

# ECONOMICS

Principles and Policy

FOURTH CANADIAN EDITION



WILLIAM J. BAUMOL  
ALAN S. BLINDER  
WILLIAM M. SCARTH

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# PREFACE

For decades, the “principles of economics” book has been expected to codify the entire discipline of economics. In recent years, this has become increasingly difficult, but also more imperative. The explosion of economic knowledge has made it impossible to put all of economics between two covers. But at the same time, more and more public policy issues either are basically economic in nature or involve important economic considerations. Intelligent citizens can no longer afford to be unaware of economics.

This dilemma has guided the preparation of this book in two ways. First, we have studiously avoided the encyclopedic approach and abandoned the fiction, so popular among textbook writers, that literally everything is of the utmost importance. Second, we have tried to highlight those important ideas that are likely to be of lasting significance—principles that you will want to remember long after the course is over because they offer insights that are far from obvious, because they are of practical importance, and because they are widely misunderstood by intelligent laypeople. Twelve of the most important of these ideas have been selected as **Ideas for Beyond the Final Exam** and are called to the reader’s attention whenever they occur through the use of this icon: .

This method of highlighting key ideas has proved very popular with users of the previous editions of our book, many of whom have suggested that we go even further in this direction. In this edition and the previous edition, we decided to follow these suggestions. There seems to be an unwritten law that, with every new edition, a principles textbook will drift farther away from the focus that was its original *raison d’être*: New material is added, but old material has a habit of remaining in place, with the result that both readability and focus deteriorate. Because both students and instructors have told us that the comparative advantage of our textbook is precisely in its consistent focus and readability, we have increased our resolve to avoid this common pitfall.

This fourth edition builds on the extensive shortening that was achieved in the last edition by concentrating on presentation issues. We have improved the usability of the book in three ways: by extending the “12 Ideas” concept, by adding new material that interprets the analysis in terms of policy issues and episodes, and by moving to a four-colour format so that the diagrams are easier to understand.

An economics text must provide the reader with a basic level of economic literacy. To avoid losing sight of this objective, we now provide one-page introductions to start each of the seven parts of the book. The core of each introduction is the highlighting of four “election issues” that

will be covered in that part. Of course, these are not the only applied topics addressed in each section of the book, but the whole point is to be selective. Besides whetting the reader's appetite in a focussed way, the election issues provide a convenient checklist that will be useful both at exam time and after the course is over. Now readers can conveniently review the "12 Ideas" (which are important general principles such as comparative advantage and marginal analysis) and the 28 "election issues" (which are much more specific topics, but ones which seem to be always in the news). Some of the 28 election issues concern: minimum wages, speculators, user charges, farm subsidies, marketing boards, emission taxes, free trade, welfare reform, tax shifting (for example, does labour really pay the taxes levied on capital?), unemployment insurance reform, sales taxes versus income taxes, interest rates and exchange rates, the crowding-out effect, twin deficits, the national debt, competitiveness, and deindustrialization.

The book contains many boxed inserts—an average of just over two per chapter. Forty percent of these inserts are either new to this edition or have been fundamentally revised. A consistent set of titles and background colours are used so that readers can clearly identify the category to which each box belongs (and therefore quickly decide when they want to read it). The categories are: Application, Further Detail, At the Frontier, Public Controversy, and Biographical Note. In this fourth edition, we have included discussion of broader issues in some of the Public Controversy boxes. Examples include Canadian sovereignty, the general dissatisfaction with governments, starvation in Africa, international competitiveness, and the challenges facing Eastern-bloc countries.

We remain committed to directly linking the material of mainstream economics to the more popular commentary that is stressed in the media. For example, we end the microeconomics half of the book with an economist's response to the criticisms (such as those often published by David Suzuki) of our discipline's approach to the issue of environmental protection. Also, in the macroeconomics section, we directly address the critique of mainstream economics that has been offered by the Canadian Council of Catholic Bishops. Further, we end the macro half of the book by discussing the popular writings of Michael Porter, Robert Reich, and Lester Thurow on the challenge of international competitiveness.

A large effort has gone into reorganizing the book's layout to make it more user friendly. We resisted the temptation to adopt a two-column design to make the book *appear* shorter, since we wanted to keep space available for the margin definitions and the reader's own annotations, and to avoid an intimidating format. For the first time in this edition, we have the option of more than one colour in the diagrams. Careful thought has gone into using this increased degree of freedom in a pedagogically helpful way. Broadly speaking, our strategy has been to use red as the basic colour to show the initial outcome in any market. Then, we consistently use blue to indicate the "new" position for any demand or supply curve after whatever event that is being examined has occurred. Finally, we use gold as "commentary" or highlighting, for example, to draw attention to

various outcomes, such as the net efficiency gains that follow the removal of a tariff. By using colour in this consistent fashion, we hope that readers will move much more quickly to a state of comfort with our subject's comparative static methodology (that is, comparing the “before” and “after” graphic snapshots as a means of evaluating policy options).

## READABILITY WITHOUT SACRIFICING RIGOUR

All modern economics textbooks abound with “real-world” examples, but we have tried to go beyond this, to elevate the examples to pre-eminence. For in our view, the policy issue or everyday economic problem ought to lead the student naturally to the economic principle, not the other way around. For this reason, many chapters (not just each broad section of the book) *start* with a real policy issue or a practical problem that may seem puzzling or paradoxical to non-economists. Each chapter then proceeds to describe the economic analysis required to remove the mystery. In doing this, we have tried to utilize technical jargon and diagrams only where there is a clear need for them, never for their own sake.

Still, economics is a somewhat technical subject and, except for a few rather light chapters, this is a book for the desk, not for the bed. We have, however, made strenuous efforts to simplify the technical level of the discussion as much as we could without sacrificing content. Fortunately, almost every important idea in economics can be explained in plain English, and this is what we have tried to do. Yet, even while reducing the technical difficulty of the book, we have incorporated some elements of economic analysis that have traditionally been left out of introductory books but that are really too important to omit.

Foremost among these is our extensive treatment of prices and inflation in Parts 5 through 7. For years, textbooks devoted many chapters to unrealistic, but presumably simpler, economic models, in which prices never rose. The original American edition of this book was the first introductory textbook to put inflation into the story from the very beginning, rather than as an afterthought—a practice we maintain and expand in this fourth Canadian edition.

Another example is our treatment of monetary and fiscal policy options for a small open economy such as Canada's. Unlike other textbooks, ours does not shy away from a full application of aggregate supply and demand analysis in this area. And instead of separating our explanation of theory from our discussion of historical policy episodes, we thoroughly integrate the two by making full and rigorous use of the analytical tools to explain the policy experiences.

A third example of our commitment to a rigorous study of central analytical issues is our treatment of the market mechanism's ability, under ideal circumstances, to allocate society's resources in the most efficient manner possible. Many introductory-textbook authors, thinking the topic too difficult for beginning students, give little more than some general hints about this important result. We offer a genuine proof and an exten-

sive discussion of precisely what the result does—and does not—imply about the efficiency of real-world market economies.

To summarize, then, our revision has been guided by two objectives—readability and rigour. The majority of students taking a principles course in economics do not plan to specialize in the field. What they want and need is to obtain a basic level of literacy in economic affairs, so that they can think independently when evaluating public issues. A book cannot meet this need if it is too technical, and addresses itself only to those going on to advanced studies in economics. In a word, the book will fail if it is not readable. But an introductory economics textbook will also fail if it tries so hard to be accessible that it glosses over fundamental points. (After all, in economics, a little learning can be a particularly dangerous thing!) Hence, a book that purports to explain economic reasoning cannot sacrifice rigour any more than it can succeed without being readable. By combining an untiring effort to maintain the literary style that readers have appreciated in our earlier editions with a “hard line” on topic selection, we have tried to meet both objectives, and to achieve a consistent focus on central themes and rigorous analysis in the process.

## MICROECONOMICS

The discussion of microeconomics is organized around the central theme that we believe deals with the most significant lessons to be learned in an introductory economics course: what a market system does well, and what it does poorly.

Part 1 introduces this central theme and some of the fundamental ideas of economics (such as scarcity, opportunity cost, markets, and prices). A host of topical examples are used to illustrate these concepts and to convey the power of supply and demand analysis. They include “green” products at grocery stores, the proliferation of materials for recycling, species extinction, minimum-wage laws, rent controls, interest rate ceilings, and the drug problem. Both the beginning (Chapters 2 and 3) and the end (Chapter 17) of the microeconomics portion of the book emphasize the fundamentally important issue of the environment. By starting with, and then returning to, this issue, we are able to maintain our focus on the theme of what the market does well and what it does poorly.

Our deeper excursion into microeconomic reasoning begins with Part 2. The chapters in this part of the book acquaint students with the central analytical tools of microeconomics and use those tools to explain how both consumers (Chapters 4 and 5) and producers (Chapters 6 and 7) make decisions that best serve their own interests. Great emphasis is placed on the trade-off between equity and efficiency throughout these chapters, and the issue is explained with the aid of graphs depicting consumer and producer surplus.

Part 3 examines how the decisions of consumers and firms interact in the marketplace, and provides an extensive examination of the virtues



and vices of free markets. The early chapters (8 and 9) extol the remarkable accomplishments of an idealized system of markets, while the later chapters (10, 11, and 12) discuss some of the market system's principal failings, particularly in the areas of monopoly power and externality effects. Chapter 13 discusses the free trade debate. New to this edition is an explicit cost-benefit analysis of free trade, including consideration of adjustment costs. Chapter 13 ends with a clear, schematic explanation of how the government's main instruments of economic policy can best be assigned to our major economic goals. This important summary is presented in chart form on the inside back cover. We emphasize this chart for two reasons. First, we believe that no opportunity for helping the reader see the forest, and not just the trees, should be lost. Second, it is fundamentally important that we note how policy trade-offs can be minimized. The two broad strategies involved are: have as many policy instruments as goals, and assign the instruments to goals so that the power of self-interest becomes something that is harnessed by policy, rather than something that frustrates the success of the policy.

Part 3 sets the stage for Part 4, in which we address several important microeconomic policy issues. The four chapters in Part 4 are devoted to answering the following four questions of current concern:

- Chapter 14: What determines the distribution of income?
- Chapter 15: What sorts of reforms in the tax and welfare systems represent the most efficient ways of reducing the problems of poverty and discrimination?
- Chapter 16: How have our competition laws and our experience with government regulation of industry contributed to promoting competitive behaviour?
- Chapter 17: What guidance does economic analysis offer for solving the problems of pollution and resource depletion?

All four of these chapters maintain our fundamental emphasis on identifying the equity and the efficiency aspects of microeconomic policy issues. Only by exploring the implications of policy on these two fronts can we fully appreciate the differences in the views that are held on these issues. And only by stressing this distinction can we defend our preference for certain policies—that is, for the policies that promote our objectives of equity and equality with the least sacrifice of economic efficiency.

The microeconomics portion of the book is replete with topical discussions. For example, in the text there are discussions of tax reform (Chapter 15), the Free Trade Agreement (Chapter 13), and privatization in eastern-bloc countries (Chapter 9). Furthermore, there are new or revised boxed inserts on the following subjects:

- Opportunity cost and divorce settlements (page 39)
- Student attitudes on using the price system (page 83)
- Youth unemployment and the baby boom (page 91)



- User fees (page 110 and page 979)
- Just-in-time inventories (page 67)
- The minimum-differentiation principle (page 328)
- Public infrastructure (page 352)
- Trade creation versus trade diversion (page 391)
- GATT versus environmentalists (page 389)
- The definition of poverty (page 498)
- Sexual discrimination (page 514)
- Tradeable emissions permits (page 585)

We have also updated our “At the Frontier” series of boxed inserts in the microeconomics section of the book, which treat subjects such as the following:

- Experimental economics (page 77)
- Game theory (page 325)
- The theory of contestable markets (page 330)
- Asymmetric information and principal agents (page 350)
- Rent-seeking (page 429)

The issue of moral hazard is stressed in the discussion of reforming unemployment insurance and federal deposit insurance, and the asymmetric information material is expanded to include coverage of efficiency wages.

## MACROECONOMICS

Students are invariably interested in learning enough macroeconomics within an introductory course to enable them to make sense of (or at least evaluate) such things as major statements by the Governor of the Bank of Canada. This is simply not possible without an analysis that stresses the cost-increasing effects of a lower Canadian dollar, which requires an integrated analysis of aggregate demand *and* supply. We use this integrated analysis directly in our discussion of policy episodes.

The macroeconomic section of the book starts with a brief history of macroeconomic events in Canada and an initial use of the aggregate demand and supply curves (Chapter 18). In the same chapter, there is a full discussion of the costs associated with unemployment and inflation, and an explanation of how national product (gross domestic product) is measured. In other words, measurement issues relating to all the major macroeconomic variables are contained within one chapter. The different parts of the chapter are self-contained, so that they can be read at any time during the term of study, at the instructor's discretion. In Chapters 19 through 23, we move on to multiplier theory, fiscal policy, and the supply-side effects of tax changes. The effects of personal income-tax changes, sales tax policy, and corporate tax concessions are

thoroughly examined. This edition includes a specific numerical example that shows readers how the job-creating potential of a typical budget can be calculated.

Chapter 24 introduces financial considerations. Firms finance their investment expenditures in two ways: They sell stocks and bonds (this is the set of options discussed in Chapter 24), and they borrow from the banks. Chapter 25 introduces the student to the operations of the latter by explaining the money supply and the chartered banking system. The study of central banking that follows (Chapter 26) stresses that pegging the exchange rate forces the Bank of Canada to conduct “open-market operations” in the foreign-exchange market, in just the same way that it does in domestic bond markets when initiating monetary policy. The nature of the foreign-exchange market is explained at this stage, and monetary policy and exchange-rate policy are discussed simultaneously. The chapter ends with a full discussion of several public statements issued by the Governor of the Bank of Canada concerning the viability of an independent interest-rate policy for Canada and other aspects of monetary policy.

The next two chapters integrate the analyses of fiscal and monetary/exchange-rate policy. Chapter 27 provides an updated discussion of the monetarist–Keynesian debate from the perspective of a closed economy. This approach allows us to outline the policy options available to the United States, whose economy has such a direct impact on our own. Chapter 28 analyzes the relative effectiveness of monetary and fiscal policies under alternative exchange-rate regimes for a small open economy such as Canada’s. Several policy episodes are used to illustrate the direct importance of the economic analysis. The potential use of exchange-rate policy to limit the damage caused by foreign trade restrictions is fully discussed in Chapter 28. Also, in this edition, we emphasize the implications of the small open economy framework for the co-ordination problems that face provincial governments.

The macroeconomics half of the book ends with four “issues” chapters, which can be read in any order. Each of these remaining four chapters deals with a central issue that is both highly topical and of enduring importance. The questions raised are as follows:

- Chapter 29: How was our international monetary system developed and why do we observe such vast swings in currency values?
- Chapter 30: Are large government budget deficits bad?
- Chapter 31: What is the nature of the trade-off between inflation and unemployment?
- Chapter 32: How can productivity growth and international competitiveness be increased in both the developed and the less developed economies?

This final chapter of the book focusses on the rise of the service sector in Western economies, the consequent concern about the phenomenon often referred to as “deindustrialization,” and the challenge of reforming

our method of providing public services (such as education and health) so that competitiveness can be increased without sacrificing compassion.

There are new or revised boxed inserts on many topical issues in macroeconomics, such as the following:

- Hidden unemployment (page 631)
- Reforming unemployment insurance (page 636)
- Corporate tax concessions (page 788)
- Reforming deposit-insurance and reserve-requirement regulations (page 842)
- Bank of Canada policy statements (page 869)
- Economic aspects of the Constitutional debate (page 924)
- Why the national debt is a burden (page 977 and page 979)
- Economists versus religious leaders on macroeconomic policy (page 1016)
- Labour's reaction to changes in the workplace (page 1032)
- The drive for competitiveness (page 1056)

All of our boxed inserts (both those on policy controversies and those on advanced topics such as co-ordination failures and the Lucas critique on estimated models) are intended to stimulate the student's interest and to demonstrate that investing a serious effort in understanding economic reasoning is a worthwhile and relevant endeavour.

## CANADA AND THE REST OF THE WORLD

In both the micro and macro sections of the book, the material on the openness of the Canadian economy is given centre stage. In the microeconomics sections, the material on comparative advantage and tariff policy is not tucked away, but appears in the core set of chapters on the pros and cons of free markets. Also, since the legal approaches to limiting market power (that is, regulation and competition laws) have met with rather limited success in the past, it is frequently stressed that tariff cuts can be used to make Canadian markets contestable. Thus, tariff policy is discussed as one among several instruments for stimulating competition. Of course, the gains from international trade do not depend solely on Canada's small domestic markets and incomplete exploitation of the economies of large-scale production. The principle of comparative advantage in the standard situation of constant costs is fully explained in Chapter 13, which also contains two important sections: One discusses the advantages and disadvantages of the Free Trade Agreement with the United States and the other explains the proper assignment of policy instruments to goals, as noted earlier.

Perhaps the most popular feature of the previous editions of this book is the full integration of macroeconomic theory with the discussions of policy episodes in a way that properly emphasizes the fact that monetary policy and exchange-rate policy are one and the same thing.

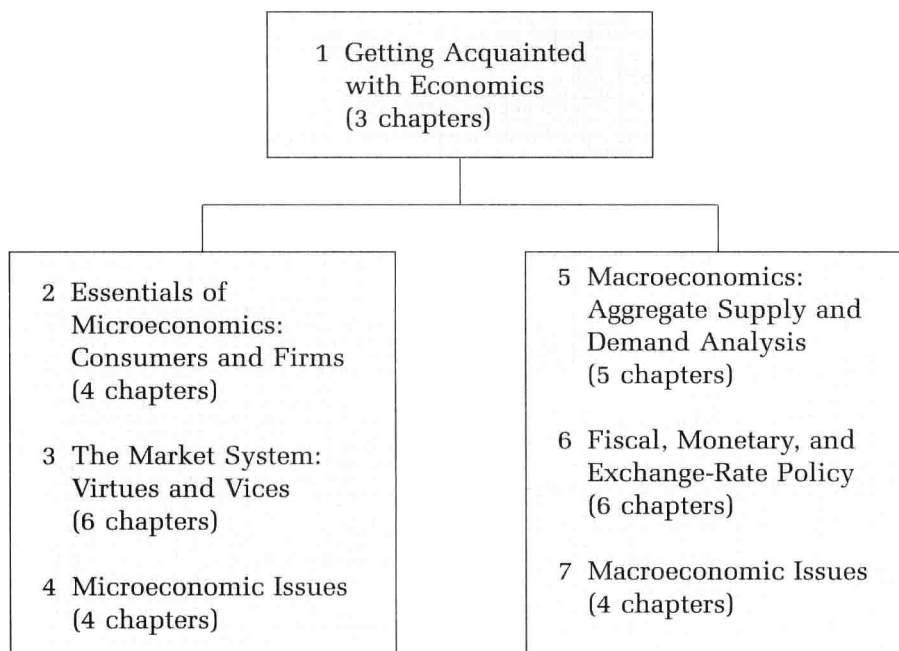
## NOTE TO THE STUDENT

Most courses will begin with Part 1, where we have touched most of the traditional bases while keeping the introductory materials briefer than they are in most other texts. Courses dealing with microeconomic theory and policy in the first term will proceed next to Parts 2 through 4, while courses commencing with macroeconomics will skip to Parts 5 through 7.

Whatever the nature of your course, we would like to offer one suggestion. Unlike some of the other courses you may be taking, principles of economics is cumulative—each week's lesson builds on what you have learned before. You will save yourself a lot of frustration (and also a lot of work) if you keep up on a week-to-week basis. To help you do this, there is a chapter summary, a list of important terms and concepts, and a selection of discussion questions at the end of each chapter. In addition to these aids, many students will find the *Study Guide*, designed specifically to accompany this text, helpful as a self-testing and diagnostic device. When you encounter difficulties in the *Study Guide*, you will know which sections of the text you need to review.

## NOTE TO THE INSTRUCTOR

The ordering of chapters in the book is based on courses that treat microeconomics before macroeconomics (the opposite order from that in previous editions). But the book can be used equally well in courses that reverse the sequence. The following chart summarizes the book's basic structure:



### OUTLINE FOR A ONE-TERM COURSE IN MICROECONOMICS

#### Chapter

Number	Material Covered
1	Methodology
2	Scarcity and choice
3 }	Basic supply and demand
4 }	
5 }	Consumer theory
6 }	
7	Theory of the firm
8	Perfect competition
9	Laissez faire versus planning
10	Monopoly
12	Other sources of market failure
13	Comparative advantage and free trade

Plus any *two* of the following:

14	Income distribution
15	Tax reform
16	Competition policy
17	Environmental issues

### OUTLINE FOR A ONE-TERM COURSE IN MACROECONOMICS

#### Chapter

Number	Material Covered
1	Methodology
3	Basic supply and demand
18	Measuring macroeconomic performance
19 }	Multiplier analysis, fiscal policy, aggregate demand and supply, the self-correcting mechanism
20 }	
21 }	
22 }	
23 }	
25 }	Money and banking
26 }	
27 }	Integration of fiscal, monetary, and exchange-rate policy
28 }	

Plus any *two* of the following:

29	International policy co-ordination
30	The deficit
31	Phillips curves
32	Productivity and growth

Given that a reasonable pace for covering material is roughly one chapter per week on average, the suggested course outlines presented on the opposite page should be suitable for many teaching situations.

Chapters 11 and 24 have been omitted from these course outlines. Chapter 11, on monopolistic competition and oligopoly, can be included by instructors who wish to place extra emphasis on theory, but its inclusion would necessitate the exclusion of one of the microeconomic “issues” chapters. However, it should be noted that the latter four microeconomic chapters are divided into self-contained sections to allow instructors to focus on particular issues without having to cover the complete chapter. For example, the topic of regulation occupies half of Chapter 16, and that of pollution occupies half of Chapter 17; this material can be combined to create the equivalent of one chapter, to the exclusion of the other sections in Chapters 16 and 17.

Chapter 24, on firms and the stock market, can (and most probably will) be read by students on their own. It is not demanding analytically, and most students are very interested in the subject.

Two things should be clear from our sample course outlines: (1) the book works very well for instructors who prefer to start their courses with macroeconomics; (2) it is structured to accommodate the time constraints that confront most instructors.

Concerning the *Study Guide*, and whether you should recommend it for your students, we offer the following advice. Since such a guide should be especially useful for the student who is having difficulty, the core material in our *Study Guide* is pitched at a fairly basic level. However, it does include a number of much more challenging questions, so that the *Study Guide* is of significant value to the more advanced students as well. Every chapter has two practice tests, each of which contains both true/false and multiple-choice questions. The first test is more basic, while the second is more challenging. More advanced students who are fairly confident that they understand the material may want to skim the Chapter Review, the Basic Exercises, the Definition Quiz, and the first practice test, and concentrate their attention on the more difficult practice test and the Supplementary Exercises. By structuring the *Study Guide* in this way, we have tried to ensure that students of varying levels of ability will be able to benefit from this learning aid. As instructors, we know that even the best students can benefit from extra practice.

One convenience that has been added to the *Study Guide* with this edition is that the “answers to questions” section now lists the page numbers in the text where each question’s topic is covered, thus students who make mistakes can easily find the appropriate material to review.

As with previous editions, a computerized *Test Bank* is available for the use of instructors. The fourth edition of this teaching aid has been extensively revised. Previous users will see that this ancillary has been significantly improved, and this reflects our appreciation of the fact that instructors are being forced to place increased emphasis on prepared test banks. Also available is a fully revised *Instructor’s Manual* and a set of *Transparency Masters*.

Once again, our textbook is available in separate, paperback *Microeconomics* and *Macroeconomics* editions. The introductory chapters (Part 1) and the chapter on free trade are included in both volumes. Users of these split editions will have no difficulty locating material in the textbook's ancillaries, as the chapter and page numbers in the paperback volumes conform exactly to those used in the combined text.

In trying to improve the book from one edition to the next, we rely heavily on our own experiences as teachers. But our experience using the book is small compared with that of the community of instructors who have been and who will be using it. If you encounter problems, or have suggestions for improving the book, we urge you to let us know by writing to Bill Scarth in care of the publisher. Such letters are invaluable, and we are glad to receive them, even if they are critical.

## ACKNOWLEDGEMENTS

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Finally, and with great pleasure, we turn to the customary acknowledgements of indebtedness. Some of these have been accumulating now through six American editions of the book. The many American instructors whose comments were invaluable in planning this edition have been individually listed in the sixth American edition. Friends and colleagues who have made helpful suggestions directly for the Canadian editions include: John Burbidge, Don Dawson, Martin Dooley, Paul Grootendorst, Carlos Leite, Wayne Lewchuk, Andy Muller, Arthur Sweetman, and Mike Veall of McMaster University; Doug Burgess of Burgess–Graham Securities; Michael Hare, Michael Krashinsky, and Knut Larsen of the University of Toronto; Tom Powrie, Brian Scarfe, and Sten Drugge of the University of Alberta; Hugh Young, Don Drummond, Peter Liebel, and Mario Albert of the Department of Finance in Ottawa; Tony Myatt and Charles Waddell of the University of New Brunswick; Peter Kennedy of Simon Fraser University; Waclaw Dajnowiec of Ryerson Polytechnic University; Irwin Gillespie of Carleton University; Jack Guthrie of Camosun College; Robert Allan of the University of British Columbia; Lionel Ifill of Algonquin College; Ted Horbulyck of the University of Calgary; Chris Debrsson of Concordia University; John Sayre of Capilano College; Mary-Ann Dimond and Robert Dimond of Brock University; Maurice Boote of Trent University; John Farrugia of Mohawk College; Arnold Frenzel and Peter Sinclair of Wilfrid Laurier University; Robert Kerton of the University of Waterloo; Rob Jeacock and Raimo Marttala of Malaspina College; Thierry Neubert of John Abbott College; David Gray of the University of Ottawa; and Bram Cadsby of the University of Guelph. We wish to thank all of these individuals, as well as the many students who took the time to send their comments and suggestions to the publisher. Many of the suggestions made by instructors and students alike have been incorporated into this fourth edition. We are particularly indebted to Don



Dawson of McMaster University, who provided thorough and invaluable input for the chapter on industrial organization.

The book you hold in your hand was not done by us alone. Sarah Duncan, Alex Gault, and the other fine people in the college division at Harcourt Brace & Company, Canada, worked tirelessly and effectively to turn our manuscript into the book you see. In particular, valuable help (delivered with a tremendous amount of patience, support, and good humour) was contributed by Semareh Al-Hillal. Thanks also to the many others who worked behind the scenes to help produce this book.

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William J. Baumol      Alan S. Blinder      William M. Scarth

## A NOTE FROM THE PUBLISHER

Thank you for selecting *Economics: Principles and Policy*, Fourth Edition, by William J. Baumol, Alan S. Blinder, and William M. Scarth. The authors and publisher have devoted considerable time to the careful development of this book. We appreciate your recognition of this effort and accomplishment.

We want to hear what you think about *Economics: Principles and Policy*. Please take a few minutes to fill in the stamped reader reply card at the back of the book. Your comments and suggestions will be valuable to us as we prepare new editions and other books.

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