

T W E L F T H   E D I T I O N

# Economics

**CAMPBELL R. McCONNELL**  
**STANLEY L. BRUE**



# **ECONOMICS**

## **Principles, Problems, and Policies**

TWELFTH EDITION

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## Economics: Principles, Problems, and Policies

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# **ECONOMICS**



## ABOUT THE AUTHORS

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**Campbell R. McConnell** earned his Ph.D. from the University of Iowa after receiving degrees from Cornell College and the University of Illinois. He taught at the University of Nebraska—Lincoln from 1953 until his retirement in 1990. He is also coauthor of *Contemporary Labor Economics*, 3d ed. (McGraw-Hill) and has edited readers for the principles and labor economics courses. He is a recipient of both the University of Nebraska Distinguished Teaching Award and the James A. Lake Academic Freedom Award, and is past-president of the Midwest Economics Association. His primary areas of interest are labor economics and economic education. He has an extensive collection of jazz recordings and enjoys reading jazz history.

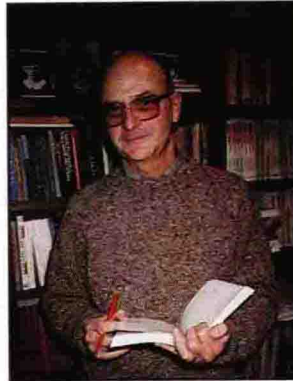


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**Stanley L. Brue** did his undergraduate work at Augustana College (S.D.) and received his Ph.D. from the University of Nebraska—Lincoln. He teaches at Pacific Lutheran University, where he has been honored as a recipient of the Burlington Northern Faculty Achievement Award for classroom excellence and professional accomplishment. He is national President-elect and member of the International Executive Board of Omicron Delta Epsilon International Honor Society in Economics. Professor Brue is coauthor of *Economic Scenes: Theory in Today's World*, 5th ed. (Prentice-Hall); *The Evolution of Economic Thought*, 4th ed. (Harcourt Brace Jovanovich); and *Contemporary Labor Economics*, 3d ed. (McGraw-Hill). For relaxation, he enjoys boating on Puget Sound and skiing trips with his family.

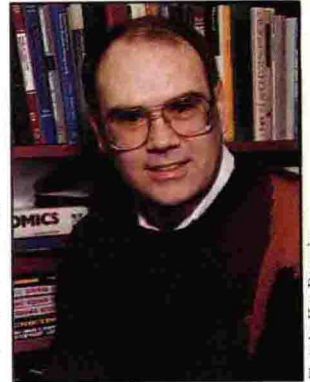
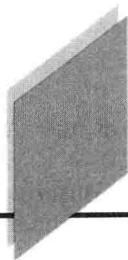


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To Mem  
and to Terri and Craig



# PREFACE

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The publication of the twelfth edition of *Economics* (and its accompanying editions of *Macroeconomics* and *Microeconomics*) follows the most successful edition of this book to date. Naturally, we are pleased that *Economics* continues to be the best selling economics text in the United States. Moreover, we are pleasantly surprised that the Russian translation of *Economics* will soon be the leading economics text in the former Soviet Union; Politizdat Press has taken orders for nearly 500,000 copies. This fact dramatizes how remarkable these times are for teaching and learning economics! The message of our day is clear: People who comprehend economic principles will have a great advantage functioning in, and making sense of, the emerging world. We express our sincere thanks to each of you using *Economics* for granting us a modest role in your efforts to teach or learn this globally important subject.

## THE REVISION

The twelfth edition of *Economics* has been thoroughly revised, polished, and updated. Many of the changes have been motivated by the comments of 36 reviewers and another 13 participants in focus groups. We are especially grateful to these scholars and acknowledge them by name at the end of this preface.

We strive only for an overview of the changes in the twelfth edition here; chapter-by-chapter details are provided in the *Instructor's Resource Manual* accompanying this book.

## Consolidation of Introductory Chapters

Responding to reviewer suggestions, we have reduced the number of introductory chapters from eight to six, allowing for a quicker start into the macroeconomics or microeconomics. The previous edition's Chapters 5 and 7 are consolidated into new Chapter 5 and old

Chapters 6 and 8 are combined into new Chapter 6. Parts of the material on taxation in old Chapter 8 are now found in new Chapter 32, which treats public choice and tax analysis. We have resisted the temptation to compress the introductory material even further, believing that most students inadequately understand the characteristics of capitalism (Chapter 3), the functioning of the market system (Chapter 5), and the extensive role of government in the modern economy (Chapter 6). A strong introduction helps students understand and apply macroeconomic and microeconomic theory. We believe we have provided such an introduction, but now in a more expeditious form.

## New Topics and Analysis

Much attention has been given to applying economics to the major issues of our day. Also, this edition contains new formal economic analyses. Examples of new discussions and analyses include:

- **The switch to GDP (gross domestic product) accounting.** This edition fully incorporates the United States' recent switch from GNP to GDP accounting. In particular, Chapter 7 has been carefully revised to present the new accounting. Also, in the macro theory chapters we have designated real output as GDP, rather than NNP, and have substituted gross investment,  $I_g$ , for net investment,  $I_n$ , throughout the discussion and diagrams.
- **Soviet economy in transition.** A completely rewritten chapter (Chapter 40) presents an up-to-date, thorough analysis of the present crisis and reform efforts in the former Soviet Union.
- **Economics and the environment.** Chapter 31 is a new chapter on government and market failure. This chapter extends Chapter 6's discussion of externalities by examining the Coase theorem, liability rules and lawsuits, markets for externality rights, and society's optimal amount of externality abatement. A case study of pollution examines the dimensions, causes, and

solutions of this problem. Special attention is given to the Superfund law, the Clean Air Act of 1990, and solid waste disposal and recycling.

- **The crisis in American financial institutions.** A major section in Chapter 13 examines bank and thrift failures, including the role of deposit insurance.
- **Economics of information.** A lengthy new section of Chapter 31 looks at market failure associated with inadequate information by buyers about sellers and by sellers about buyers. Topics such as adverse selection and moral hazard are included here. Also, Chapter 25's discussion of advertising is completely rewritten to highlight advertising's informational role. The idea of imperfect information in decision making is introduced *early* in the book; Chapter 1's Last Word uses the economic perspective to analyze how customers decide which fast-food line to enter.
- **Strategic behavior.** Game theory—specifically the prisoner's dilemma model—is presented in the discussion of oligopoly (Chapter 26). Also, Chapter 37 contains a discussion of strategic international trade policy.
- **Public choice and tax analysis.** A full chapter (Chapter 32) is devoted to public choice and tax analysis. Also, we have placed much more emphasis on public choice theory in our explanation of the persistence of agricultural subsidies in Chapter 34, a chapter which has been extensively revised and updated.
- **Absorption of segments of monetarism and rational expectations theory into the mainstream macroeconomics.** Although we continue to contrast the various macroeconomic theories, a new section of Chapter 16 emphasizes that mainstream macroeconomics has absorbed important aspects of monetarism and rational expectations theory.
- **Principal-agent problem and pay-for-performance.** A new section of the chapter on wage determination (Chapter 28) explains the principal-agent problem and discusses pay-for-performance plans (piece rates, commissions and royalties, bonuses and profit sharing), seniority pay, and efficiency wages.
- **Economic growth in Japan.** Chapter 2 now applies production possibilities analysis to relative growth rates in Japan and the United States and stresses the higher saving and investment rates in Japan. Also, Chapter 19 on economic growth now concludes with a Last Word on the Japanese growth miracle.
- **Causes of the productivity slowdown.** Chapter 19 on economic growth contains a completely re-

written section on the causes of the American productivity slowdown.

- **The economics of an aging American population.** Chapter 30 on general equilibrium traces the myriad implications of an aging American population.
- **Early introduction of comparative advantage theory.** In an optional new section in Chapter 3, we use production possibilities tables to illustrate comparative advantage. By combining this new material with Chapter 4's optional discussion of exchange rates, instructors can effectively introduce international economics early in the course.
- **Other new discussions.** There are numerous other new discussions in the twelfth edition, a few examples being: the Ricardian equivalence theorem; the Federal funds market; the social security surplus and the public debt; the Budget Consolidation and Budget Enforcement Acts of 1990; cross and income elasticities; rent controls; the absence of a monopoly supply curve; the Herfindahl index; growing inequality in the distribution of income; consolidation in the airline industry; immigration reform; world trade and farm policy; the Farm Act of 1990; the economic impact of import quotas; the proposed North American free-trade zone; Uruguay Round negotiations; and the purchasing power parity theory of exchange rates.

## New “Last Words”

Reviewers indicate that they appreciate the “Last Word” minireadings and their placement toward the conclusion of each chapter. These selections serve several purposes: Some provide current or historical real-world applications of economic concepts; others reveal human-interest aspects of economic problems; and still others present economic concepts or issues in a global context. Eighteen Last Words are new and others have been extensively revised and updated.

We have selected Last Word topics that are both highly relevant to the chapter's discussion *and* interesting to the reader. New topics are fast-food lines viewed from the economic perspective (Chapter 1); the impact of Operation Desert Storm on Iraqi production possibilities (Chapter 2); the increasing use of barter (Chapter 3); the effect of supply interdiction on the price of marijuana (Chapter 4); the mystery of the \$196 billion of paper money unaccounted for by the Federal Reserve (Chapter 13); the bank panics of 1930–1933 (Chapter 14); the Fed as a series of metaphors (Chapter 15); international comparisons of public debt among industrial nations (Chapter 18); the Japanese growth miracle



(Chapter 19); the market for health care (Chapter 20); monopoly in the national parks (Chapter 24); product differentiation and nonprice competition in the market for economics textbooks (Chapter 25); the market for “lemons” (Chapter 31); the special interest effect as reflected in the Tax Reform Act of 1986 (Chapter 32); causes of greater income inequality (Chapter 35); possible discrimination in professional basketball (Chapter 36); the difficulties of “buying American” when many product components are imported (Chapter 38); and an obituary of the Soviet Union (Chapter 40).

## Pedagogical Improvements

The principles course has become increasingly demanding for students. Globalization of economies, developments in economic theory, and modern economic problems have added new, sometimes complex material to the course. Concise and understandable explanations are more important than ever before. Accordingly, we have directed much effort toward improving the pedagogy of *Economics*. We have “gone back to the basics,” attempting to bolster what we believe to be this book’s comparative advantages: its readability and accessibility. Examples of our pedagogical changes include:

- **“Quick Reviews” within each chapter.** Two or three new reviews within the body of each chapter allow the student to pause and ponder key points. We believe these “Quick Reviews” will also help students as they study for examinations.
- **“Key Graphs.”** Students often have a difficult time distinguishing which of the hundreds of graphs in economics are of fundamental importance. To direct students’ attention to the essential graphs, we have designated 22 figures as “Key Graphs.” These graphs are specially designed and labeled to make them easily identifiable. Figures 2-1 and 4-5 are representative. A complete listing of the Key Graphs can be found in the Brief Table of Contents on page x.
- **Motivational introductions.** In many chapters new introductions are added to stimulate reader interest in the chapter’s contents. These introductions relate to students’ everyday experiences and observations. The opening material for Chapters 2, 6, 21, 29, and 37 is illustrative.
- **Full-color layout.** The full range of colors in the designer’s palette makes for a more interesting text and is used functionally to clarify many graphs and diagrams.
- **Functional use of color photos.** Unobtrusive chapter-opening photos are employed as “teasers” for the content of the Last Words, where larger photos are found. The front and back photos visually unite the beginning and ends of the chapters and are designed to spark reader interest in the Last Words.
- **Shorter paragraphs.** In keeping with trends in popular and academic publishing, we have shortened scores of long paragraphs.
- **Tighter sentences.** The two authors and a talented McGraw-Hill editor scrutinized every sentence in this edition for unnecessary verbiage. Collectively, we were able to tighten hundreds of sentences without altering the overall style of writing. In economizing on words, we were careful *not* to reduce the thoroughness of our explanations. Where needed, the “extra sentence of explanation” remains a distinguishing characteristic of *Economics*.
- **Numbered lists and added subheads.** We have substituted numbered and labeled lists for verbal strings of “First,” “Second,” and “Third.” The idea here is to break material into smaller parcels to help students more readily retain the content. Similarly, we have employed subheads more liberally so the organizational structure of each chapter and topic will be clearer.
- **Footnote deletion.** We have significantly reduced the number of footnotes. Several lengthy explanatory footnotes have been deleted; a number of shorter footnotes have been integrated into the text. Footnotes suggesting additional reading have been judiciously pruned.
- **Added labeling in graphs.** Taking great care to avoid clutter, in a number of cases we have added labeling in figures to help guide the reader through the analysis. These labels are set in strong type so they are highly readable both within the book and on transparencies.
- **New diagrams.** Some of the added diagrams depict new graphical analyses such as aggregate demand–aggregate supply analysis of growth (Figure 19-3), the economics of recycling (Figure 31-4), and a comparison of the effects of tariffs and quotas (Figure 37-3). Other new diagrams should help students visualize the interrelations of the concepts involved. Examples of these diagrams are Figures 8-4, 10-5, 11-4, 11-5, 32-1, and 33-1.
- **Clarified explanations of difficult subject matter.** We have continued to look for ways to explain difficult material more clearly. Even minor improvements in language or labeling of graphs can often

help students better understand the material. Improvements of this sort have been made in numerous places throughout the text. Good examples are our revised discussions of efficiency (Chapter 2), the ratchet effect (Chapter 9), demand-pull and cost-push inflation in the long run (Chapter 17), the relationship between the demand curve and total revenue (Chapter 24), the efficiency effects of oligopoly (Chapter 26), and efficiency losses of taxes (Chapter 32).

## New and Enhanced Ancillaries

The ancillaries in the twelfth edition package are discussed later in this Preface, but four new items are noteworthy.

- **Test Bank III.** New to the *Economics* package is a test bank allowing an alternative testing approach to the predominantly multiple-choice questions in Test Banks I and II. Written by Professors William Walstad and Joyce Gleason, Test Bank III contains questions that emphasize “constructive response” concepts. Students are more actively involved in creating answers to these questions, which provide a valuable alternative to conventional test questions.
- **Augmented Test Bank I.** We have added approximately 1200 questions to Test Bank I.
- **New macro simulation software.** *Macroecconomics: A Lab Course*, a new macro simulation program, greatly advances the art of economics software. This program is highly interactive and visually spectacular. Also, the successful *Concept Master* software introduced with the eleventh edition has been completely updated. Both these software programs are directly tied to the contents of *Economics*.
- **Enhanced video materials.** The power of videodisks is harnessed in this edition to provide enhanced classroom presentation of visual material. Also, there are new videotape materials that have been carefully designed for effective classroom use.

We trust that the outcome of this detailed revision effort is a text and package that are clearly superior to their predecessors.

## FUNDAMENTAL GOALS

Although the twelfth edition bears little resemblance to the first, the basic purpose remains the same—to introduce the beginning economics student to those principles essential to an understanding of the fundamental

economic problems and the policy alternatives available for dealing with these problems. We hope that the ability to reason accurately and objectively about economic matters and the development of a lasting interest in economics will be two valuable by-products of this basic objective. Our intention remains to present the principles and problems of economics in a straightforward, logical fashion. To this end, we continue to put great stress on clarity of presentation and on logical organization.

## PRODUCT DIFFERENTIATION

This text embraces a number of features which perhaps distinguish it from other books in the field.

- **Comprehensive explanations at an appropriate level.** We have attempted to craft a comprehensive, analytical text that is challenging to better students, yet accessible—with appropriate hard work—to average students. We think the thoroughness and accessibility of *Economics* enables the instructor to select topics for special classroom emphasis with confidence that students can independently read and comprehend other assigned material in the book.
- **Comprehensive definition of economics.** The principles course sometimes fails to provide students with a comprehensive and meaningful definition of economics. To avoid this shortcoming, all of Chapter 2 is devoted to a careful statement and development of the economizing problem and an exploration of its implications. This foundation should help put the many particular subject areas of economics in proper perspective.
- **Early integration of international economics.** Comparative advantage is discussed in detail in Chapter 3, exchange rates are explained as an application of supply and demand in Chapter 4, and the international trade sector of the American economy is highlighted in Chapter 5. This strong introduction to international economics permits “globalization” of later discussions of macroeconomics and microeconomics, where appropriate. The Table of Contents highlights sections in all chapters with substantial global content.
- **Early treatment of government.** For better or worse, government is an integral component of modern capitalism. Its economic role, therefore, should not be treated piecemeal or as an afterthought. This text introduces the economic functions of

government early and accords them systematic treatment in Chapter 6. Chapter 31 examines government and market failure in further detail and Chapter 32 looks at salient facets of public choice theory and public finance. Both the macroeconomics and the microeconomics sections of the text have problem- and policy-oriented chapters in which government's role is explored.

- **Emphasis on economic growth.** This volume continues to put considerable emphasis on economic growth. Chapter 2 uses the production possibilities curve to lay bare the basic ingredients of growth. Chapter 19 discusses the rate and causes of American growth, in addition to some of the controversies surrounding growth. Chapter 39 focuses on the less developed countries and the growth obstacles that confront them. A segment of Chapter 40 concerns the stalling of growth in the former Soviet Union. Also, the chapters on price theory stress the implications that the various market structures have for technological progress.

- **Resurgence of the market system.** Economies the world over are making the difficult transition from planning to markets. Our emphasis on general equilibrium analysis and the market *system* is thus even more relevant in the 12th edition than in earlier editions. A major portion of Chapter 5 is devoted to the interrelationships within the market system, and Chapter 30 explicitly outlines the nature and significance of general equilibrium analysis.

- **Emphasis on the theory of the firm.** We have purposely given much attention to microeconomics in general and to the theory of the firm in particular, for two reasons: First, the concepts of microeconomics are difficult for most beginning students. Short expositions usually compound these difficulties by raising more questions than they answer. Second, we have coupled analysis of the various market structures with a discussion of the impact of each market arrangement on price, output levels, resource allocation, and the rate of technological advance.

- **Chapters on economic issues.** As most students see it, Part 4 on macroeconomic issues and Part 6 on micro-oriented problems are where the action is. We have sought to guide the action along logical lines through the application of appropriate analytical tools. Our bias in these parts is in favor of inclusiveness; each instructor can effectively counter this bias by omitting those chapters felt to be less relevant for a particular group of students.

## ORGANIZATION AND CONTENT

We believe that the basic prerequisite of an understandable economics text is the logical arrangement and clear exposition of subject matter. This book has been organized so that the exposition of each particular topic and concept is directly related to the level of difficulty which in our experience the average student is likely to encounter. For this reason microeconomics and macro employment theory are given comprehensive and careful treatments. Simplicity here is correlated with comprehensiveness, not brevity.

Furthermore, our experience suggests that in the treatment of each basic topic—aggregate demand and aggregate supply, money and banking, theory of the firm, and international economics—it is desirable to couple analysis with policy. A three-step development of basic analytical tools is employed: (1) verbal descriptions and illustrations; (2) numerical examples; and (3) graphical presentation based on these numerical illustrations.

The material in this book is organized into seven basic parts. They are: Part 1: An Introduction to Economics and the Economy; Part 2: National Income, Employment, and Fiscal Policy; Part 3: Money, Banking, and Monetary Policy; Part 4: Problems and Controversies in Macroeconomics; Part 5: Microeconomics of Product and Resource Markets; Part 6: Government and Current Economic Problems; and Part 7: International Economics and the World Economy. The Table of Contents lists the specific chapters in each part and details the contents within each chapter.

## ORGANIZATIONAL ALTERNATIVES

Although economics instructors generally agree as to the basic content of a principles of economics course, there are differences of opinion on what particular arrangement of material is best. The structure of this book provides considerable organizational flexibility. Users of prior editions tell us they accomplished substantial rearrangements of chapters with little sacrifice of continuity.

Although we have chosen to move from macro- to microeconomics, the introductory material of Part 1 can be followed immediately by the micro analysis of Part 5. Similarly, in our judgment money and banking can best be taught after, rather than before, aggregate

expenditure analysis. Those who disagree will encounter no special problems by preceding Chapter 7 with appropriate parts of Chapters 13, 14, and 15.

Furthermore, some instructors will prefer to interperse the microeconomics of Part 5 with the problems chapters of Part 6. This is easily accomplished. Chapter 34 on the farm problem may follow Chapter 23 on pure competition; Chapter 33 on antitrust and regulation may follow Chapters 24 to 26 on imperfect competition. Chapter 36 on labor market issues may either precede or follow Chapter 28 on wages, and Chapter 35 on income inequality may follow Chapters 28 and 29 on the distributive shares of national income.

Those who teach the typical two-semester course and who feel comfortable with the book's organization will find that, by putting the first four parts in the first semester and Parts 5 through 7 in the second, the material is divided both logically in terms of content and satisfactorily in terms of quantity and level of difficulty between the two semesters. For those instructors who choose to emphasize international economics, Parts 1, 2, 3, and 7 may be treated the first semester and Parts 4, 5, and 6 the second.

For a course based on three quarters of work we would suggest Chapters 1 through 12 for the first quarter, 13 through 30 for the second, and 31 through 40 for the third.

Finally, those interested in the one-semester course will be able to discern several possible groups of chapters that will be appropriate to such a course. Tentative outlines for three one-semester courses, emphasizing macroeconomics, microeconomics, or a survey of micro and macro theory, follow this preface on page xxxi. Also included are several one-quarter course options.

## STUDENT FRIENDLY: STUDY AIDS

As in its previous eleven editions, *Economics* is highly student oriented.

**1** Students who are comfortable with graphical analysis and a few related quantitative concepts are in an advantageous position to understand principles of economics. To help students in this regard, an appendix to Chapter 1 carefully reviews graphing, line slopes, and linear equations.

**2** The introductory paragraphs of each chapter state objectives, present an organizational overview of the chapter, and relate the chapter to what has been covered before and what will follow.


**3** Because a significant portion of any introductory course is devoted to terminology, terms are given special emphasis. In particular, each important term is in **boldface type** where it first appears in each chapter. We have tried to make all definitions clear and succinct. At the end of each chapter all new terms are listed in the "Terms and Concepts" section. Finally, at the end of the book a comprehensive glossary of almost 1000 terms is found. This glossary also is contained in the *Study Guide*.

**4** As we noted earlier, each chapter contains two or three "Quick Reviews" at appropriate places in the chapter to reinforce key points for students and help them study for examinations.

**5** Figures worthy of intensive study are given special design treatment and designated as "Key Graphs."

**6** The legends accompanying all diagrams are written so they are self-contained analyses of the relevant concepts shown. This is a strategic means of reinforcing student comprehension.

**7** Much thought has gone into the end-of-chapter questions. Though purposely intermixed, the questions are of three general types. Some are designed to highlight the main points of each chapter. Others are "open-end" discussion, debate, or thought questions. Wherever pertinent, numerical problems which require the student to derive and manipulate key concepts and relationships are employed. Numerical problems are stressed in those chapters which deal with analytical material. Some optional "advanced analysis" questions accompany certain theory chapters. These problems usually involve the stating and manipulation of certain basic concepts in equation form.

**8** Many of the end-of-chapter questions deal with subject matter that is reinforced by the excellent computerized tutorial, *Concept Master II*, that accompanies the text. A floppy disk symbol  appears in conjunction with questions whose underlying content correlates to a lesson in the tutorial program.

**9** In addition to its considerable esthetic merit, the full color format of the twelfth edition stresses the use of color so students will more quickly and easily perceive the ideas expressed in each diagram and chart.

## INSTRUCTOR FRIENDLY: THE SUPPLEMENTS

The twelfth edition is accompanied by supplements that we feel equal or surpass competing texts in terms of both quantity and quality.



## Study Guide

Professor William Walstad has prepared the twelfth edition of the *Study Guide* that many students find to be an indispensable aid. It contains for each chapter an introductory statement, a checklist of behavioral objectives, an outline, a list of important terms, fill-in questions, problems and projects, objective questions, and discussion questions. The glossary found at the end of *Economics* also appears in the *Study Guide*.

In the twelfth edition, Professor Walstad has added text page references for every question (true-false, multiple-choice, and discussion); has extensively revised the chapter learning objectives to add more detail; and has added discussion sections to the chapter outlines. He has also increased the number of multiple-choice questions for each chapter, and has increased the number of problems and projects for further study.

The *Guide* comprises, in our opinion, a superb “portable tutor” for the principles student. Separate *Study Guides* have been prepared to correspond with the individual macro and micro paperback editions of the text.

## Economic Concepts

*Economic Concepts* provides carefully designed programmed materials for all the key analytical areas of the principles course. Revised by Professor W. H. Pope for use with the twelfth edition of *Economics*, it can be used as an effective supplement with any mainstream text.

## Instructor's Resource Manual

Professor Joyce Gleason of Nebraska Wesleyan University has revised and updated the *Instructor's Resource Manual*. It comprises chapter summaries, listings of “what's new” in each chapter, teaching tips and suggestions, learning objectives, chapter outlines, data and visual aid sources with suggestions for classroom use, and questions and problems. Answers to all the text's end-of-chapter questions are also found in the *Manual*.

The new edition of the *Manual* includes a full, chapter-by-chapter overview of all changes in the revision. Also, the chapter outlines have been consolidated into a separate section of the *Manual*, so they can more readily be used as a resource in classroom lectures. We think instructors will find this *Manual* useful and time-saving.

Available again in this edition is a computerized version of the *Manual*, suitable for use with IBM-PC computers, IBM-PC compatibles, and MacIntosh computers. The version for IBM-PCs and compatibles is available in both 5¼-inch and 3½-inch formats. Users of *Economics* can print out portions of the *Manual's* contents, complete with their own additions or alterations, for use as student handouts or in whatever ways they might wish. This capability includes printing out answers to all end-of-chapter questions.

As with the *Study Guide*, separate editions of the *Instructor's Resource Manual* have been prepared to correspond with the individual macro and micro paperback editions of the text. Users of one or both of these volumes will find that the material in the accompanying *Manual* correlates with the chapter sequencing in the text.

## Three Test Banks

The new edition of *Economics* is supplemented by two test banks of objective, predominantly multiple-choice, questions and a new test bank of short-answer and essay questions.

*Test Bank I* now comprises some 4800 questions, all written by the text authors; approximately 3600 are carried over from the previous edition and over 1200 have been prepared by the authors for the new edition.

*Test Bank II*, revised by Professor Walstad, contains approximately 3100 questions. For all test items in these two test banks, the nature of each question is identified (e.g., G, graphical; C, conceptual, etc.) as are the pages in the text containing the material which is the basis for each question. Also, each chapter in *Test Banks I* and *II* has an outline or table of contents which groups questions by topics.

New to this edition, *Test Bank III* will emphasize “constructive response” testing to evaluate student understanding in a manner different from conventional multiple-choice and true-false questions. Prepared by Professors Walstad and Gleason, this unique resource emphasizes short-answer and essay questions designed to enhance critical thinking skills.

Adopters of the text will be able to use this sizable number of questions, organized into three test banks of equal quality, with maximum flexibility. The fact that the text authors and *Study Guide* authors have prepared all the test items will assure the fullest possible correlation with the content of the text.

As with the *Study Guide* and *Instructor's Resource Manual*, separate versions of the test banks have been

prepared to correspond with the individual macro and micro editions of the text.


## Additional Supplements

**Computerized testing** *Test Banks I, II, and, III* are available in computerized versions, as well as print. Computerized test generation will be available for IBM-PCs and compatibles, and for MacIntosh computers. All of these systems include the capability to produce high-quality graphs from the test banks.

These systems will also feature the ability to generate multiple tests, with versions “scrambled” to be distinctive, and will have other useful features. They will meet the various needs of the widest spectrum of computer users.

**Color transparencies** Over 200 new full-color transparencies for overhead projectors have been prepared especially for the twelfth edition. These encompass all the figures which appear in *Economics* and are available on request to adopters. As with the *Study Guide*, *Instructor's Resource Manual*, and *Test Banks*, the transparencies are also available in versions corresponding to *Macroeconomics* and *Microeconomics*.

**Student software** For users of IBM-PCs and compatibles, a student software package, *Concept Master II*, has been prepared by Professor William Gunther, of the University of Alabama, and Irene Gunther. The previous version of this software was widely praised by its users, and it has been improved to provide even more flexibility. It provides the most extensive and varied computer-assisted study material of any software package available.

Over twenty graphics-based tutorial programs provide an opportunity for students to study key topics in the book in an interactive fashion. The tutorial programs are linked to the text. Selected end-of-chapter questions that relate to the content of one of the tutorial programs are highlighted by a floppy disk symbol . The questions themselves are not necessarily contained within the tutorial program, but the tutorial does contain material that relates directly to the concepts underlying the highlighted questions.

In addition to the tutorial programs, students can quiz themselves with a self-testing program accompanying each test chapter. The package also features eight simulation games, divided between macroeconomics and microeconomics. Some of the simulations

are elementary, and others are more complex. Wherever possible, they include a global perspective. Also included in the package are a list of key terms, a pop-up calculator for computations, and a section that uses the “Key Graphs” in the text to direct students to the appropriate tutorial lesson.

Professor Norris Peterson of Pacific Lutheran University, working with the talented staff of Intellipro, Inc., has created a new software package, *Macroeconomics: A Lab Course*, to be used in macroeconomics courses. It builds the basic macroeconomic framework in sequential, “building block” laboratory simulations that allow students to grasp the fundamental concepts of macroeconomics in a dynamic and creative manner.

For users of MacIntosh computers, there is an exciting tutorial program, *DiscoverEcon*. Developed by Professors Gerald Nelson and Wesley Seitz of the University of Illinois, this innovative package uses Apple's HYPERCARD programming environment to produce an extremely interactive learning experience. Dynamic shifts of curves, screen animation, sound effects, and simple-to-use command keys are features of this program.

**Videodisks** New to this edition are videodisks designed to harness this exciting new technology for classroom presentation. These videodisks offer an array of graphical illustrations of key economic concepts to further student understanding.

**Videos** New videotape materials have been assembled for this edition to illustrate fundamental concepts and economic issues in a manner that will be equally effective in classroom settings or media resource centers. Among these materials is the new “MacNeil/Lehrer Quarterly Report on Economics”, a new series of excerpts from the acclaimed PBS news program, “The MacNeil/Lehrer Newshour”. Your local McGraw-Hill representative can provide details on all new video ancillaries for the text.

## DEBTS

The publication of this twelfth edition will extend the life of *Economics* well into its fourth decade. The acceptance of *Economics*, which was generous from the outset, has expanded with each edition. This gracious reception has no doubt been fostered by the many teachers and students who have been kind enough to provide their suggestions and criticisms.

Our colleagues at the University of Nebraska–Lincoln and Pacific Lutheran University have generously shared knowledge of their specialties with us and have provided encouragement. We are especially indebted to Professors Harish Gupta, Jerry Petr, David Rosenbaum, Merlin Erickson, and Norris Peterson, who have been most helpful in offsetting our comparative ignorance in their areas of specialty.

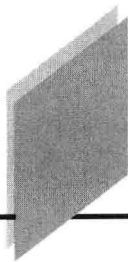
As indicated, the twelfth edition has benefited from a number of perceptive reviews. In both quantity and quality, they provided the richest possible source of suggestions for this revision. These contributors are listed at the end of this Preface.

Professors Thomas P. Barbiero and W. H. Pope of Ryerson Polytechnical Institute in their role as coauthors of the Canadian edition of *Economics* have provided innumerable suggestions for improvement. Thanks also go to Professor Mark Lovewell who coded the new *Test Bank* items by type of questions and identified the corresponding text page number for all the items.

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Given this much assistance, we see no compelling reason why the authors should assume full responsibility for errors of omission or commission. But we bow to tradition.

*Campbell R. McConnell*  
*Stanley L. Brue*



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**SUGGESTED ONE-SEMESTER AND ONE-QUARTER COURSE OUTLINES**  
**(Core chapters are indicated by “c”; optional chapters by “o”)**

<i>Chapter</i>	<i>One-semester course</i>			<i>One-quarter course</i>	
	<i>Macro emphasis</i>	<i>Micro emphasis</i>	<i>Macro-micro survey</i>	<i>Macro emphasis</i>	<i>Micro emphasis</i>
1	c	c	c	c	c
2	c	c	c	c	c
3	c	c	c	c	c
4	c	c	c	c	c
5	c	c		c	c
6	c	c		c	c
7	c		c	c	
8	c		c	c	
9	c		c	c	
10	c		c	c	
11	c		c	c	
12	c		c	c	
13	c		c	c	
14	c		c	c	
15	c		c	c	
16	c		c	o	
17	c		o	o	
18	c		o		
19	c		o		
20		c	c		c
21		o			
22		c	c		c
23		c	c		c
24		c	c		c
25		c	o		c
26		c	o		c
27		c			c
28		c			c
29		c			c
30		o			o
31		o			
32		o			
33		o <sup>1</sup>			
34		o <sup>2</sup>			
35		o <sup>3</sup>			
36		o <sup>4</sup>			
37	o	o			
38	o	o			
39	o				
40	o				

<sup>1</sup>If used, Chapter 33 may follow Chapter 26.

<sup>2</sup>If used, Chapter 34 may follow Chapter 23.

<sup>3</sup>If used, Chapter 35 may follow Chapter 28 or 29.

<sup>4</sup>If used, Chapter 36 may follow Chapter 28.