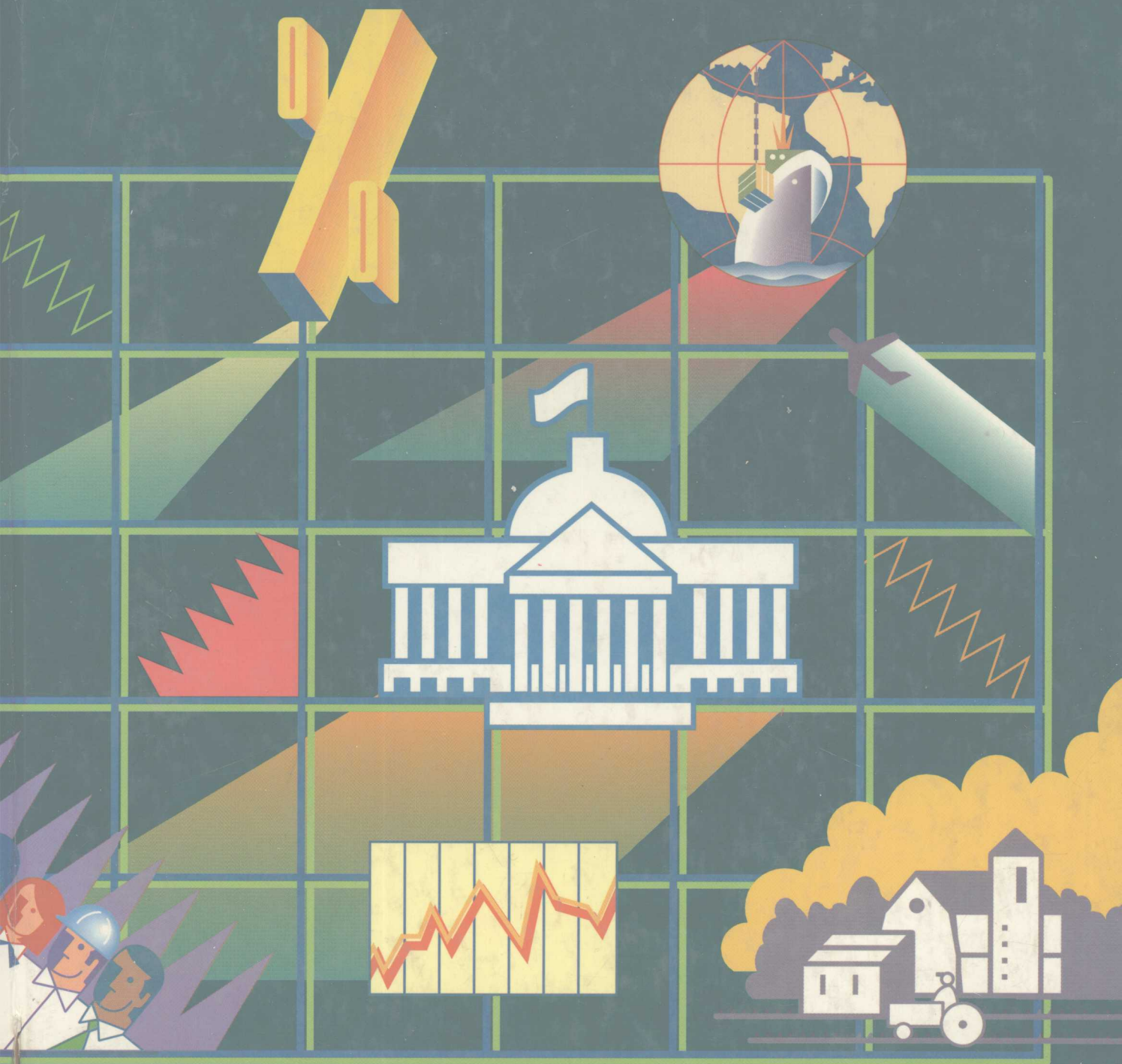


SEVENTH EDITION

# ECONOMICS TODAY

ROGER LeROY MILLER



SEVENTH EDITION

# ECONOMICS TODAY

**ROGER LeROY MILLER**

Center for Policy Studies  
Clemson University



HarperCollins *Publishers*

## To Betsy and Barry Zwick

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# TO THE INSTRUCTOR

Virtually all economists in this country agree on one thing: The economic theory we have been teaching is alive, well, and perhaps more relevant today than ever before. While many of the revolutionary events in the Soviet Union and in its Eastern-bloc satellites at the beginning of this decade have been purely political, many were caused by well-publicized economic failures. The economics presented in this text and in most classrooms in America is the economics that many socialist politicians and theorists are now seeking to embrace. This fact alone should be a sufficient reason for your students to want to know about how our economic system works. Indeed, some of you using this book may want to start your course with its last chapter titled, aptly, “Converging Economic Systems.”

## INCREASED INTERNATIONALIZATION

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To be sure, we are not yet one world, nor will we ever be. Nonetheless, few can ignore the importance of other countries in American economic life. After World War II, the rest of the world feared American dominance. That talk seems to have diminished. In its place are found references to Japanese dominance and, more recently, to potential dominance from unified Germany. The competitive threat of one Europe after December 31, 1992, has also been widely discussed.

Different languages, customs, and monies guarantee that we will never have one economic world. Certain economic institutions, however, have already become globalized due to rapid advances in telecommunications. For example, we effectively have a world stock market; we effectively have a world market in foreign currencies; and we effectively have a world market in certain types of U.S. government securities.

One way I have attempted to make the study of economics come alive is by bringing in international examples wherever possible both in the macro and micro sections of this text. Here are just some examples:

- A presentation of where the price system is used throughout the world. (Chapter 2)
- A comparison of the size of government in the United States relative to government in other countries. (Chapter 5)
- An international comparison of tax burdens. (Chapter 6)
- The U.S. federal government deficit compared to those in our industrialized trading partners. (Chapter 6)
- Unemployment in the United States compared to that in other industrialized nations. (Chapter 7)
- Relative rates of inflation across the world and an example of hyperinflation in Brazil. (Chapter 7)
- The effect of increased international competition on the new phenomenon of contingent workers. (Chapter 7)
- A discussion of whether or not we can compare GNP across countries. (Chapter 8)
- The foreign sector included in the income and employment determination model. (Chapter 12)
- The relationship between international trade deficits and federal budget deficits. (Chapter 12)
- Monetary policy in an internationally open economy. (Chapter 15)
- The globalization of financial markets and a resulting worldwide stock market. (Chapter 18)
- The threat of foreign direct investment in the United States, or has there been a Japanese invasion? (Chapter 18)
- The problems of third-world debt in a globalized economy. (Chapter 18)
- Japanese dumping of semiconductors in the United States as a form of price discrimination. (Chapter 24)

And of course all of the last part of this text, “Global Economics,” reflects the current world situation with respect to international trade, finance, and development. Key modern theoretical and empirical points that are made in the global economics chapters are as follows:

- Intra-industry international trade in the context of economies of scale and differentiated products. (Chapter 33)
- Rhetoric versus reality under the Reagan and Bush administrations with respect to trade restrictions. (Chapter 33)
- Thorough distinction between the current account and the capital account and the balancing of the balance of payments, including what affects the balance of payments. (Chapter 34)
- Purchasing power parity (PPP) doctrine. (Chapter 34)
- The dirty float and the effects of the Group of Seven (G-7). (Chapter 34)
- The importance of the J-curve. (Chapter 34)



- The worry over the deficit in our current account and the reality of the surplus in our capital account. (Chapter 34)
- What has happened to the industrially advanced countries (IACs) relative to developing countries. (Chapter 35)
- The vicious cycle of poverty. (Chapter 35)
- How the international debt crisis has affected developing countries. (Chapter 35)
- The relationship between malnutrition and development. (Chapter 35)

## CONVERGING ECONOMIC SYSTEMS

As I have already mentioned, some instructors may wish to use the last chapter of this text to start their courses. In this chapter I examine market capitalism in terms of the three Ps—prices, profits, and private property. Communism and socialism are examined in that context. The point is made that decentralized market capitalism involves lots of planning, but it is done by different people and different institutions than in a centralized command economy. Our private businesses and elected officials do our planning.

The problems and promises of *perestroika* are another subject of examination, as well as the various reforms in the People's Republic of China. Since the Japanese economy is so important in the world economy, its history is given along with the differences between that economy and our own. At the end of the text I examine the question of whether the great experiment in socialism, communism, and central planning has truly come to an end.

## A MODERN APPROACH FOR YOU AND YOUR STUDENTS \_\_\_\_\_

Throughout all sections of the text, there is stress on modern theory with modern examples.

## THE GENERAL INTRODUCTION

Part One serves as a general introduction to methodology and marginal analysis. Key aspects of Part One are

- Opportunity cost is stressed throughout and viewed as having meaning in all societies.
- Both individual and market demand and supply curves are carefully developed.
- Stress is placed on equilibrium.
- The difference between changes in demand and supply versus changes in quantities demanded and supplied is emphasized.
- Numerous policies affecting supply and demand are found in new Chapter 4, including (1) shortages of skilled laborers, especially nurses; (2) rationing by waiting; (3) black markets; (4) rent controls; and (5) the war on drugs.

## MODERN MACROECONOMICS

An increasingly significant number of instructors prefer to use aggregate supply/aggregate demand techniques to teach macroeconomics. Accordingly, *AD/AS* analysis is presented in Chapter 9 and continued throughout the macro section. It can be found in

Chapter 11	“Income and Employment Determination”
Chapter 12	“Fiscal Policy”
Chapter 15	“Monetary Policy”
Chapter 16	“Job Search, Expectations, and Policymaking”
Chapter 17	“Economic Growth”

There are numerous key aspects of macroeconomics that are presented throughout the 14 chapters in Parts Two, Three, and Four. They are

- The distinction between resource-using expenditures and total government outlays. (Chapter 5)
- The failure of Gramm-Rudman to curb the federal deficit. (Chapter 6)
- A complete explanation of the factors that shift aggregate supply and aggregate demand curves. (Chapter 9)
- The importance of the interest rate in equating desired saving and investment in the classical model. (Chapter 10)
- How price-level changes reduce the multiplier effect on fiscal policy. (Chapter 12)
- The distinction between temporary and permanent fiscal policy changes. (Chapter 12)
- Time lags both in fiscal and monetary policy. (Chapters 12 and 15)
- The burden of the public debt in a fiscal policy context. (Chapter 12)
- An explanation of the liabilities and assets of various financial intermediaries. (Chapter 13)
- The history and function of federal deposit insurance, including its major flaws. (Chapter 14)
- The savings and loan bailout in the context of the perverse incentive structure facing all depository institutions today. (Chapter 14)
- The classical theory of the demand for money as compared to the Keynesian theory. (Chapter 15)
- Money-supply targets compared to interest-rate targets. (Chapter 15)
- The Fed’s new P-STAR approach. (Chapter 15)
- A complete job search model and how it explains the Phillips curve. (Chapter 16)
- The Keynesian view compared to the monetary view of policymaking. (Chapter 16)
- Discretion versus rules in policymaking. (Chapter 16)
- The importance of an economy’s infrastructure and property rights in the context of economic growth. (Chapter 17)
- Modern economic growth theory (MEG). (Chapter 18)

## MODERN MICROECONOMICS

Even though the way in which we normally teach microeconomics has not changed much in recent years, there are a number of important additions and innovations in microeconomics to which your students should be exposed. They are included in the microeconomic chapters of this text along with a thorough presentation of a complete range of concepts (some of which have already been examined in the general introduction above). Highlights of what can be found in the microeconomic chapters are

- Difference between elasticity and slope. (Chapter 19)
- How the consumer reaches consumer optimum. (Chapter 20)
- Methods of corporate financing. (Chapter 21)
- The market for corporate control, including hostile takeovers, golden parachutes, poison pills, and greenmail. (Chapter 21)
- The mirror image between marginal cost and marginal physical product. (Chapter 22)
- Nonprice competition in the context of oligopoly and monopolistic competition. (Chapter 25)
- Social regulation, including the FDA, OSHA, and other regulatory bodies. (Chapter 26)
- Creative response by regulated firms as well as intended and unintended results of regulation. (Chapter 26)
- The call for re-regulation viewed in the current context of the airline industry. (Chapter 26)
- Application of contestable market theory to antitrust enforcement. (Chapter 26)
- The application of the theory of public choice to agriculture, including distributional coalitions, logrolling, rational ignorance, and the theory of the median voter. (Chapter 27)
- Full discussion of derived demand for a resource as well as market demand versus individual firm demand for that resource. (Chapter 28)
- An explanation of the difference between economic rents and transfer earning. (Chapter 30)
- The distinction between money income and total income. (Chapter 31)
- The comparable worth doctrine and how it relates to discrimination. (Chapter 31)
- New measures of poverty and determinants of poverty. (Chapter 31)
- Solutions to the homeless problem. (Chapter 31)
- The selling of pollution rights and the trading of pollution credits. (Chapter 32)

## THE PEDAGOGY

The pedagogy in *Economics Today* is the result of a decade and a half of classroom fine-tuning throughout the country. What the student sees is state-of-the-art motivational, conceptual, and review pedagogy. Every element



listed below is linked into a whole, one that maximizes student comprehension and retention.

### **Taking Issue**

Each chapter starts with a motivating section titled *Taking Issue*. In this paragraph, students are presented with a real-world problem and the indication that they will examine that problem at the end of the chapter. Each *Taking Issue* relates directly to the *Issues and Applications* presented at the end of each chapter.

### **Discovery Preview Points and Completely Self-Contained Answers**

Each chapter also begins with four or five *discovery preview points*. The student is given an indication of what she or he is about to learn. Perhaps more importantly, each student can self-test at the end of the chapter by comparing her or his ideas of the answers to the *discovery preview points* with the actual answers given in paragraph form. These serve as a self-contained, self-study module for each chapter.

### **Marginal Definitions**

Vocabulary remains a stumbling block in our discipline. To ease the burden, every important economic term is **boldfaced** when it is first introduced and then explained in the text. Additionally, the term is defined again in a marginal definition directly opposite where it first occurs. Finally, the definition of all boldfaced terms can be found in a full *Glossary* at the back of the text.

### **Concepts in Brief**

At the end of most major sections, I have placed a list of *Concepts in Brief*. These are point-by-point major concepts that the student should have mastered. They serve simultaneously as a review and as a check on student comprehension.

### **Point-by-Point End of Chapter Summary**

To reinforce the key concepts presented in each chapter, a point-by-point chapter summary with an average of 10 key points is given. These also serve as a review and learning check system.

### **Problems**

Many students respond well to hands-on learning experience. That's what they get when they work the problems at the end of every chapter. There are 50 percent more problems than in any previous edition of *Economics Today*. Additionally, instructors are now given the opportunity of assigning even-numbered problems as homework. Only the answers to odd-numbered problems are found in the back of the text. These serve as immediate reinforcement to students who work them out.

The complete step-by-step answer to every single problem is presented in the *Instructor's Resource Manual*.

## ISSUES AND APPLICATIONS

Nothing makes students pay attention more than the real world. The *Issues and Applications* chosen to end each chapter bring the real world of economic applications to the student. They do this in a pedagogically complete manner. At the beginning of each *Issues and Applications* is a small section called *Concepts Applied*. This tells the student in advance which previously presented economic concepts will be demonstrated in the following issue or application.

At the end of each *Issues and Applications* the student is asked to answer two or three *critical thinking questions*. These questions cannot be answered simply yes or no, but require critical analysis. Suggested answers to those critical thinking questions are given in the *Instructor's Resource Manual*.

I have been careful to choose *Issues and Applications* to which I think students will respond. They are as follows:

- Economics: Learned Myopia?
- Matchmaking in High Style
- National Service for Country and Community
- Education's Dirty Little Secret
- The War on Drugs
- Why Is Government Growing?
- How to Abolish the Deficit
- Contingent Workers: Who Are They and What Are They Doing?
- Can We Compare GNP Across Continents?
- The Disinflation of the 1980s
- Desired Consumption and the Threat of Nuclear War
- Great Stock Market Crashes: 1929 and 1987
- Do Federal Budget Deficits Cause Trade Deficits?
- Is There Life Without Cash?
- Bailing Out the Thrifts (with the Banks Not Far Behind)
- Monetary Policy in an Open Economy
- Activism Versus Nonactivism: Discretion Versus Rules?
- Letting Workers Have a Say: Can This Boost Productivity?
- Is the World Really Getting Smaller?
- Is the Demand for Crack Perfectly Inelastic?
- The Diamond-Water Paradox
- Salaries at the Top: How Much Is Too Much?
- Where Have All the Small Airlines Gone?
- Competition in Action: Getting Rich Quick in the Stock Market
- It's Hard to Keep a Monopoly
- Coke: It's the "Real Thing"—or Is It?
- College Price Fixing
- Singing the Sugar Blues
- The Controversy over Minimum Wages
- Monopsony on the College Gridiron
- You've Hit the Jackpot—But How Big Is It?
- Welfare Policy Problems and Solutions
- Where There's Smoking, There's Fire
- 1992: The United States of North America Versus the United States of Europe
- Should We Worry About Foreign Trade Deficits?
- Malnutrition and Development
- Is the Great Experiment Over?

## APPENDIXES

Four important appendixes are included in this edition. They are

- Appendix A “Reading and Working with Graphs”
- Appendix B “The Permanent-Income Hypothesis”
- Appendix C “Derivation of the Deposit Multiplier”
- Appendix D “More Advanced Consumer Choice Theory”

Appendix D has its own summary and set of problems.

## THE REST OF THE TEACHING/LEARNING PACKAGE

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*Economics Today* has what is undoubtedly the largest and most complete supplemental package ever offered to principles of economics teachers.

### STUDENT LEARNING GUIDE

Co-authored by Robert Pulsinelli of Western Kentucky University and myself, the *Student Learning Guide*, Seventh Edition, may be ordered in three versions, one each for *Economics Today*; *Economics Today: The Micro View*; and *Economics Today: The Macro View*. It contains the following items for each text chapter: a set of learning objectives, an overview of chapter contents and main points, a list of key terms, approximately 15 completion questions, 15 true-false questions, 15 multiple-choice questions, about 5 problems and essay questions, and 5 homework problems. Answers to all of the short-answer questions are given at the back of the study guide; answers to all of the longer-answer problems are provided in the *Instructor's Resource Manual*.

Students appreciate finding the answers to short questions at the end of each chapter. Also, instructors can assign the additional issues and applications that are included in the *Student Learning Guide* when desired. Finally, in this edition, there are special sections on taking class notes, outlining, summarizing, studying, and taking examinations.

### YOUR ECONOMIC LIFE: THE PRACTICAL APPLICATIONS OF ECONOMICS

New copies of *Economics Today*, Seventh Edition, can be optionally shrink wrapped with a free copy of a booklet for students titled *Your Economic Life: The Practical Applications of Economics*, written by me. My goal was to give students a motivating essay on the value of studying economics that they could keep and use later on. It shows them the application of economic analysis to everyday living, whether it be understanding economic references they read or hear in the media or deciding whether to buy or rent a house.

## TEST BANKS 1 AND 2

A total of nearly 5,000 multiple-choice questions is now available in two separate test banks.

Test Bank 1 has been revised by Maureen Burton of California State Polytechnic University–Pomona. Test Bank 2, a totally new bank, is by Clark G. Ross of Davidson College. These test banks include questions at all levels. Approximately one-third of the questions are definitional, involving recognition and memorization. Approximately one-third of the questions are conceptual, and the remaining third deal with applications.

## COMPUTERIZED TESTING SERVICE

HarperTest, the undisputed leader in computerized testing programs, is available for both Test Banks 1 and 2. HarperTest permits the flexibility of using the entire bank, selecting certain questions, adding your own questions, or all of these options. HarperTest is available for IBM PC, Macintosh, and compatibles. It also now includes the ability to use graphics.

## INSTRUCTOR'S RESOURCE MANUAL

This manual was prepared by Andrew Dane of Angelo State University. For each chapter, the instructor is provided with a chapter overview; lecture notes; sections titled "For Those Who Wish to Stress Theory"; answers to the questions that appear at the end of each *Issues and Applications* section; further questions for class discussion or essay tests; a list of selected references, films, and videos; and full answers to all problems and essay questions in the *Student Learning Guide*. A computerized version of the *Instructor's Resource Manual* is available on disk in ASCII format and can be coded for any IBM PC or compatible or Macintosh. It can also be modified to your specifications so you can customize your lectures and use of the manual.

## DISCUSSION SECTION GUIDE

This manual for discussion section leaders adapts the content of the *Student Learning Guide* for use in group discussions. It provides guiding objectives for student comprehension of this material.

## LOTS: LECTURE OUTLINE AND TRANSPARENCY SYSTEM

This is a new teaching tool also prepared by Andrew Dane of Angelo State University. Issued in a looseleaf, large-print format, it consists of nearly 500 sheets of topic outlines, illustrations and key tables from the text, problem solutions, and schematic diagrams for presenting economic concepts in lectures or to use as masters for projecting them as overhead transparencies. This unusual new kind of support for instructors also assists students in their note taking for fuller comprehension of the subject.

## **FULL-COLOR ACETATES**

In addition to all of the transparencies that can be made from LOTS (see above), over 100 of the most important graphs in the text are reproduced as full-color transparencies with expanded type for easy reading in large classrooms. Since all of the graph lines are color-keyed consistently, use of these acetates will greatly aid the student in understanding key graphic materials.

## **COMPUTER SOFTWARE FOR THE STUDENT**

This edition of *Economics Today* contains a large number of separate computerized teaching devices. Instructors now have a choice.

### **ET7 Computer Assisted Instruction**

This diskette supercedes the well-received *ET6 Disk* that was originally developed by Robert W. Pulsinelli. Professor Dan Benjamin of Clemson University has expanded the number of chapters covered to over thirty. Students will find augmented discussions of key points within each chapter, expanded explanations, and motivational sound effects. *Computer-Assisted Instruction* problems are found on two separate diskettes, both free to adopters.

### **Graphing Tutorial**

This new *Graphing Tutorial* developed by me and Bill Compton takes students step-by-step through the process of learning how to understand and manipulate graphs. The diskette is free to adopters.

### **Macro Simulation**

A macro model called *Macro*, free to adopters, is presented in this diskette with all of the necessary actual data. Students are allowed to pick courses of action by the Federal Reserve or the Congress and to find out what then will happen to the economy. Experimentation of this kind stimulates interest in macroeconomics and economics in general.

### **Micro Tutorial**

A selected number of important, but sometimes difficult, concepts are presented in the numerous lessons in this micro-tutorial diskette. Topics included are supply and demand, elasticity, marginal cost/marginal revenue, perfect competition, monopoly, and oligopoly. Free to adopters.

### **e100 DATAPACK**

This diskette, especially developed for the seventh edition of *Economics Today* by Applied Data Associates, allows you and your students to observe



time-series data on 100 important macro and micro variables, such as all of the elements of GNP, international trade and finance, price indexes, wages, all elements of the monetary sector, interest rates, housing starts, profits, and so forth. You can print and plot the data with this program. It is self-contained. e100 DATAPACK can be purchased directly from its producer using a special order form found in the *Instructor's Resource Manual* and *Student Learning Guide*.

## **VIDEOCASSETTE SERIES ON CONTEMPORARY ECONOMIC PROBLEMS**

Adopters can receive free up to ten contemporary videocassettes accompanied by printed teaching notes that give points for critical-thinking discussions after the videocassettes are viewed. Three general areas are covered:

- Converging Economic Systems
- International and Global Economics in the 1990s
- Environmental Concerns for the 1990s and Beyond

Each videocassette is approximately 15 minutes long and consists of a panel discussion that I moderate. These free videos can be used to augment your classroom presentation and to stimulate student interest in the application of economics to pressing world problems. Other videos may be obtained for use with this edition. For further information, contact your local Harper-Collins representative.

## **ECONOMICS TODAY NEWSLETTER**

Each semester, I will prepare a newsletter that instructors may obtain in quantity for use in class. At a minimum, each newsletter will cover one new macroeconomic issue or application and one new microeconomic issue or application. Additionally, there will be teaching hints and any important new empirical data or theoretical augmentations of information already in the text.

## **THE INTEGRATOR AND MEDIA HANDBOOK**

This pocket-sized reference guide keys every chapter's teaching and learning aids to the text. Additionally, films and videos that are appropriate to each chapter are listed and annotated.

## **ACKNOWLEDGMENTS**

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The first edition of *Economics Today* was published in 1971. Prior to that edition and since, I have received a tremendous amount of help from numerous reviewers, each of whom has added to the continuing usability and

success of this text. Below I list the major reviewers alphabetically for the first six editions.

- |   |  |
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## THE SEVENTH EDITION

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