

Macroeconomics

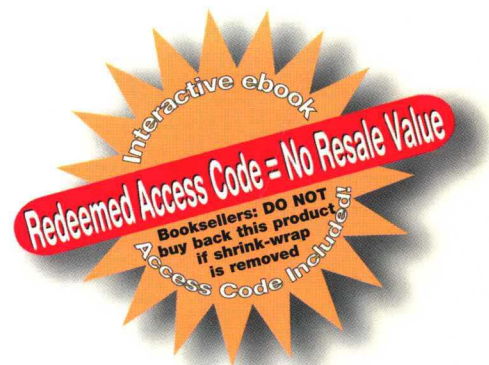
Explore & Apply, Enhanced Edition

RONALD M. AYERS
ROBERT A. COLLINGE

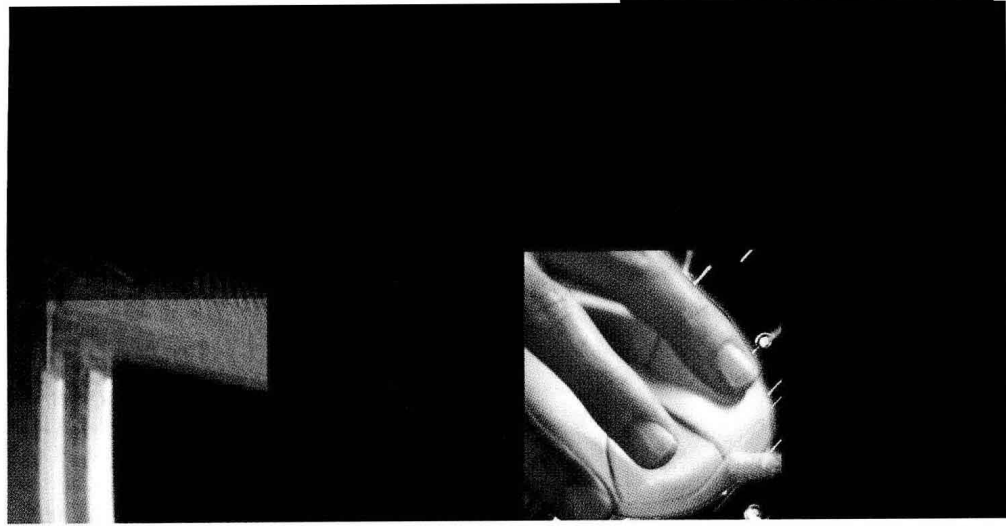


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- > Highlighting and Note-Taking Tools**
- > Online Self-Assessment with Immediate Feedback**



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Macroeconomics

Explore & Apply,
Enhanced Edition

ACTIVEBOOK VERSION 2.0

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PEARSON

Prentice
Hall

Upper Saddle River, New Jersey, 07458

Library of Congress Cataloging-in-Publication Data

Ayers, Ronald M.

Macroeconomics: Explore & Apply, Enhanced Edition Activebook / Ronald Ayers,
Robert Collinge.

p. cm.

Includes bibliographical references and index.

ISBN 0-13-148971-2

1. Macroeconomics. I. Collinge, Robert A. II. Title.

HB172.5.A926 2005

339—dc22

2004010043

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Composition: Carlisle Publishers Services

Printer/Binder: Courier Kendallville

Cover Printer: Coral Graphics

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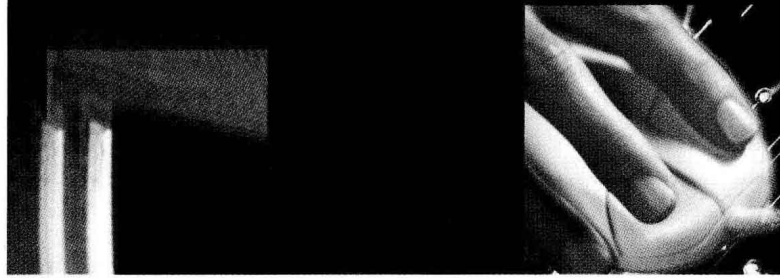
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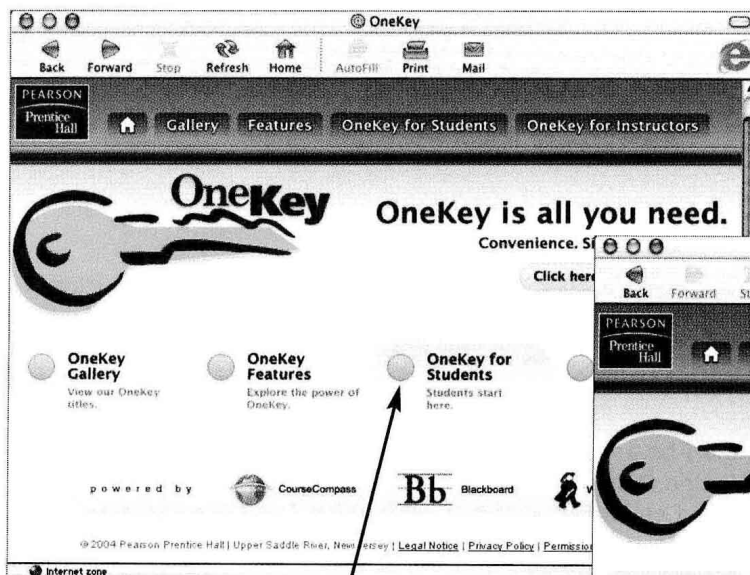


> What Is the activebook Experience?

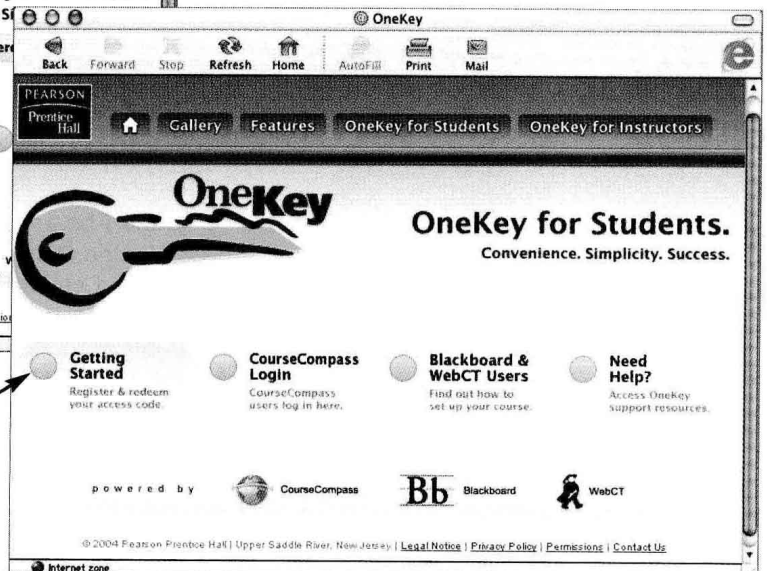
The **activebook** experience is a new kind of textbook that combines the best elements of print and electronic media. In addition to a traditional printed text, you have access to an online version of the book that not only exactly mirrors the printed text, but also is enhanced by a variety of multimedia examples and interactive exercises. The new features in version 2.0 are the direct result of suggestions from students and faculty. For example, **activebook** version 2.0 allows you to highlight important topics and create margin notes. Both features can be used to create a personalized study guide that helps you focus on exactly what you need to know to do well in your course.

> The Registration Process

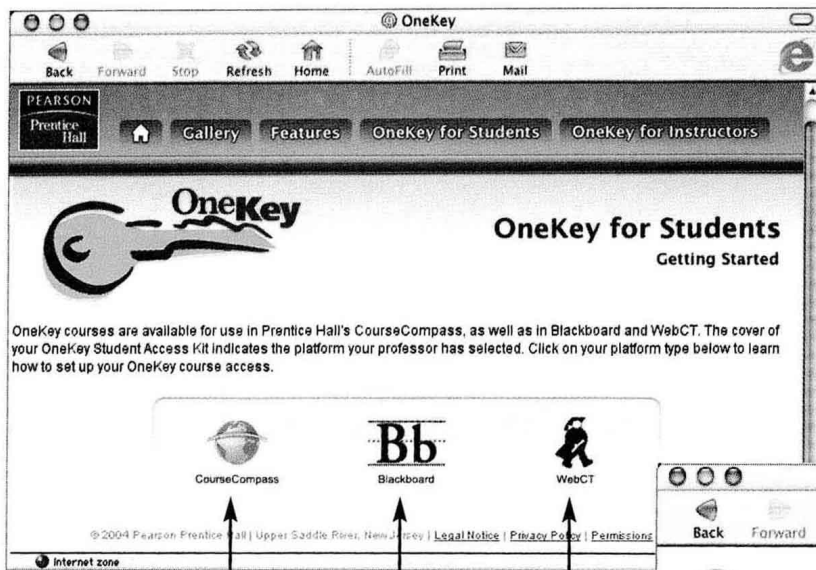
Access your **activebook** from your OneKey course. Refer to the instructions on the OneKey Student Access Kit shrink-wrapped with your **activebook**, or go to www.prenhall.com/onekey and click on **OneKey for Students**. Then click on **Getting Started**. You'll find instructions there on how to access your OneKey course from CourseCompass, Blackboard, or WebCT.



From the www.prenhall.com/onekey homepage, click on **OneKey for Students**.



Clicking on **Getting Started** will guide you through the registration process.



From here, choose from the available platform options (CourseCompass, Blackboard, or WebCT) to start the appropriate registration process.

You will be prompted to enter the access code found in your OneKey Student Access Kit.

Please note that we are always looking for ways to simplify our processes, so your experience may vary a little from this guide.

IMPORTANT NOTE:

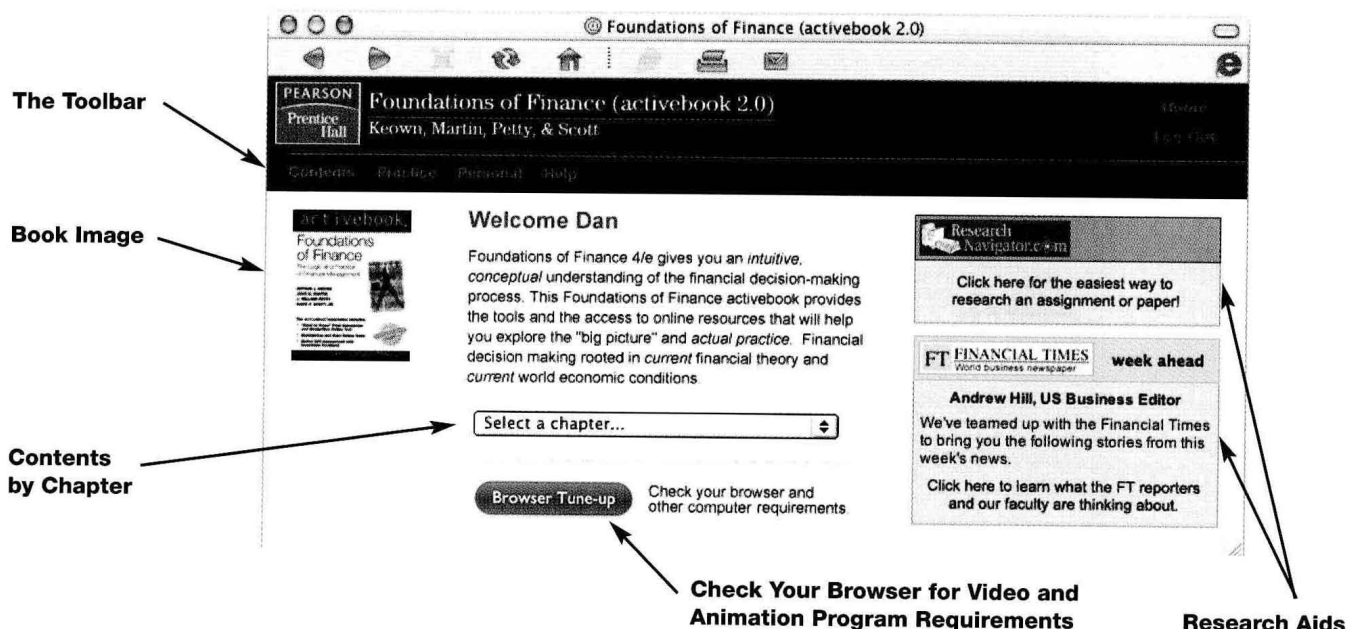
Used copies of the activebook will not contain a OneKey Student Access Kit. Follow these simple instructions to easily and securely purchase access to the activebook using any major credit card.

For a Blackboard- or WebCT-hosted course, click on the **Start Here** button in your instructor's course and look for the **Online Purchase** option.

For a CourseCompass-hosted course, visit www.prenhall.com/onekey and click on **OneKey for Students**. Choose **CourseCompass Login**, and on the next page click on **Register**. Look for the **Online Purchase** option there.

> The activebook Experience Homepage

You have a variety of tools at your disposal from your **activebook** homepage. You can quickly go anywhere in your book and read your notes and highlighted material. If you are linked to your professor, you can view any professor comments right in the flow of the online text. In short, you've got all the resources you need in one place.



> The activebook Toolbar

The version 2.0 navigation and resources have been organized to help you quickly find what you need. Be sure to take a moment to familiarize yourself with each menu option.

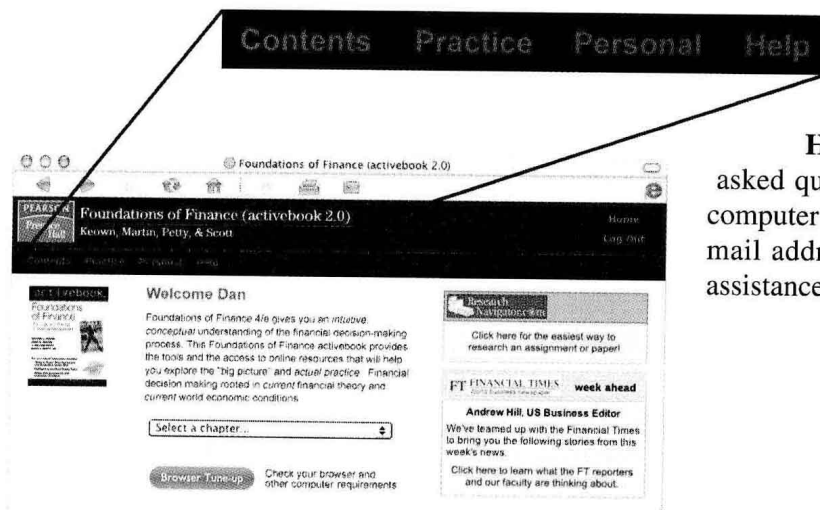
Contents—Go to any chapter in your book, search by term, or use the index or glossary.

Practice—Get ready for your next test by going straight to any **activebook** quiz or study resource.

Personal—If you've used the highlighting or margin notes features of **activebook** 2.0, you can go straight to them from here or print them out for study purposes. You can

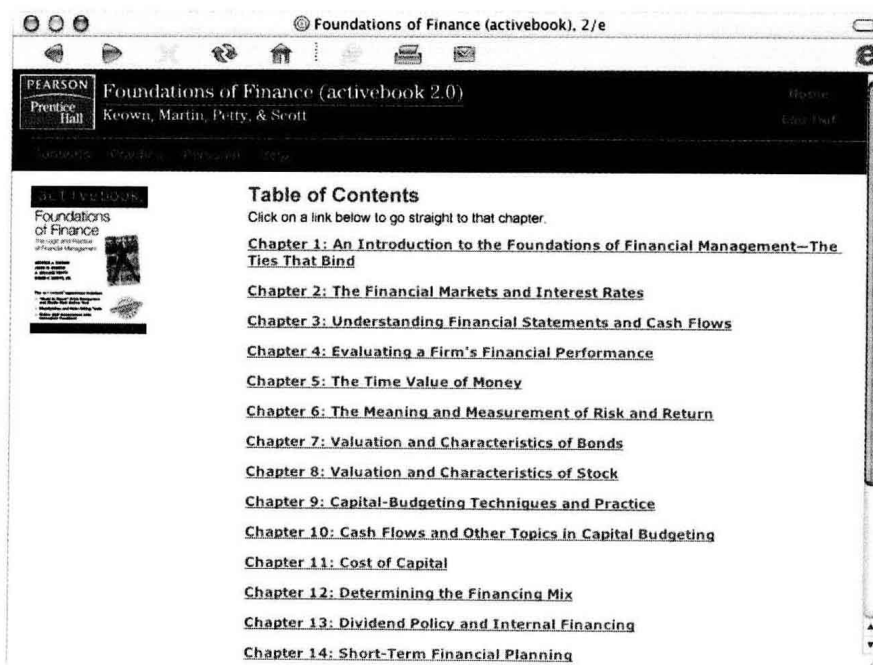
also access the Progress Tracker from this menu (see the Progress Tracker section in the User Guide for more details on this tool).

Help—You'll find answers to frequently asked questions, information on how to set up your computer to work well with the **activebook**, and e-mail addresses and telephone numbers for personal assistance.



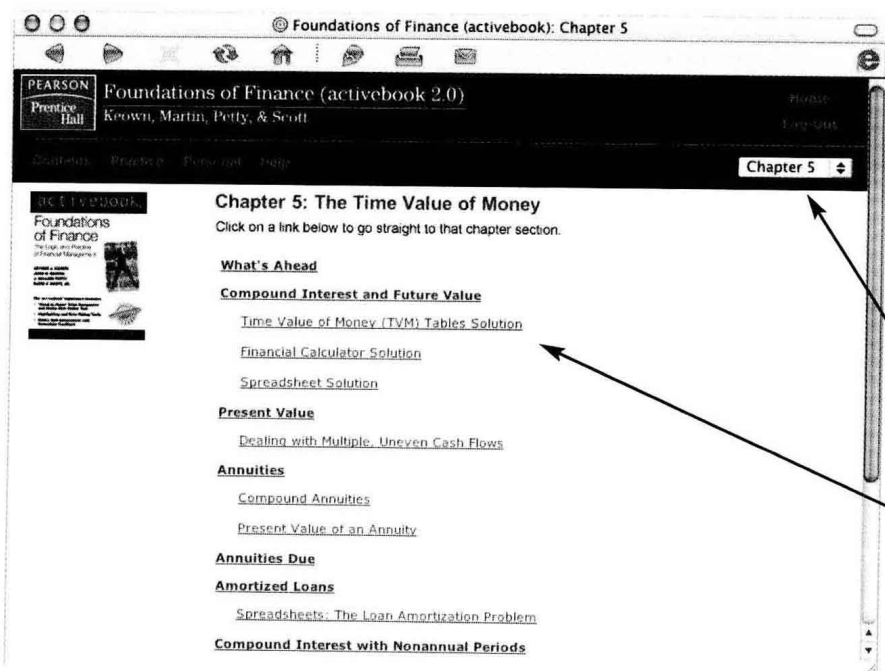
> The Table of Contents Page

You can go to the table of contents from your homepage by selecting **Table of Contents** from the **Contents** menu on the toolbar or by clicking on the image of your text. You can search for a specific section or topic by selecting **Search** from the **Contents** menu.



> The Chapter Outline Page

Clicking on any chapter link from your **activebook** homepage or the table of contents will take you to the chapter outline page. From here, you can jump to any topic or section in the chapter by clicking on the heading. You can use the toolbar links to review your highlights and margin notes for the chapter or go straight to the chapter quizzes or exercises.



You can easily select another chapter by using the chapter drop down list.

Click on any chapter topic or section heading to view the page.

> Highlights, Margin Notes, and Professor Comments

The **activebook** version 2.0 includes several features that allow you to personalize your text, create study guides with the material you need to study, and access notes and additional materials your professor may make available to you.

Highlighting:

To highlight a paragraph, simply click on the **plus sign** and then choose **highlight** from the options. Your professor can also highlight text for you to review.

Margin Notes:

To insert a margin note, click on the **plus sign** and choose **note** from the options. Click on **save** when you're finished. Margin notes are private and are not visible to your professor or other students.

Professor Comments: Your professor can insert comments. Professor comments appear within the chapter text but are easily identified with your professor's name and are surrounded by a red border.

Foundations of Finance (activebook): Chapter 5

Table 5-1 illustrates how this investment of \$100 would continue to grow for the first 10 years at a compound interest rate of 6 percent. Notice how the amount of interest earned annually increases each year. Again, the reason is that each year interest is received on the sum of the original investment plus any interest earned in the past.

Year	Beginning Value	Interest Earned	Ending Value
1	\$100.00	\$ 6.00	\$106.00
2	106.00	6.36	112.36
3	112.36	6.74	119.10
4	119.10	7.15	126.25
5	126.25	7.57	133.82
6	133.82	8.03	141.85
7	141.85	8.51	150.36
8	150.36	9.02	159.38
9	159.38	9.57	168.95
10	168.95	10.13	179.08

When we examine the relationship between the number of years an initial investment is compounded for and its future value as shown graphically in Figure 5-1, we see that we can increase the future value of an investment by either increasing the number of years for which we let it compound or by compounding it at a higher interest rate. We can also see this from equation (5-6) because an increase in either i or n while PV is held constant results in an increase in FV_n .

FIGURE 5-1 Future Value of \$100 Initially Deposited and Compounded at 0, 5, and 10 Percent

Comments by Dr. Cooper
This is a critical concept. You must be able to visualize the compounding curve you see above as we move on to discuss other fundamental issues.

PAUSE AND REFLECT
Keep in mind that future cash flows are assumed to occur at the end of the time period during which they accrue. For example, if a cash flow of \$100 occurs in time period 5, it is assumed to occur at the end of time period 5, which is also the beginning of time period 6. In addition,

> Navigating the activebook

There are a number of ways to move from page to page and from chapter to chapter as you read your activebook.

To go to a different chapter, click on **Contents** on the toolbar and select the chapter from the table of contents list.

If you'd like to skip to a different page in the chapter, simply select it from the drop-down list.

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Foundations of Finance (activebook 2.0)
Keown, Martin, Petty, & Scott

Contents Practice Personal Help

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Chapter 5: The Time Value of Money

> Compound Interest and Future Value

Most of us encounter the concept of compound interest at an early age. Anyone who has ever savings account or purchased a government savings bond has received compound interest. Compound interest occurs when *interest paid on the investment during the first period is added to the principal, then, during the second period, interest is earned on this new sum.*

For example, suppose we place \$100 in a savings account that pays 6 percent interest, compounded annually. How will our savings grow? At the end of the first year we have earned 6 percent, or \$6 on our initial deposit of \$100, giving us a total of \$106 in our savings account. The mathematical formula illustrating this phenomenon is

$$FV_1 = PV(1 + i) \quad (5-1)$$

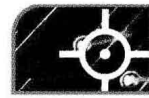
18 Excel formula: =RATE(number of periods,payment,present value,future value,type,guess)
19
20 Entered value in cell d35: =RATE(d28,d29,-d30,d31,d32,d33)
21
22 Notice that present value (\$11,167) look on a negative value.
23 Also note that if you didn't assign a value to guess, it would begin calculations
24 with a value of 0.1 or 10%. If it could not come up with a value for i after
25 20 iterations, you would receive the #NUM! error message. Generally a
26 guess between 10 and 100 percent will work.
27

go to page: 1 2 3 4 5 6 7 8 9 10 11 << previous | next >>

You can also move to another page by clicking on **next** or **previous**, or by choosing the page from the numbered list.

> Interactive Materials

Throughout your **activebook**, you'll encounter rectangular boxes (see the following example). You'll find boxes labeled "active exercise," "active example," "video exercise," "active concept check," and "active poll." When you click on one of these boxes, a pop-up window will appear on your screen, giving you an opportunity to further explore the ideas you're learning about in the text. For easy reference, each of these boxes is numbered consecutively throughout the chapter. The following example describes what you'll find behind a concept check heading.



active concept check

5-1

Now let's take a moment to test your knowledge of the concepts you have studied in this section.

After you click on a concept check heading, a short quiz appears. Click on the button next to your answer for each question, and then click on **How did I do?** at the bottom of the pop-up page.

active concept check

1. The basic formula for the future value of a single sum is:

- ☐ a. $FV = PV(1 \times i)^n$
- ☐ b. $FV = PV(1 + i)^n$
- ☐ c. $PV = FV(1 + i)^n$
- ☐ d. $FV = PV(1 + .06)^n$

2. What is the future value of \$1 percent compounded annually

- ☐ a. \$1,350.00.
- ☐ b. \$1,402.55.
- ☐ c. \$1,407.10.
- ☐ d. \$1,355.23.

3. The future value of a single sum

- ☐ a. the interest rate increase
- ☐ b. the length of time increase
- ☐ c. the length of time decrease
- ☐ d. both a and b.

4. What is the future value interest percent compounded for 10 years

- ☐ a. 2.580.
- ☐ b. 2.358.
- ☐ c. 2.367.
- ☐ d. 1.094.

How did I do?

Green check marks indicate correct answers, while red Xs indicate incorrect responses. An explanation is always provided.

active concept check

If you want to review the material covered by a question, click on the Review the Concept link included with each answer.

✓ 1. The basic formula for the future value of a single sum is:

- a. $FV = PV(1 \times i)^n$
- b. $FV = PV(1 + i)^n$
- c. $PV = FV(1 + i)^n$
- d. $FV = PV(1 + .06)^n$

Your Answer: b.
Correct Answer: b.

Future value = present value $(1 + \text{interest rate})^n$ where n = number of periods. [Review the Concept](#)

✓ 2. What is the future value of \$1,000 invested for five years at seven percent compounded annually?

- a. \$1,350.00.
- b. \$1,402.55.
- c. \$1,407.10.
- d. \$1,355.23.

Your Answer: b.
Correct Answer: b.
 $FV = 1,000(1.07)^5 = \$1,402.55$

Click on **Review the Concept** and the paragraph within the chapter where the right answer is found is automatically highlighted.

X 3. The future value of a single sum

- a. the interest rate increases
- b. the length of time increases
- c. the length of time decreases
- d. both a and b.

Your Answer: a.
Correct Answer: d.
The longer the time period, the higher the future value.

Foundations of Finance (activebook): Chapter 5

> Compound Interest and Future Value

Most of us encounter the concept of compound interest at an early age. Anyone who has ever had a savings account or purchased a government savings bond has received compound interest. **Compound interest** occurs when interest paid on the investment during the first period is added to the principal; then, during the second period, interest is earned on this new sum.

For example, suppose we place \$100 in a savings account that pays 6 percent interest, compounded annually. How will our savings grow? At the end of the first year we have earned 6 percent, or \$6 on our initial deposit of \$100, giving us a total of \$106 in our savings account. The mathematical formula illustrating this phenomenon is

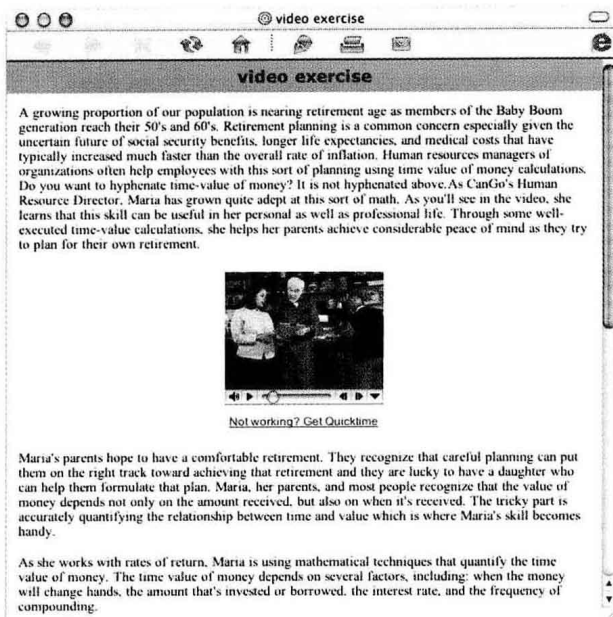
$$FV_1 = PV(1 + i) \quad (5-1)$$

where: FV_1 = the future value of the investment at the end of one year,
 i = the annual interest (or discount) rate
 PV = the present value, or original amount invested at the beginning of the first year

You may also want to try out video exercises. Click on the **video exercise** heading to get started...



...then click on the video box in the pop-up window to play the video clip.

A screenshot of a web browser window titled 'video exercise'. The page contains text about retirement planning and a video player. The video player shows a woman, Maria, and has a 'Not working? Get QuickTime' link below it. The text on the page discusses the importance of retirement planning for the Baby Boom generation and how Maria, a Human Resource Director, uses time-value of money calculations to help her parents plan for retirement.

A growing proportion of our population is nearing retirement age as members of the Baby Boom generation reach their 50's and 60's. Retirement planning is a common concern especially given the uncertain future of social security benefits, longer life expectancies, and medical costs that have typically increased much faster than the overall rate of inflation. Human resources managers of organizations often help employees with this sort of planning using time value of money calculations. Do you want to hyphenate time-value of money? It is not hyphenated above. As CanGo's Human Resource Director, Maria has grown quite adept at this sort of math. As you'll see in the video, she learns that this skill can be useful in her personal as well as professional life. Through some well-executed time-value calculations, she helps her parents achieve considerable peace of mind as they try to plan for their own retirement.

Not working? Get QuickTime

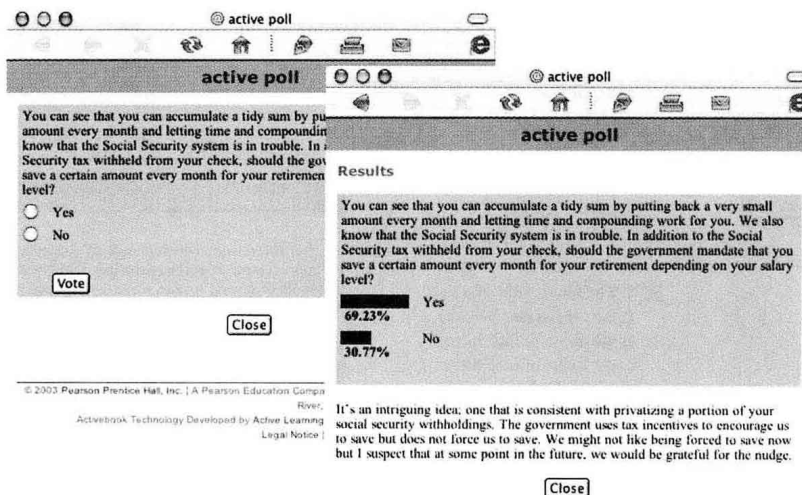
Maria's parents hope to have a comfortable retirement. They recognize that careful planning can put them on the right track toward achieving that retirement and they are lucky to have a daughter who can help them formulate that plan. Maria, her parents, and most people recognize that the value of money depends not only on the amount received, but also on when it's received. The tricky part is accurately quantifying the relationship between time and value which is where Maria's skill becomes handy.

As she works with rates of return, Maria is using mathematical techniques that quantify the time value of money. The time value of money depends on several factors, including: when the money will change hands, the amount that's invested or borrowed, the interest rate, and the frequency of compounding.

IMPORTANT NOTE:

You'll need the free QuickTime video player and the free Flash player to view the video and animation activities in your activebook. To see if your computer has these free programs installed, click on the **Browser Tuneup** link on your activebook homepage.

Ever wonder what other students are thinking about the topics discussed in your course? The **active poll** feature allows you to share your opinion and see what other students from around the world have to say about a specific topic. Click on the **active poll** heading to view the poll question. After you respond, you'll see the results compiled from all other students who have responded to the question.

A screenshot of the 'active poll' interface. It shows a poll question: 'You can see that you can accumulate a tidy sum by putting back a very small amount every month and letting time and compounding work for you. We also know that the Social Security system is in trouble. In addition to the Social Security tax withheld from your check, should the government mandate that you save a certain amount every month for your retirement depending on your salary level?'. There are two radio buttons for 'Yes' and 'No'. A 'Vote' button is at the bottom. Below the poll, there is a 'Results' section showing a bar chart: 'Yes' at 69.23% and 'No' at 30.77%. A 'Close' button is at the bottom right. The footer contains copyright information for Pearson Prentice Hall, Inc. and Active Learning Technologies, Inc.

You can see that you can accumulate a tidy sum by putting back a very small amount every month and letting time and compounding work for you. We also know that the Social Security system is in trouble. In addition to the Social Security tax withheld from your check, should the government mandate that you save a certain amount every month for your retirement depending on your salary level?

☐ Yes
☐ No

Vote

Close

Results

You can see that you can accumulate a tidy sum by putting back a very small amount every month and letting time and compounding work for you. We also know that the Social Security system is in trouble. In addition to the Social Security tax withheld from your check, should the government mandate that you save a certain amount every month for your retirement depending on your salary level?

69.23% Yes
30.77% No

Close

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> The Progress Tracker

The results of every Active Concept Check and Practice Test (short tests found at the end of every chapter) are recorded in the **Progress Tracker** so you can quickly see what areas of the chapter you may need to review. Your professor can also see these results. To access your Progress Tracker, click on the **Personal** menu from the toolbar and then select **Progress Tracker**.

Foundations of Finance (activebook), 2/e

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activebook
Foundations of Finance
The College and Practice of Financial Management

Progress Tracker for Michael Britt

Progress Summary:

Student Name	Available Quizzes	Quizzes Taken	# of Attempts	Avg. Score	Class Avg.
Michael Britt	203	35	65	78%	81%

Chapter 5 Select from the list to view your practice quizz and concept check results for each chapter.

Progress Summary for Chapter 5: The Time Value of Money

Quiz Name	1st Attempt Results	1st Attempt Score	Avg. Score	# of Attempts	Class Avg.
1. Compound Interest and...	4/5	80%	80%	1	80%
2. Present Value	5/5	100%	100%	1	80%
3. Annuities	3/5	60%	80%	3	60%
4. Annuities Due	3/5	60%	80%	3	60%
5. Amortized Loan	4/5	80%	80%	2	80%
6. Compound Interest with...	2/5	40%	75%	3	60%
7. Present Value of an...	3/5	60%	80%	2	80%
8. Perpetuities	3/5	60%	80%	2	60%
9. The Multinational Firm	4/5	80%	80%	1	80%
10. Chp. 5 Practice Quiz	16/20	80%	80%	1	70%
Average Chapter Totals		70%	82%	1.9	71%

The **Progress Tracker** displays both course summary information and chapter-specific results.

As you've seen, the **activebook** experience has a host of tools to help you do well in class. Here are a few ideas on how to take advantage of them.

1. **Use the Active Concept Checks.** These powerful tools help you identify what you know and what you don't know. When you answer a question incorrectly, use the **Review the Concept** link. It will automatically highlight the paragraph you need to review.
2. **Print out your highlights and margin notes.** After you've read a chapter and made highlights and notes, use the **Personal** link on the toolbar to examine your highlights and notes and then print out the page (**file**, then **print** in most browsers) to make a very focused, personal study guide.
3. **Use the Progress Tracker.** To get a quick glance at how you've done over one or several chapters, go to **Personal** and click on the **Progress Tracker**. You'll see how well you did on active concept checks in each chapter. Find the ones you did poorly on and then check your highlights. Take the concept check again, or use the active exercises in that section to help strengthen your knowledge.
4. **Watch for notes from your professor.** Your professor may put notes right in the flow of the text. These notes will point out material you should pay special attention to.
5. **Make notes in the print activebook.** When you are reading from the print text, make notes to remind yourself to go online and check out an active exercise or other activity that could be helpful.

You are now ready to begin learning the **activebook** way! Be sure and let us know what you think of this new version of the most powerful interactive textbook available. Send your suggestions and comments to activebooks@prenhall.com. Good luck with your course!



P R E F A C E

WELCOME to the **activebook™** experience for *Macroeconomics: Explore & Apply, Enhanced Edition*.

Taking your first course in economics can be like finding yourself in a foreign country where you do not know the language. You want the freedom to explore various interesting spots, but you cannot read the street signs for direction and you struggle when trying to communicate with the locals. There may be several different, exciting paths you can choose, but you are not sure which is best. To get your bearings in the country and reach your destinations, you need to learn something about the country's language.

> Today's Important Questions

As a student in a principles of economics course, you face many of the same challenges as a wandering traveler. You have registered for the course, but you face the hurdle of learning a new language that includes many new terms and concepts. You also face the challenge of learning how to read and interpret graphs. *Macroeconomics: Explore & Apply, Enhanced Edition*, was written to help you learn the language of economics. We use familiar real-world examples and applications that bring economics to life. Our goal is to help you apply the concepts you learn in this book to personal, business, and social issues that will face you long after your economics course is over:

- Should I stay in school, or quit and get a full-time job?
- Which major should I select?
- Should I worry about the budget deficit?

To help you find the answers to such questions, we emphasize both economic tools and the application of those tools. Many of our applications deal with recent events that underscore the importance of economics, such as: the rise in government spending; budget deficits; and the effect of immigration on a nation's economy. Such economic issues make it all the more important for you to understand the market economy and the principles that underlie effective public policy.

We end each chapter with an in-depth *Explore & Apply* section that looks at one of today's important political and social debates. These sections include *Thinking Critically* questions that place you in the position of analyzing a current policy issue using the economic tools presented in the chapter. Whether in class or over coffee, debating these policy issues can be both interesting and instructive. Sample topics include:

- Do government policies help employees?
- How do we pay for homeland security?
- How does technology impact economic growth?



> OneKey for Instructors and Students

Available by using the access code shrink-wrapped with your Activebook, OneKey is Prentice Hall's exclusive new resource for instructors and students. OneKey gives you access to the best online teaching and learning tools—All available 24 hours a day, 7 days a week. OneKey means all your resources are in one place for maximum convenience, simplicity, and success. All of the following student and faculty resources are available:

- **Active Graphs.** Two levels of interactive graphs help students to understand economic concepts and support key graphs in the text. Active Graphs Level One are JAVA applications that invite students to change the value of variables and curves and see the effects in the movement of the graph. Active Graphs Level Two include exercises that ask students to modify graphs based on an economic scenario. Students receive an instant response detailing how they should have changed the graph. Look for the OneKey icon in the Activebook to signal an Active Graph Exercise.
- **Animated Graphing Tutorial with Audio.** Guides the student through a multimedia version of Chapter 1 Appendix: Working with Graphs and Data.
- **Egraph and Graphing Questions.** This electronic tool allows students to create precise, colorful graphs, using Flash technology. Students can e-mail these graphs to their professor or print and save them. To apply this technology, we have included *Graphing Questions* that require students to analyze information gathered on the Web, and then create graphs using the Graphic Tool. Complete answers, with graphs, are included.
- **EconUpdates.** Students will find updated **In the News** articles and **Internet Exercises**. Nearly every chapter of the textbook will be updated with economics-based articles from current news publications as well as Web-destination exercises that will direct students to an appropriate Web site to gather data and analyze a specific economic problem.
- **Explore & Apply Updates.** These updates steer students toward the latest Web information concerning the topics discussed in the *Explore & Apply* sections. For each *Explore & Apply*, there is an article summary, additional links and references, and questions.
- **Self-Study Quizzes.** These self-test quizzes allow students to test their understanding of the concepts and receive immediate feedback for correct and incorrect answers.
- **PowerPoint Lecture Notes.**
- **Chapter Summaries.**
- **Grade Assist.** Prentice Hall's PH Grade Assist program is an online homework tool that includes a variety of assignments to complete.
- **Research Navigator.** Your OneKey course gives you direct access to Prentice Hall's powerful online research tool, Research Navigator.
- **Instructor Resource Center.** Instructors can find all teaching resources such as the Instructor's Manual and Solutions Manual.

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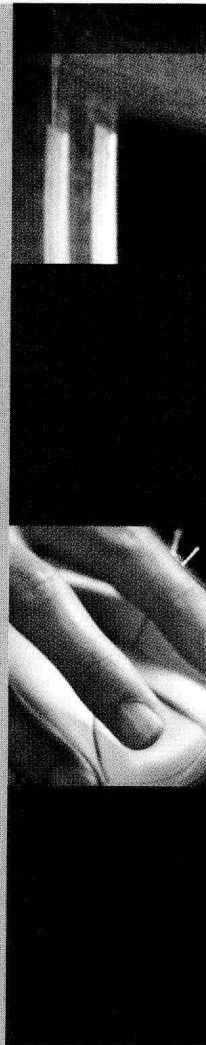
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