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Economics

01/02



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Economics

01/02

Thirtieth Edition

DONATION-02

EDITOR

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Drew University

Don Cole, professor of economics at Drew University, received his Ph.D. from Ohio State University. He has served as consultant to a variety of public and private organizations, and he is cofounder of the Drew University Semester on the European Union in Brussels, Belgium. An innovator in the use of computer-assisted instruction in the teaching of economics, Dr. Cole is the author of articles on various subjects, including economic policy, monetary theory, and economic education. He is also the editor of other McGraw-Hill/Dushkin publications, including *The Encyclopedic Dictionary of Economics* and two other *Annual Editions* anthologies, *Microeconomics* (5th Edition) and *Macroeconomics* (13th Edition).

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Much economic reasoning is based on the **opportunity cost** principle, the idea that any decision involving scarce resources must involve costs in terms of **forgone alternatives** elsewhere. Peter Passell applies this principle to an age-old question: What is the value of a human life?

2. **Building Wealth,** Lester C. Thurow, *The Atlantic Monthly*, June 1999.

Lester Thurow maintains that the world is currently in the throes of a **third industrial revolution**, in which knowledge—rather than natural resources—is the key to success. The knowledge-based economy is asking new questions, giving new answers, and developing new rules for generating wealth.

3. **What in the World Happened to Economics?** Justin Fox, *Fortune*, March 15, 1999.

The field of economics has been the scene of some very public battles over the past half century. Recently, economists have attained a state of relative peace and consensus, but they have done so by diminishing their expectations. Justin Fox examines the **current state of economic thought**.

4. **The Internet Economy: The World's Next Growth Engine,** Michael J. Mandel, *Business Week*, October 4, 1999.

The evolution of the **Internet** means that the traditional **factors of production**—especially capital and skilled labor—are no longer the major determinants of the power of the economy. Now, economic potential is increasingly linked to the ability to control and manipulate information.

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5. **Smoke Signals,** *New York Times*, New Jersey Sunday Edition, January 10, 1999.

One of the more useful concepts in microeconomics is **demand elasticity**, which measures the responsiveness of consumer demand to changes in prices. Recently, the New Jersey legislature doubled the state cigarette tax in an effort to reduce smoking. This article examines the impact this has had on cigarette sales in both New Jersey and nearby states.

6. **The New Economy's 'Network Society' Plays by Old-Economy Rules,** Jeff Madrick, *New York Times*, July 6, 2000.

In the relentless search to find something unprecedented in the "new economy," many business gurus are saying that the theoretical principles underlying the "old economy" don't apply. Jeff Madrick disagrees, and he demonstrates the usefulness of the time-honored **principle of economies of scale**.

7. **I Got It Cheaper Than You,** Scott Woolley, *Forbes*, November 2, 1998.

What do American Airlines, Staples, Stanford University, AT&T, and Safeway Stores all have in common? They practice **price discrimination** by charging some customers more than other customers for the same thing. Scott Woolley says price discrimination seems destined to become more frequent and complex with the growth of electronic commerce.

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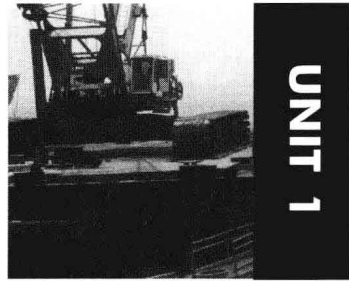
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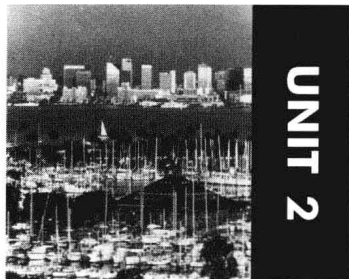
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 Louis Uchitelle, *New York Times*, February 13, 2000.
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10. **Telecom Act Delivers a Scrambled Price Picture to Consumers,** 40
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11. **Worker Capitalists? Giving Employees an Ownership Stake,** 42
 Margaret M. Blair and Douglas L. Kruse, *Brookings Review*, Fall 1999.
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12. **Making Green Policies Pay Off: Responsible Climate-Change Package Can Benefit Environment, Workforce,** 46
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13. **Congested Parks—A Pricing Dilemma,** 50
 Dan M. Bechter, *Monthly Review* (Federal Reserve Bank of Kansas City), June 1971.
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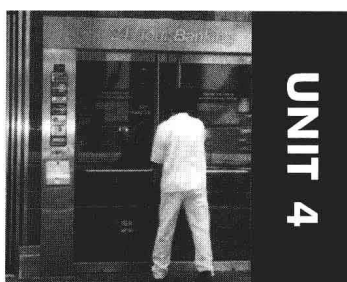
- 14. Growing American Inequality: Sources and Remedies**, Gary Burtless, *Brookings Review*, Winter 1999. **58**
For the better part of two decades, the **gap in earning between rich and poor Americans** has increased steadily. The incomes of poor Americans shrank and those of the middle class stagnated while the incomes of the richest families continued to grow. Gary Burtless asks: Should we care? And, if we do care, what should be done about it?
- 15. The Victimless Income Gap?** Robert H. Frank, *New York Times*, April 12, 1999. **63**
Some economists maintain that **inequality doesn't really matter** so long as no one ends up with less in absolute terms. Robert Frank disagrees. He argues that when the rich get richer, the rest do suffer.
- 16. Working Full-Time Is No Longer Enough—Despite Boom, Americans Are More Likely to Fall Below the Poverty Line**, Jacob M. Schlesinger, *Wall Street Journal*, June 29, 2000. **65**
Available evidence suggests that lower-skilled workers have profited much less than others from the current U.S. economic boom. While the boom ensures that they are able to find jobs, Jacob Schlesinger asserts that it is still much too hard for **the poor who work full-time** to rise above the poverty level.
- 17. Without a Net: Whom the New Welfare Law Helps and Hurts**, Christopher Jencks and Joseph Swingle, *The American Prospect*, January 3, 2000. **67**
Christopher Jencks and Joseph Swingle demonstrate why the **impact of welfare reform** has been neither as grim as its critics feared nor as encouraging as its advocates promised.
- 18. Corporate Welfare Remains Unchecked**, Doug Bandow, *Business and Society Review*, Number 97, 1996. **74**
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- 19. Should We Retire Social Security?** Henry J. Aaron and Robert D. Reischauer, *Brookings Review*, Winter 1999. **77**
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- 20. Search for the Cure**, John C. Baldwin and C. Everett Koop, *Washington Post*, May 6, 1999. **83**
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Income Distribution and Economic Justice

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Macroeconomics

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21. **New Unions for a New Economy**, Stephen A. Herzenberg, John A. Alic, and Howard Wial, *The New Democrat*, March/April 1998. 84
How will American trade unionism fare in the twenty-first century? In the so-called New Economy, very few new jobs are broken down in classic production-line fashion, and productivity improvements depend more than ever on the ability of employees to solve problems and to improvise. The authors recommend ways in which unions can meet these challenges.
22. **Equality in Hiring Remains the Key to Civil Rights Goals**, Alan B. Krueger, *New York Times*, June 22, 2000. 89
 Since 1965, when the Civil Rights Act went into effect, median earnings of black full-time workers have gained ground on the earnings of their white counterparts. Alan Krueger shows that **discrimination** still persists, taking on more subtle forms that are less amenable to correction by legislation.
23. **Immigrants Fill Critical Gap in Wide-Open Job Market**, Dina Temple-Raston, *USA Today*, June 23, 2000. 91
 With more than 9 million legal immigrants arriving on its shores in the past decade, the **current immigration wave** is the largest in U.S. history. Dina Temple-Raston traces the impact of this wave on U.S. job markets and wages.

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24. **The Risk That Boom Will Turn to Bust**, Michael J. Mandel, *Business Week*, February 14, 2000. 96
 The editor of *Business Week* argues that a **New Economy** has been born, which is transforming America and much of the world at a pace that is scarcely imaginable. Unfortunately, too many have given in to the temptation to conclude that the New Economy also means the end of the **business cycle**.
25. **Just How Productive Are U.S. Workers?** David Friedman, *Los Angeles Times*, July 9, 2000. 99
 Why did **U.S. productivity**, the nation's economic output per labor hour, suddenly accelerate in 1995 after decades of stagnation? David Friedman suggests that the answer will determine whether America is truly leading the world into a new, prosperous era, or whether its good times reflect unique circumstances that can, and likely will, change for the worse.
26. **The New Economy: A Millennial Myth**, Dean Baker, *Dollars and Sense*, March/April 2000. 101
 Dean Baker questions the view that the New Economy is rapidly propelling the nation and the world into a new, possibly endless, era of prosperity. From his perspective, what we see in the New Economy is nothing more than **an old-fashioned bubble**.
27. **Notes From Underground: Money That People Earn and Spend Outside the Realm of Official Economic Calculations Is Nonetheless Real**, Elia Kacapyr, *American Demographics*, January 1998. 106
 A large share of economic activity occurs in the **underground economy**, where goods and services—some legal, some not—are produced but not reported. Elia Kacapyr considers possible implications of proposals for regulating such activity.

28. Why Are Taxes So Complicated, and What Can We Do About It? William Gale, *Brookings Review*, Winter 1999. **107**

Since virtually everyone agrees that taxes should be easy to understand, administer, and enforce, **why are taxes so complicated?** William Gale suggests that the answer is that people also agree that taxes should be fair, should be conducive to economic prosperity, should raise sufficient revenue to finance government spending, and should respect the privacy of individuals.

29. The Case Against Tax Cuts, Alan J. Auerbach and William G. Gale, *Brookings Policy Brief*, March 1999. **110**

Emerging federal budget surpluses have sparked calls for **large-scale tax cuts**. Even if surpluses do materialize, they will exist only because government accounting obscures the fact that the United States faces a large, long-term deficit. Alan Auerbach and William Gale suggest that **saving the surplus** by paying down public debt would help the economy much more than would tax cuts.

30. U.S. Monetary Policy: An Introduction, FRBSF *Economic Letter* (Federal Reserve Bank of San Francisco), January 1, 1999. **115**

This essay provides insights into the major dimensions of **U.S. monetary policy**. What are the ultimate goals of the Federal Reserve? What happens when these goals conflict? How does the Fed formulate its strategies, and what effect do its policies have on the economy?

31. What Greenspan Doesn't Know . . . , Robert J. Samuelson, *Newsweek*, May 1, 2000. **123**

Robert Samuelson says that the **"dirty secret of today's economy"** is that no one—including Fed chairman Alan Greenspan—truly understands it. One reason is that the standard model of how the economy operates (upon which experts generally base their conclusions) has gradually broken down, and there is thus far nothing to replace it.

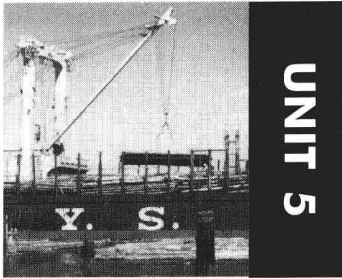
32. Central Banking in a Democracy, Alan S. Blinder, *Economic Quarterly* (Federal Reserve Bank of Richmond), Fall 1996. **124**

Alan Blinder, former vice chairman of the Federal Reserve Bank's Board of Governors, asks, **Who does the Federal Reserve serve?** Blinder argues that it is not the U.S. president, or the Congress, or the banks, or the financial system. The Fed's true constituency is the entire nation.

33. The New World of Banking, Jim Campen, *Dollars and Sense*, May/June 2000. **131**

The Gramm-Leach-Bliley Financial Service Modernization Act of 1999 makes possible a new kind of corporation—called a **financial holding company**—that allows any number of banks, insurance companies, and securities firms to be brought together under the same corporate umbrella. Jim Campen suggests that the result is likely to be another wave of financial megamergers.

34. Who Needs Money? *The Economist*, January 22, 2000. **135**
"E-money" (or electronic money) is money that moves along multiple channels largely outside the established network of banks, checks, and paper currency that are overseen by the Federal Reserve. *The Economist* discusses what e-money might mean for the future of banking and the monetary system.



The Changing Global Economy

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Economic engagement with the rest of the world has played a key part in the current U.S. economic boom. However, as Robert Litan warns, American economic policy must steer a middle course between the extremes of either unilateralism or one-worldism.
- 36. Why Trade Is Good for You**, *The Economist*, October 3, 1998. 141
 If countries specialize according to their **comparative advantage**, they can prosper through trade regardless of how inefficient, in absolute terms, they may be in their chosen specialty. This article demonstrates how this principle can be used to support the case for free trade.
- 37. The Trade Deficit May Seem Harmless, but It Could Be What Trips Up Growth**, Jeff Madrick, *New York Times*, June 8, 2000. 144
 Many economists say that, since we've dealt with **high trade deficits** for 20 years and the U.S. economy is remarkably strong, there is little, perhaps nothing, to worry about. However, as Jeff Madrick shows, America's relentless borrowing from abroad may ultimately be what trips up its growth.
- 38. The Insider: What I Learned at the World Economic Crisis**, Joseph Stiglitz, *The New Republic*, April 17 & 24, 2000. 146
 Joseph Stiglitz, one-time chief economist and vice president of the World Bank, provides **an insider's view of the International Monetary Fund**. He maintains that while, in theory, the fund supports democratic institutions in the nations it assists, in practice it undermines the democratic process by imposing policies.
- 39. Eliminating Child Labor**, Miriam Wasserman, *Regional Review*, Second Quarter 2000. 151
 Much of the developing world continues to rely on **child labor**. Miriam Wasserman asks, Can we learn from the U.S. experience about what is required for its elimination?
- 40. NAFTA After 5 Years: 'Free' Trade Is Often Costly**, Kathy McCabe, *Boston Globe*, May 9, 1999. 159
 The formation of the **North American Free Trade Agreement (NAFTA)** was marked both by extravagant promises about its benefits and by blood-curdling warnings about its costs. Now that 5 years have passed, Kathy McCabe asks: "How is NAFTA doing?"
- 41. Europe Can't Handle the Euro**, Martin Feldstein, *Wall Street Journal*, February 8, 2000. 162
 When leaders of the 11 nations that comprise the **European Monetary Union** agreed to combine their currencies in January 1999, they predicted great things. Instead, as Martin Feldstein notes, the **euro** plummeted, Europe's economy remains weak, and unemployment is more than twice the U.S. level.
- 42. After Communism, Russia Has Gone From Menace to Mess**, Lester C. Thurow, *Boston Globe*, September 7, 1999. 164
 After the breakup of the USSR, many believed that Russia's well-educated citizenry, its demonstrated mastery of technology, and abundant natural resources would result in its quickly joining the ranks of the developed world. Lester Thurow explains why, more than a decade later, the **Russian economy is in trouble**.

- 43. Re-Emerging Economies: Uncertain Prospects, The** 166
Economist, April 24, 1999.
Emerging economies appear to have finally clawed their way back from the brink of financial collapse, following years of serious crisis. But they are still a long way from economic health.
- 44. Trade and the Developing World: A New Agenda,** 170
 Joseph F. Stiglitz, *Current History*, November 1999.
 The **gap between the developed and the less developed countries is widening**, a gap which, in Joseph Stiglitz's view, the international community is doing too little to narrow. As developing countries take steps to open their economies and expand their exports, they find themselves confronting significant trade barriers—leaving them, in effect, with neither aid nor trade.
- 45. Trade: A Third Way,** Robert B. Reich, *The American* 176
Prospect, May 22, 2000.
 Global trade agreements often have one thing in common: there's almost no agreement on what **labor and environmental standards** actually mean. Robert Reich proposes an interesting solution to this problem.
- 46. Changing Today's Consumption Patterns—for Tomorrow's Human Development,** United Nations Development Programme, *Human Development Report*, May 1998.
World consumption has expanded at an unprecedented pace over the twentieth century. As this United Nations report shows, competitive spending and conspicuous consumption have turned the affluence of some into the social exclusion of many.

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General Sites and Introduction

1. AmosWorld

<http://www.amosweb.com>

This site seeks to be the premier Internet site for instructional economic information. Main features include a glossary of over 500 economic terms and concepts, a reading room, and an interactive question-and-answer resource.

2. The Dismal Scientist

<http://www.dismal.com>

Often referred to as the "best free lunch on the Web," this is an excellent site with many interactive features. It provides access to economic data, briefings on the current state of the economy, and original articles on economic issues.

3. Litigation Analytics: How Much for a Human Life?

<http://www.humanlifevalue.com/index.html>

"How much is a human life worth?" This site provides an interesting, interactive exercise involving this question.

4. The Mining Company

<http://economics.miningco.com>

This frequently updated resource "mines the Net" for information on economic subjects. It includes a large number of links and online articles from economics magazines and journals.

5. Resources for Economists on the Internet

<http://econwpa.wustl.edu/EconFAQ/EconFAQ.html>

Here is an excellent starting place for any research in economics by academic and practicing economists.

Microeconomics

6. Antitrust Policy

<http://www.antitrust.org>

Sponsored by the Owen Graduate School of Management at Vanderbilt University, this site provides detailed information on such topics as case studies in price fixing, merger simulations, and the evolution of U.S. antitrust policy.

7. CEO Express—Business and Financial News

<http://www.ceoexpress.com>

A comprehensive source of news on business, finance, and technology, this site provides users with extensive tools for researching companies through direct links to the home pages of Fortune 500 and many other firms.

8. Corporate Watch

<http://www.corpwatch.org>

Corporate Watch is an online magazine and resource center designed to provide an array of tools for investigating and analyzing the activities of transnational corporations.

9. Internet Public Library: Business and Economics Reference

<http://ipl.org/ref/RR/static/bus0000.html>

This comprehensive reference library on the production, distribution, and consumption of goods and services includes

many subtopics about consumer issues, employment, business and industry, and labor and the workplace.

10. Leading Companies E-zine

http://www.fed.org/leading_companies/index.html

This monthly online electronic magazine contains topics that generally focus on the development of a high-performance workplace, employee ownership, and entrepreneurial issues.

11. New York Times Business Connections

<http://www.nytimes.com/library/cyber/reference/busconn.html>

This page of links to business and economics sites on the Web was prepared for use by journalists of the *New York Times* for their own research purposes. It includes links to such categories as Markets, Companies, Business News, Banking and Finance, and Government.

12. Small Business Administration

<http://www.sbaonline.sba.gov>

The U.S. Small Business Administration provides financial, technical, and management assistance to 23 million small businesses.

Income Distribution and Economic Justice

13. Center on Budget and Policy Priorities

<http://www.cbpp.org>

This nonpartisan research organization and policy institute conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and moderate-income people.

14. Joint Center for Poverty Research

<http://www.jcpr.org>

This site examines what it means to be poor and to live in America. Issues considered include changing labor markets, the causes of inequality, family functioning, the impact of concentrated urban poverty, and implications for public policy.

15. Social Security Administration

<http://www.ssa.gov>

The official Web site of the Social Security Administration, this is a multifaceted source.

16. Today's Unions

<http://www.aflcio.org>

The AFL-CIO Web page provides access to a large number of topics concerning ways in which labor unions might improve the lives of working families.

17. The Urban Institute

<http://www.urban.org>

The Urban Institute investigates national social and economic problems and analyzes solutions.

18. U.S. Department of Health and Human Services

<http://www.hhs.gov>

The Department of Health and Human Services is the U.S. government's principal agency for protecting the health of all Americans and providing essential human services, especially for those who are least able to help themselves.

19. U.S. Department of Labor

<http://www.dol.gov>

This Department of Labor Web site includes information about the department and its agencies, labor laws and trends, press releases, and texts of regulations.

20. U.S. Immigration and Naturalization Service (INS)

<http://www.ins.usdoj.gov>

The INS is responsible for enforcing laws regulating the admission of foreign-born persons to the United States and for administering various immigration benefits.

21. Welfare-to-Work

<http://wtw.doleta.gov>

A federal government Web site that examines the transition from welfare-to-work from the perspective of individuals, employers, and communities is found here.

22. WorkIndex

<http://workindex.com>

This index is an annotated guide to Internet resources in human resources, labor relations, benefits, training, technology, staffing, recruiting, leadership, motivation, insurance, relocation, legal issues and more.

Macroeconomics

23. Bureau of Economic Analysis (BEA)

<http://www.bea.doc.gov>

The BEA is the nation's accountant. It issues the Survey of Current Business and is a good source for data on industrial and regional development.

24. Citizens for Tax Justice

<http://www.ctj.org>

Citizens for Tax Justice is a research and advocacy organization that "seeks to give ordinary people a greater voice in the development of tax laws."

25. Congressional Budget Office

<http://www.cbo.gov>

The Congressional Budget Office seeks to provide "objective, timely, nonpartisan analyses needed for economic and budget decisions and with the information and estimates required for the Congressional budget process."

26. Economic Report of the President

<http://w3.access.gpo.gov/eop/>

This is the Web page of the Council of Economic Advisors. A copy of the most recent *Economic Report of the President* is available here.

27. Federal Reserve Board

<http://www.bog.frb.fed.us>

The Web site of the Federal Reserve Board (the Fed) links to all the Federal Reserve Banks and other federal agencies. It provides access to the Fed's "Beige Book," a report published eight times each year on current economic conditions by Federal Reserve district.

28. History of Money

<http://www.ex.ac.uk/~RDavies/arian/llyfr.html>

An award-winning site that provides a comprehensive chronology of money from ancient times to the present day, this page includes articles on the Origins of Banking, Money in North American History, Britain and the European Monetary Union, and Third World Debt in the 20th Century.

29. The Public Debt

<http://www.publicdebt.treas.gov/opd/opd.htm>

Features of this site include estimates of "daily amounts to the penny," of the debt, interest costs of the outstanding public debt, and long-term trends.

30. Underground Economy

http://newmedia.jrn.columbia.edu/1997/groups/assignment_4.html

Designed as a multimedia project by two students, this site examines aspects of the multimillion-dollar underground economy of New York City.

The Changing Global Economy

31. The European Union in the U.S.

<http://www.eurunion.org>

Here is a comprehensive Web site for those interested in the nature and origin of the European Union. Topics include EU policies and legislation, information on member states, and EU-U.S. relations.

32. Institute for International Economics

<http://www.iie.com>

Since its founding in 1981, the Institute for International Economics has provided objective analysis of key international economic problems and has proposed concrete solutions.

33. Inter-American Development Bank (IDB)

<http://www.iadb.org>

The Inter-American Development Bank was established in 1959 to help accelerate economic and social development in Latin America and the Caribbean. This site offers access to IDB reports and information on member countries.

34. North American Free Trade Association (NAFTA)

<http://www.mac.doc.gov/nafta/nafta2.htm>

NAFTA's objective is "to provide accurate and timely information to U.S. exporters experiencing market access barriers in Canada or Mexico."

35. Organization for Economic Co-operation and Development (OECD)

<http://www.oecd.org>

The Web site of the OECD page provides information on OECD activities, news, and documentation. One interesting feature is links to the Centre for Co-operation with Non-members.

36. Sustainable Development.Org

<http://www.sustainabledevelopment.org>

Extensive links at this site lead to such sustainable development categories as agriculture, energy, environment, finance, health, microenterprise, public policy, and technologies.

37. United Nations Development Program (UNDP)

<http://www.undp.org>

The UNDP helps people in 174 countries to help themselves by focusing on poverty elimination, environmental regeneration, job creation, and the advancement of women.

38. World Resources Institute

<http://www.wri.org>

The World Resources Institute provides information and practical proposals for policy and institutional change that will foster environmentally sound, socially equitable development.

We highly recommend that you review our Web site for expanded information and our other product lines. We are continually updating and adding links to our Web site in order to offer you the most usable and useful information that will support and expand the value of your Annual Editions. You can reach us at:
<http://www.dushkin.com/annualeditions/>

Unit Selections

1. **How Much for a Life? Try \$3 Million to \$5 Million**, Peter Passell
2. **Building Wealth**, Lester C. Thurow
3. **What in the World Happened to Economics?** Justin Fox
4. **The Internet Economy: The World's Next Growth Engine**, Michael J. Mandel

Key Points to Consider

- ❖ Is life priceless? Explain your answer in terms of the opportunity cost principle.
- ❖ Where does economic wealth come from, and how might it be increased?
- ❖ What are the main schools of contemporary economic thought?
- ❖ What effect do you think the Internet will have on future generations that is different from today's influence? Explain.

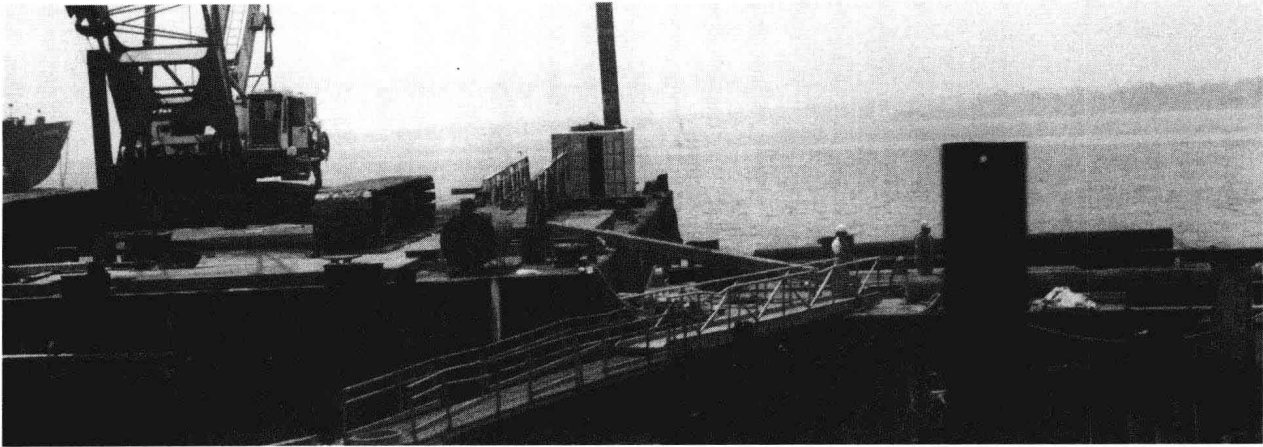


Links

www.dushkin.com/online/

1. **AmosWorld**
<http://www.amosweb.com>
2. **The Dismal Scientist**
<http://www.dismal.com>
3. **Litigation Analytics: How Much for a Human Life?**
<http://www.humanlifevalue.com/index.html>
4. **The Mining Company**
<http://economics.miningco.com>
5. **Resources for Economists on the Internet**
<http://econwpa.wustl.edu/EconFAQ/EconFAQ.html>

These sites are annotated on pages 4 and 5.



Economics concerns the decisions we face in meeting our material needs. Examples of such decisions can be found everywhere: college students confront rising tuition costs; a local business firm announces that it will lay off workers; a newspaper editorial comments on the merits of minimum-wage legislation; the U.S. Congress debates proposals to reform the Social Security system. Like a view on a very clear day, a list of all possible economic problems appears to have no end.

Beginning students of economics often wonder why this is so. Why are the 6 billion citizens of the planet not able to find a way to meet their needs for material existence? More than a half century ago, the British economist Lionel Robbins provided an interesting answer to this question. He suggested that we are unable to do all the things we may wish to do for the simple reason that our economic resources—human talents, the natural endowment, and the stock of capital—are finite. Robbins defined “the economic problem” as one of scarcity: Our resources are scarce because the number of possible uses to which they might be put in meeting our material needs is unlimited. Economics, therefore, ultimately concerns the hard choices we must make, both private and public, about ways to employ these resources. Because such choices always carry a price (or “opportunity cost”) in terms of alternatives forgone, economics leads us to consider the costs and benefits of things we choose to do.

This unit offers different perspectives on the subject of resource limits and opportunity costs. First, Peter Passell raises an age-old question: What is the value of a human life? People sometimes chide

economists for knowing “the cost of everything and the value of nothing.” Yet, as Passell demonstrates, economic reasoning has great usefulness in understanding why people do the things they do, even—indeed, especially—when those things involve risky behaviors. When smokers light up, for example, they are making economic decisions (however subconsciously) about the value of the risks they incur. In effect, they are placing a value on their own lives. One of the tasks economists have is to remind us that no behavior is without cost and that at times these costs can be substantial.

In the next essay, Lester Thurow asks us to consider where economic wealth comes from. He says that the world is currently in the throes of a third industrial revolution, in which knowledge—rather than natural resources—is the key to success. The knowledge-based economy is posing new questions, giving new answers, and developing new rules for generating wealth.

Then, in “What in the World Happened to Economics?” Justin Fox traces some recent developments in economic thinking. Economics is a subject rich in controversy. Although most economists speak the same language, disagreements frequently occur, and these more often than not involve explaining the behavior of the global economy. In fact, as Fox observes, most economists no longer seem to believe there is a single correct explanation.

The unit concludes with an article about the amazing speed of acceptance and usage of the Internet and its impact worldwide. J. Bradford DeLong compares the Internet with other technologies that have impacted our culture and society.

How Much For A Life?

Try \$3 Million to \$5 Million

Even so, risk experts say some safety laws just aren't worth it.

Peter Passell

You've watched in horror a dozen times: Scenes of barely recognizable aircraft parts strewn across smoldering moonscapes, with the occasional shoe or child's toy the only reminders of lives snuffed out in unimaginable terror. And no doubt you've wondered when it would be your turn, a thought quickly shrugged away but never truly forgotten.

Flying, everyone knows, is a risky business. Any expense that makes it safer thus seems an expense worth making. And the only question most people ask after a crash is how to get the regulators to get off their duffs before the next one.

But the truth comes in shades of gray, not black and white. Americans' obsession with the tiny probability of dying in an airline accident is, at best, a distraction from the reality that commercial aviation is one of the great blessings of the age. At worst, it is an invitation to expensive and even self-defeating fixes, a symptom of our inability to cope sensibly with risk. But Republican conservatives in Congress are now pressing for a more sharp-penciled analysis of the cost of government health and safety regulations.

Just how safe is flying in America? Based on the experience of the last two decades, Arnold Barnett, a management professor at the Massachusetts Institute of Technology, sets the probability of dying from un-

natural causes on your next commercial jet flight at about one in seven million. A flier who boards a jet each day can thus expect to meet the grim reaper every 19,000 years.

The propeller planes linking hundreds of small cities to big airports are three or four times as dangerous. But that only brings the odds of ending up a grim statistic to one in two million. The chance of suffering a heart attack while waiting for the conveyor belt to mangle your luggage is much greater.

The yawning gap between the actual and imagined risk of flying no longer surprises specialists in risk analysis, who make careers of explaining why people who brush aside the dangers of driving on icy highways or gorging on cookie dough ice cream are so ready to believe that portable phones cause brain cancer. But a comparison of the way risk analysts think about safety with the way Government balances risk against potential gain is sobering.

Probabilities alone don't offer much insight into which chances are worth taking. That question, suggests the brave new science of risk analysis, can be answered only by weighing the cost of avoiding a statistical death against the subjective value of life.

Try that one again. Assume for the sake of argument that it would

cost \$500 per car to put anti-skid brakes in each of the 10 million cars sold this year—a total of \$5 billion. Assume that installing the gadgets on this year's fleet would ultimately save 5,000 lives, or \$1 million per life. Assume that, on average, people value their lives at up to \$5 million. Since the \$1 million cost of saving a life is less than the \$5 million value of life, the safety feature must be worth buying.

Sounds O.K., at least until the part about the value of life being \$5 million. Who is to say that a life is worth \$5 million rather than \$500 million?

One answer is Americans couldn't afford to spend \$500 million. Kip Viscusi, an economist at Duke University, estimates that if the entire gross national product were devoted to making life safer, there would only be \$55 million available to prevent each accidental death. So, at least in this limited sense, life must be worth less than \$55 million.

More to the point, people voluntarily accept the risk of death in return for money all the time. Dozens of studies have imputed a value to life from data on the extra wages required to lure workers to perform dangerous jobs. If, for example, it takes an extra \$100,000 in lifetime earnings to persuade miners to cope with one extra chance in a hundred of premature death underground,