) an expanded discussion of the U.S. balance of payments situation in the mid-1980s.

Economic growth and development (Chapter 19) are given careful economic analysis, but are also recognized as highly sensitive issues of political economy. Along with the theories of development we also offer theories of underdevelopment, presenting the views of many who claim to speak for the billions of people who live in Third World countries. Our discussion of a New International Economic Order (NIEO) in Chapter 20 is tuned to the demands of Third World leaders and the responses from the developed countries.

Microeconomics

We believe that students today should be given a solid, no-nonsense understanding of microeconomics. We begin by laying the foundations of microeconomics in Part Seven, where we analyze the behavior of consumers and firms. The discussion of consumer choice (Chapter 21) leads logically to an analysis of market demand and elasticity of demand (Chapter 22). Then, after discussing business firm choice (Chapter 23), we analyze market supply and elasticity of supply (Chapter 24).

Our application of microeconomic principles to market structures and economic performance (Part Eight) is fuller than in many texts. The basic market structures of pure competition, pure monopoly, monopolistic competition, and oligopoly are examined in Chapters 25 through 27. Then, in Chapter 28, we place strong emphasis on oligopoly and "real world" issues concerning industrial organization.

Resource markets are explained in Part Nine. The basic principles that surround all the resource markets are examined in Chapter 29, then applied specifically to labor in Chapter 30, and to capital in Chapter 31, where we have rewritten and

simplified the section on the investment demand for loanable funds. Included in Chapter 30 is a brief history of American labor unions and an analysis of how union and government policies affect wage rates.

In our second edition, we have gathered together six chapters designed to give students interesting and useful opportunities to apply basic tools and concepts of microeconomics. Chapter 32 (Government and Taxation) is a new chapter. It includes public choice models, benefit-cost analysis, the U.S. budget process, analysis of tax shifting, the economic effects of the major taxes used in the United States, and discussions of alternatives such as the "flat tax" and the Gram-Rudman-Hollings approach to controlling deficits.

Other chapters in the applied microeconomics section are Chapter 33 (Poverty and Income Distribution) which includes a new note on comparable worth, Chapter 34 (Government Antitrust and Regulation Policy) which includes a new discussion of OPEC and the world petroleum market, Chapter 35 (International Microeconomics: Free Trade versus Protection) which has a new section on the changing U.S. trade position in the 1980s, Chapter 36 (Agriculture, Food, and Hunger), which includes new material on the farm debt problem and U.S. farm programs, and Chapter 37 (Natural Resources and the Environment) which has been substantially revised from its counterpart chapter in the first edition.

Comparative Economic Systems

In Part Eleven we compare systems in the context of "more planning or less?" (Chapter 38), because all modern economies employ some planning. After exploring a few basic ideas from Marxian economics, we examine planning systems and welfare state systems actually operating in the world today. We observe that a strong ideology is no protection against errors of judgment and that no system has all the answers, whether it is "Japan, Incorporated," Soviet socialism, workers' self-management in Yugoslavia, or modern American capitalism. New material has been added on China's economy under Deng Xiaoping.

We close with a discussion of radical economics (Chapter 39). Here we examine radical movements, of both the left and the right, and include a list of questions designed to help the student discover whether he or she is in fact a radical.

Topical Essays

At the end of each part, we present an original essay, adding a special dimension to the subjects just studied. Some of these essays provide a broader perspective to the topics just examined—"Classical Economics: The Dismal Science?" and "Neoclassical Economics: The Complacent Science." Some discuss the contributions of famous economists—"John Maynard Keynes and the Great Depression"; "Friedman and Monetarism: Do Not Confuse Them!"; and "From Karl Marx to the New Left." Still others provide historical flavor or extensions of the materials covered—"Macroeconomic Policy: From the New Frontier to Supply Side"; "Japan's Economic Miracles and the International Economy." Four essays are entirely new for the second edition: "Headaches in the Economics of Inflation"; "Living With Oligopoly"; "A Real Threat to the Labor Movement?"; and "The Deregulation Movement."

We put these essays at the end of parts rather than in boxes inside chapters so as not to interrupt the reader's concentration on the text material itself. The text is complete without them. However, the essays help to tie some ideas together and to place them more clearly in their historical context.

Sequence Alternatives

MACRO-MICRO SEQUENCE In this book, macroeconomics appears before microeconomics because this is the sequence used most often in two-semester principles of economics programs. However, we have planned the book to serve equally well with a micro-first sequence. Chapters 1 through 5 come at the start of the first semester under either sequence. In a micro-first sequence,

these chapters are followed by the micro material beginning with Chapter 21. The chapters on comparative economic systems (Chapters 38 and 39) can be included in either the macro or the micro semester of a two-semester sequence.

INTERNATIONAL ECONOMICS We have also designed the book for maximum flexibility in presenting the chapters on international economics. Chapter 35 (International Microeconomics: Free Trade versus Protection) can be inserted immediately following Chapter 18 (International Macroeconomics: Exchange Rates and the Balance of Payments) in order to obtain a single section on international economics. Moreover, that section (consisting of Chapters 18, 19, 20, and 35) can be covered in either the macroeconomics or the microeconomics portion of a two-semester course sequence.

Built-in Learning Aids

A number of learning aids are built into this book. Each chapter starts with a preview, designed to show how that chapter fits into the pattern of the book and to give a foretaste of its contents. At the end of each chapter, there is a summary listing the main ideas in the chapter.

Also, at the end of each chapter are discussion questions relating to subjects studied in that chapter. Some provide problems or exercises to work out. Most are designed to encourage students to think beyond the basic concepts presented in the chapter and to gain added insight by applying the concept to real-world situations. Students can compose their own answers, which can provide the basis for classroom discussion.

At the back of the book, there is a glossary giving nearly 1,000 key economic terms and phrases and their definitions or descriptions. Most of these key terms are highlighted in the text itself, appearing in boldface type the first time they are used. A definition or description appears along with each boldface term in the text. But it is a good idea for readers to check the glossary whenever they come upon a word or phrase that they

believe has special meaning in economics. Learning the language of economics is an important part of mastering the subject.

THE AUTHORS

Each of us has instructed thousands of students in elementary economics. We have used many different texts, and each of us has taught many parts of the subject—micro, macro, international, comparative systems, and points between and beyond. Each of us has his areas of special interest. However, the final product is far less the work of three individuals than it is the combined efforts of a team. Each chapter is the result of the cooperative efforts of all the authors. The result, we believe, is far superior to what any one of us could have accomplished alone.

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Werner Sichel wishes especially to thank Peter Eckstein, his co-author of a previous book, *Basic Economic Concepts*, for his efforts on that volume, which have surely carried over and benefited this one. While Werner Sichel was very careful to use only examples and other material that he had initially contributed, he is indebted to Peter Eckstein for helping him to develop his ideas and materials for the earlier book.

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M.B. W.S. W.G.

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- *Instructor's Manual*, prepared by the text authors. Provides for each chapter:
 - Schematic Outlines
 - Teaching Notes
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- *Study Guide*, by Rose Pfefferbaum, Mesa Community College. Provides for each chapter:

Summary
List of Objectives
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New Terms
Completion Exercises
Problems and Applications
True-False Questions
Multiple-Choice Questions
Discussion Questions

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*Suggested Outlines for One-Term Courses**

| Chapter | Macro Emphasis | Micro Emphasis | Contemporary Problems Emphasis | Combined Macro- Micro |
|---|-------------------|-------------------|--------------------------------------|-----------------------------|
| 1. What Economics Is | ■ | ■ | ■ | ■ |
| 2. The Actors on the Economic Stage | ■ | ■ | ■ | ■ |
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| 4. Scarcity: The Economic Problem | ■ | ■ | ■ | ■ |
| 5. Demand and Supply—or Supply and Demand | ■ | ■ | ■ | ■ |
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| 7. National Income Accounting | ■ | | | □ |
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| 18. International Macroeconomics: Exchange Rates and the Balance of Payments | ■ | □ | ■ | ■ |
| 19. Economic Growth and Development | ■ | | ■ | |

*Our assumption is that each of these would be a first course in economics

SUGGESTED OUTLINES FOR ONE-TERM COURSES

| Chapter | Macro Emphasis | Micro Emphasis | Contemporary Problems Emphasis | Combined Macro- Micro |
|--|-------------------|-------------------|--------------------------------------|-----------------------------|
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■ = recommended □ = optional

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