

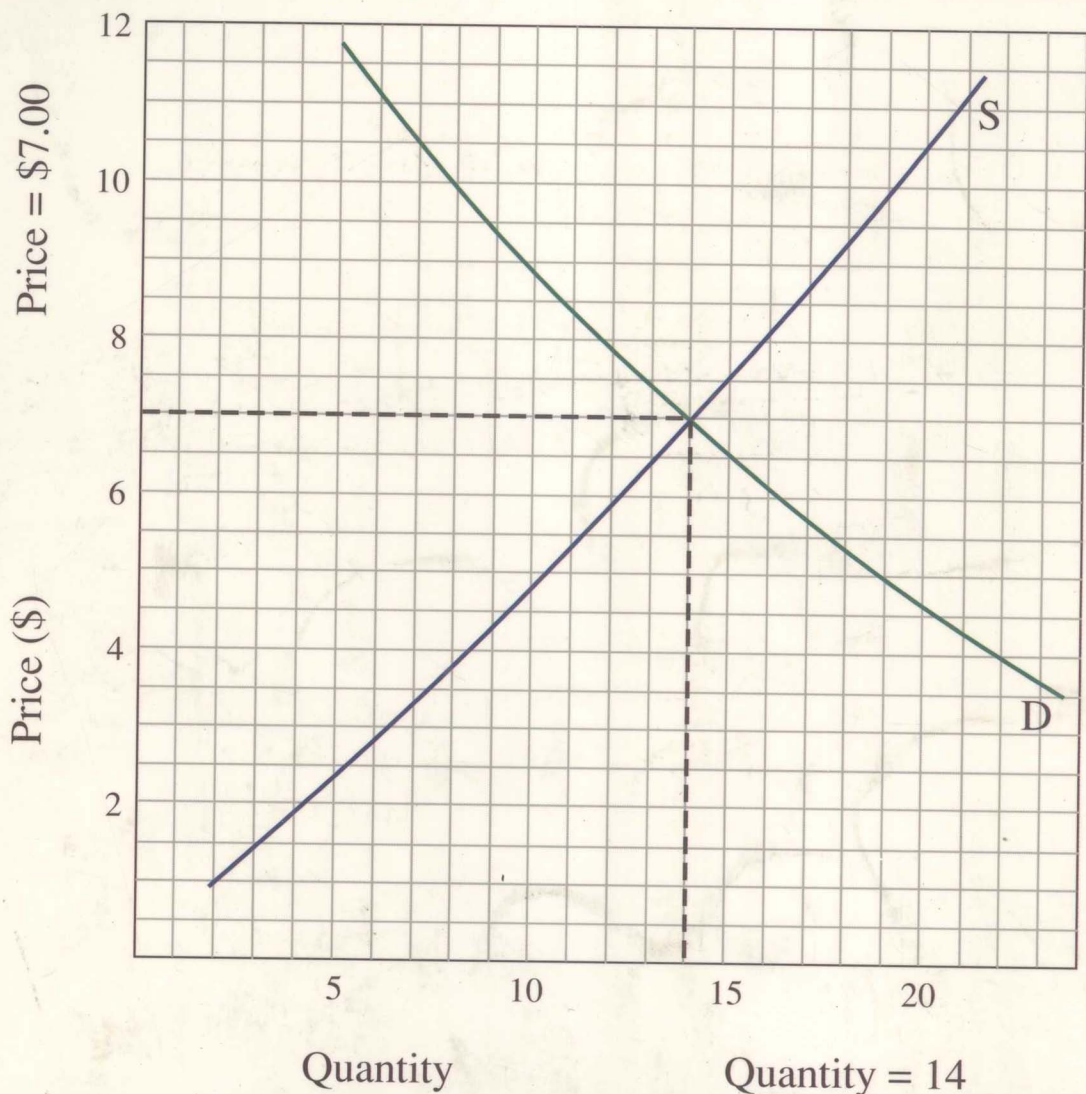
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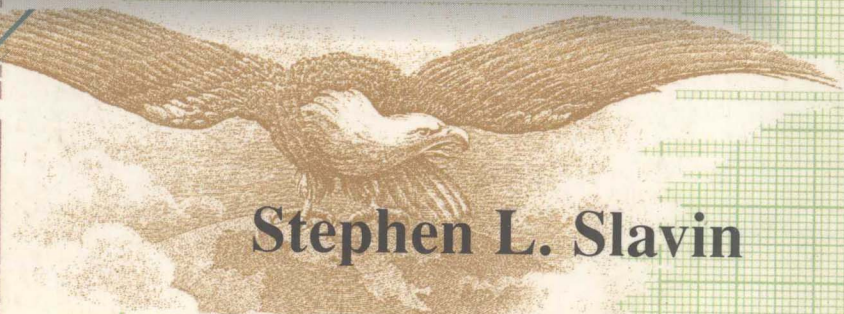
Fourth Edition

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Stephen L. Slavin

Macroeconomics

Fourth Edition

Stephen L. Slavin

The New School for Social Research New York City
Union County College Crenford, New Jersey

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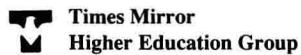
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Foreword



“You teach economics?” asks the alumnus at the college reunion. I answer affirmatively, even proudly, but I know what the next sentence is going to be: “It was my worst subject—I *hated* it.”

Indeed, he or she hated it, learned nothing, and joined the army of economic illiterates. Was this necessary? Probably not. The old grad took a course that was taught as the first step toward a Ph.D. For some students, that can be very useful. Most students, particularly vocationally oriented students, however, need a course that enables them to grasp the basic elements of economics and relate them to their world.

Professor Slavin has written a text that fulfills such a need. In the language of computer programs, the book is user friendly. The student is led gently into each topic. Each step is carefully explained in prose that is accessible. The land mines that so often destroy student interest are cleared away—how to draw a diagram, what the concept of the margin is, even how to calculate a percentage. Yes, Virginia, there *are* college students who have deep-rooted problems with simple math or even arithmetic. Such students are capable of learning complex concepts if the explanations are made clear enough.

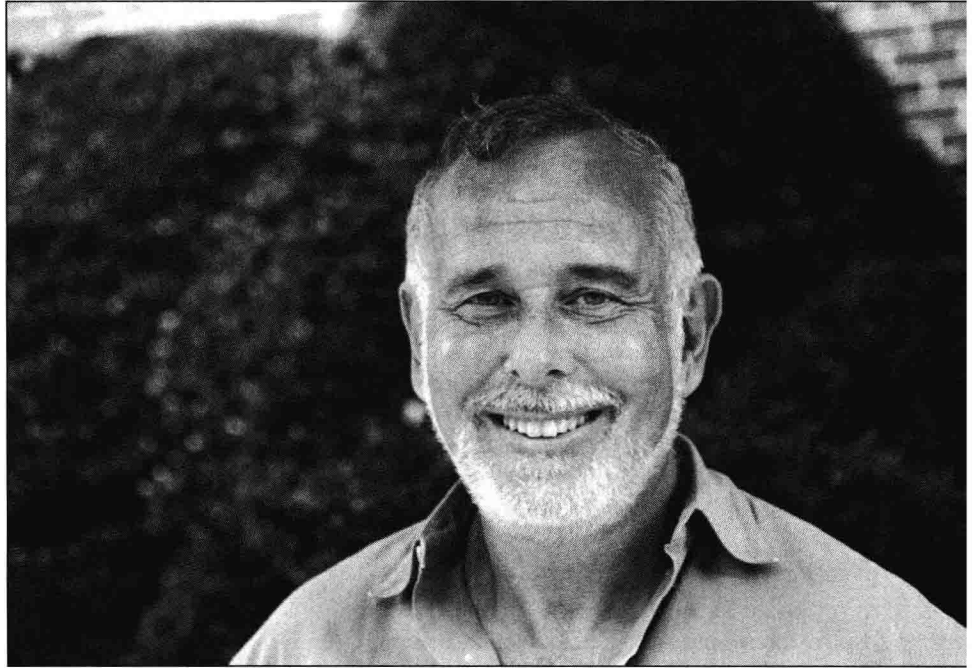
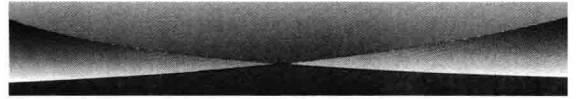
Although the book’s emphasis is on basics, the coverage is complete. The student who has mastered this book is prepared for more advanced work. Indeed, the book’s style and innovative pedagogy will enable such a student to retain more of the subject, instead of forgetting the bulk of it after the final exam.

I am happy to see this book on the market. It is an excellent teaching tool. And that is what textbooks are supposed to be all about.

Bruno Stein

*Professor of Economics
New York University*

About the Author



Stephen L. Slavin received his B.A. in economics from Brooklyn College and his M.A. and Ph.D. in economics from New York University. He has taught at New York Institute of Technology, Brooklyn College, St. Francis College (Brooklyn), and in the M.B.A. program at Fairleigh Dickinson University, and he now teaches at the New School for Social Research in New York City and at Union County College in Cranford, New Jersey.

He has written six other books: *The Einstein Syndrome: Corporate Anti-Semitism in America Today* (University Press of America); *Jelly Bean Economics: Reaganomics in the Early 1980s* (Philosophical Library); *Economics: A Self-Teaching Guide*, *All the Math You'll Ever Need*, *Math for Your First- and Second-Grader*, and *Quick Business Math: A Self-Teaching Guide* (all four published by John Wiley & Sons). He is the co-author of two other Wiley books, *Practical Algebra* and *Quick Algebra Review*.

Dr. Slavin's articles have appeared in *Studies in Family Planning*, *Economic Planning*, *Journal of BioSocial Science*, *Business and Society Review*, *Bankers Magazine*, *Education for Business*, *Public Management*, *Better Investing*, *Northwest Investment Review*, *U.S.A. Today Magazine*, and *Patterns in Prejudice*. In addition, he has written more than 500 newspaper commentaries on public policy, demographic economics, politics, urban economics, international trade, investments, and economic fluctuations.

Preface

More than 20 years ago, while still a graduate student, I got a part-time job helping to ghostwrite an introductory text for a major publisher. I asked my editor why so many economics texts were ghostwritten. She smiled and said, “Economists can’t write.”

Economics can be a rather intimidating subject, with its extensive vocabulary, complicated graphs, and quantitative tendencies. Is it possible to write a principles text that lowers the student’s anxiety level without watering down the subject matter? To do this, one would need to be an extremely good writer, have extensive teaching experience, and have solid academic training in economics. In this case, two out of three is just not good enough.

To the Student

What have you heard about economics? That it’s dull, it’s hard, it’s full of undecipherable equations and incomprehensible graphs? If you were to read virtually any of the introductory economics textbooks, that’s exactly what you would find.

Why is this book different from all other books? For starters, this is the first economics book that is reader friendly. While you’re reading, I’ll be right there with you, illustrating various points with anecdotes and asking you to work out numerical problems as we go along.

Are you a little shaky about the math? Your worries are over. If you can add, subtract, multiply, and divide (I’ll even let you use a calculator), you can do the math in this book.

How do you feel about graphs? Do you think they look like those ultramodernistic paintings that even the artists can’t explain? You can relax. No graph in this book has more than four lines, and by the time you’re through, you’ll be drawing your *own* graphs.

In nearly every chapter you’ll find one or two boxes labeled “Extra Help.” Sometimes you can master a concept when additional examples are given. Don’t be too proud to seek extra help when you need it. And when you don’t need it, you may skip the boxes.

Unlike virtually every other economics text, this one includes a built-in workbook. Even if your professor does not assign the questions at the end of each chapter, I urge you to answer them because they provide an excellent review.

I can’t guarantee an A in this course, but whether you are taking it to fulfill a college requirement or planning to

be an economics major, you will find that economics is neither dull nor all that hard.

To the Instructor

Why did I write this book? Probably my moment of decision arrived about nine years ago when I mentioned to my macro class that Kemp-Roth cut the top personal income tax bracket from 70 percent to 50 percent. Then I asked, “If you were rich, by what percentage were your taxes cut?”

The class sat there in complete silence. Most of the students stared at the blackboard, waiting for me to work out the answer. I told them to work it out themselves. I waited. And I waited. Finally, someone said, “Twenty percent?”

“Close,” I replied, “but no cigar.”

“Fourteen percent?” someone else ventured.

“No, you’re getting colder.”

After waiting another two or three minutes, I saw one student with her hand up. One student knew that the answer was almost 29 percent—one student in a class of 30.

When do they teach students how to do percentage changes? In high school? In junior high or middle school? Surely not in a college economics course.

How much of *your* time do you spend going over simple arithmetic and algebra? How much time do you spend going over simple graphs? Wouldn’t you rather be spending that time discussing economics?

Now you’ll be able to do just that, because all the arithmetic and simple algebra that you normally spend time explaining are covered methodically in this book. All you’ll need to do is tell your students which pages to look at.

The micro chapters offer scores of tables and graphs for the students to plot on their own; the solutions are shown in the book. This will cut down on the amount of time you’ll need to spend putting these problems on the board.

As an economics instructor these last 29 years at such fabled institutions as Brooklyn College, New York Institute of Technology, St. Francis College (Brooklyn), and Union County College, I have used a variety of texts. But each of their authors assumed a mathematical background that the majority of my students did not have. Each also assumed that his graphs and tables were comprehensible to the average student.

The biggest problem we have with just about any book we assign is that many of our students don’t bother to

read it before coming to class. Until now, no one has written a principles text in plain English. I can't promise that every one of your students will do the readings you assign, but at least they won't be able to complain anymore about not understanding the book.

Changes in the Fourth Edition

Six major changes have been made in this edition. First, in addition to the micro and macro splits and the regular paperback principles combination textbook/workbook, there is now a hardcover text as well.

I've added four or five questions for thought and discussion at the end of each chapter. These questions should help generate class discussions on some of the major chapter topics.

A third change was moving the material covering supply and demand that had been Chapter 3 (in the third edition) into Chapter 17, the first chapter in the micro sequence. And I put the bare bones of supply and demand into what is now Chapter 3. Now you can do the micro sequence using consecutive chapters (17 through 35) instead of having to skip from 3 to 17.

The fourth change was splitting the chapter on demand (Chapter 17 in the third edition) into two chapters: Chapter 18 ("Demand") and Chapter 19 ("Utility and Consumer Surplus"). The demand chapter had grown too long, and the topics could easily be divided.

The fifth, and most radical, change was the reorganization of the topics of supply, cost, and profit, leading to the derivation of a firm's short-run and long-run supply curves. This reorganization places the topics in a more logical sequence, and you'll find it fully discussed in the Instructor's Manual.

The sixth and last change in the Fourth Edition is the splitting of the chapter on unions, labor markets, and wage rates into two chapters: Chapter 30 ("Labor Unions") and Chapter 31 ("Labor Markets and Wage Rates").

What else is new in the Fourth Edition? There are a dozen additional extra help and advanced work boxes, and all the boxes have been made more visually appealing. There also are more current applications, particularly with respect to our nation's deteriorating international competitive position. Wherever possible, suggestions by the book's users have been incorporated, but the organization, format, and writing style remain the same.

The Supplement Package

In addition to the workbook, which is built in, *Economics* has a supplemental package to help students and instructors as they use the text.

Instructor's Manual

I prepared the instructor's manual to give instructors ideas on how to use the text. The manual includes a description

of the textbook's special features, a chapter-by-chapter discussion of material new to the fourth edition, and a run-down of chapter coverage to help instructors decide what they can skip. The answers to the workbook sections of the text are in this manual.

Test Bank

I have thoroughly revised the test bank so that it offers more than 6,000 questions. Multiple-choice questions, fill-in questions, and problems are classified by degree of difficulty. The test bank is also available on 3.5" and 5.25" disks.

Teaching Aides

The most important graphs and tables from the text are reproduced as two-color transparencies. Use of the acetates will aid the instructor's classroom presentation and the students' understanding.

P.R.E.S.S. (Principles of Economics Simulation Software)

This software allows students to apply the economic theories they are learning and to make decisions in a variety of economic contexts so they can see the effects of those decisions.

Microview/Macroview

This computerized tutorial uses modules, with page references to the text, to help students explore key economic concepts. Students are directed to manipulate graphical information in a model and then to answer questions about the effects of these actions on various relationships. The software is available for IBM or IBM-compatible PC.

Computest 3

This computerized test bank allows instructors to add and edit questions; save and reload tests; create different versions of each test; attach graphics to questions and answers; import and export ASCII files; and select questions based on type, key word, or level of difficulty. Included on the disk is an on-line testing program that allows the test maker to create tests that can be taken by students using a computer. Computest 3 provides password protection for saved tests and the question database. It can run on a network. Available for IBM and IBM-compatible PCs.

Videos

A selection of videos is available to adopters, including both tutorial lessons and programs that combine historical footage, documentary sequences, interviews, and analysis to illustrate economic theory. There is also a 15-minute video that explains how to get the most out of the book. This may be played the first day of class.

Acknowledgments

It is one thing to write an unconventional, even controversial, principles text, and it is quite another to get it published. Gary Nelson, the sponsoring editor, saw the project through from its inception to its completion, and I want to thank him for making this book possible. Gary oversaw the development from a bare bones text to a full-fledged principles package.

Deirdre McDonald Greene, the developmental editor, saw this project through from the first reviews, the chapter-by-chapter revisions, the test bank revisions, and the dozens of deadlines that we met, to the time the book finally went to the printer. Project editor Jean Lou Hess managed the copyediting, artwork, page proofs, and galleys, and Antonia Moore, the copy editor, smoothed out the rough edges of the manuscript. Keith McPherson and Matthew Baldwin oversaw the design of the book from cover to cover. And the editorial coordinators, Tia Schultz and Tracey Douglas, made sure that we met each deadline and that the rest of us were all reading from the same page, so to speak. Others who have made large contributions are Betty Hadala, who edited the test bank, and Loretta Haan, who edited the instructor's manual. And Rick Porter of Video Ventures in Salt Lake City, for filming and editing the tutorial videos.

I'd also like to thank Professor Bruno Stein (New York University), Professor Fareed Fareedy (Union County College), and Professor Mildred Bilt (Holy Family College, Philadelphia) for their helpful suggestions on the manuscript. Ana-Maria Conley (DeVry Institute of Technology) and Mark G. Johnson (Lakeland Community College) reviewed the galleys to catch text errors and to check the accuracy of the graphs. Professor Bette Lewis Tokar of Holy Family College checked the workbook sections and found more errors than I'd care to admit. While no one can guarantee an error-free text, because of Professor Tokar's efforts I think we have come pretty darn close. I especially wish to thank Professor James Watson of Jefferson College in Missouri. His suggestions led to most of the organizational changes in the micro chapters. Professor Margot Bair Biery, of Tarrant County Junior College in Fort Worth, also made many helpful suggestions. And Pasi Kuoppamäki, a Helsinki economist, supplied some of the new jokes about economists found in the left margin in various chapters.

Finally, I want to thank Ron Bloecher, the marketing manager, and all of the Irwin sales reps for the great job they did in raising our sales of the third edition by 50 percent.

Many reviewers helped me to improve the text as it developed from the original manuscript to this fourth edition. I thank the following reviewers for their suggestions:

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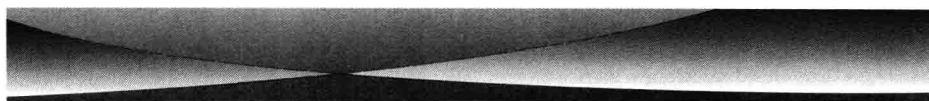
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Edward Stevens, *Nebraska College of Business*

Finally, to all adopters of the past three editions, thank you. Your comments and concerns have helped me write the 1996 edition of *Economics*.

Stephen L. Slavin

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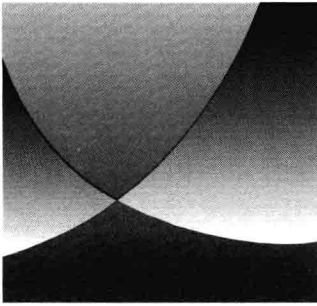
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Introduction

What Is Economics All About, How Do We Use This Book, and Why Is This Book Different from All Other Introductory Economics Textbooks?

An economist is a man who states the obvious in terms of the incomprehensible.

—Alfred A. Knopf

You've just started reading what may be the shortest introduction with the longest title ever to appear in an introductory economics textbook. Why is this introduction so short? Mainly because I believe in economizing. What *is* economizing? Funny you should ask.

Economics deals with efficiency—getting rid of waste. That's why this introduction is so short. In fact, that's why this entire book—a textbook and a workbook combined—is so short. We've eliminated most of the extraneous material, the stuff that almost no one reads and virtually no one can understand. What you'll be getting here is 99.44 percent pure introductory economics. If this book were sold in supermarkets, you'd find it with the rest of the no-frills products.

What is economics? Basically, economics is a set of tools that enables us to use our resources efficiently. The end result is the highest possible standard of living.

Economics operates on two levels, the macro level and the micro level. *Macroeconomics* deals with huge aggregates like national output, employment, the money supply, bank deposits, and government spending; and how we can deal with inflation and recession. The first half of the book *Economics* (through Chapter 16) is devoted to macroeconomics.

Microeconomics operates on the level of the individual business firm, as well as that of the individual consumer. How does a firm maximize its profits, and how do consumers maximize their satisfaction? These are the types of questions answered by microeconomic analysis, which begins with Chapter 17 of *Economics* (or Chapter 5 of *Microeconomics*).

This book differs from every other introductory text in several ways. Not only is it shorter, but it is much more readable. To modify an old computer term, it is reader-friendly. There are plenty of jokes and anecdotes to illustrate points. And you will be able to do the math even if you are mathphobic.

The format of the book encourages you to read actively rather than passively. You will be asked to answer questions and do calculations. Then you'll check your work against my answers.

Before you are asked to do any calculations (and we rarely go beyond eighth-grade arithmetic), there will be a section that reviews the math. For example, just before we explore the subject of consumption (Chapter 5 of *Economics* and *Macroeconomics*), which is expressed in trillions of dollars, there is a section showing you how to deal with large numbers. If you happen to be one of those people who doesn't know billions from trillions, then this section is for you. But if you do know your billions and trillions, you can pass this section, go directly into the chapter, collect \$200, and roll the dice again.

Actually, I won't claim that reading this book will be quite as much fun as playing Monopoly, or that you will get to collect \$200 whenever you skip a section. But you do get to save some money.

This text gives you two books in one: the conventional textbook and the workbook. Go into any college bookstore and check out the prices. Almost every standard textbook/workbook package will cost you over \$60, so you're already economizing. And yet, in the words of the Carpenters' golden oldie, "We've only just begun."

