



INTRODUCTION TO
ECONOMIC REASONING

SECOND EDITION

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Preface

Almost one hundred years ago, Alfred Marshall defined economics as “the study of mankind in the ordinary business of life.” Today, the ordinary business of life has become incredibly complex. The purpose of this textbook is to help prepare students for that life.

Introduction to Economic Reasoning is intended for students taking the one-term course in introductory economics. Many of these students, perhaps a majority, will take only one course in economics. They have a variety of interests and educational objectives. Some are enrolled in preprofessional programs; others will pursue majors in areas such as business, psychology, or the liberal arts. At a number of institutions, the one-term course also enrolls first-year students in MBA programs and other graduate business programs. Many of these students pursued nonbusiness majors as undergraduates and did not elect to take an economics course. Others desire to review economics before entering the graduate program. Although the students enrolling in the one-term course have diverse objectives and interests, they can all benefit from a course that prepares them to understand economic issues better and helps them to become better decision makers.

The Focus of the Book

How do we prepare students to understand economic issues and help them become better decision makers? I am convinced that we cannot accomplish these objectives by focusing solely on economic issues and short-cutting a discussion of economic concepts. This approach might provide students with ready answers to existing problems, but it would do little to prepare students for coping with new social problems and little to refine their decision-making skills. To accomplish those objectives, we must teach students something about economic reasoning.

Economists are fond of saying that economics is a way of thinking, or a way of reasoning about problems. The essence of economic reasoning is the ability to use theories or models to make sense out of the real world and devise policy solutions to economic problems. If we want students to use

economic reasoning, we have to help them to learn and understand the basic economic theories. Without an understanding of economic theory, a course in economics can leave the student with little more than memorized solutions to current economic problems.

The Need to Make Choices

Obviously, we can't do everything in a one-term course in introductory economics. And unless we can keep the student's interest and show the relevance of economics, we can't accomplish anything. So the instructor in a one-term course (and the author of a one-term text) must make choices. He or she must decide what to include and what to exclude, how to balance theory with application, and how to motivate the student without sounding too much like a cheerleader. This textbook attempts to bridge these extremes.

Because economists use theories or models in problem solving, the core of this text is economic theory. No essential micro or macro concept is omitted. Many refinements are omitted, however, so that more time can be devoted to the careful development of the most important concepts. This is one of the distinctive features of the text: a very careful development of the core ideas in economic theory.

Making Economics Relevant

Today's student wants to know why he or she should be studying economics. What problems or issues will it help to clarify? What decisions will it help to improve? In *Introduction to Economic Reasoning*, the relevance of economics is illustrated by the use of examples in the text and through special features entitled "Use Your Economic Reasoning." These features, which are listed in a separate table of contents on pages xxii–xxiii, contain news articles that have been carefully selected to illustrate the relevance of the economic principles being discussed and to provide the student with an opportunity to test his or her knowledge of those principles. Each article is accompanied by a set of questions to ensure that the student gains the maximum benefit from the article, and the features themselves have been designed to make them easy to locate.

Writing Style

In writing this text, my overriding objective has been to make economics accessible to the average student. I have been careful to avoid unnecessarily sophisticated vocabulary and needlessly long sentences. Most important, I have worked to ensure that my explanations of economic concepts are carefully and clearly developed. While professors may adopt a text for a wide variety of reasons, I am convinced that the most common reason for discontinuing its use is because students can't understand it. Your students *will* be able to read this text and understand it.

Aids in Learning

In addition to a clear writing style, the text contains a number of additional learning aids:

1. New terms are presented in boldface italic type and are always defined when they are introduced.
2. "Use Your Economic Reasoning" selections not only generate student interest but also give the student an opportunity to apply the concepts that have been presented and thereby reinforce learning.
3. Careful summaries highlight the contents of the chapter.
4. A glossary of new terms (with page references) appears at the end of each chapter so that a student can easily review definitions and locate the appropriate place to review concepts.
5. A study guide including fill-in-the-blank and multiple choice questions (with answers) and problems and questions for discussion appears at the end of each chapter. This increases the likelihood that the study guide will be used, and encourages the student to review the chapter to correct deficiencies.

Additional Features

1. The demand and supply model (the core of micro theory) is more fully developed than in other one-semester texts, and the student is given numerous opportunities to test his or her understanding of the model.

2. The organization of the macroeconomics chapters provides for maximum flexibility in use. Instructors wishing to employ only the aggregate demand–aggregate supply framework can do so, while those desiring to integrate the Keynesian total expenditures model have that option.
3. Modern developments in macroeconomic theory, such as the theory of rational expectations, are presented in a manner that is accessible to the beginning student.
4. The text contains a section on pricing in practice, which generates student interest and allows the student to see how real-world pricing decisions make use of economic theory.

Second Edition Changes

In the time since the first edition was published, the Soviet Union has been dissolved, the health-care crisis has worsened, the cable television industry has been subjected to reregulation, the United States has experienced another recession, and calls for deficit reduction have turned into demands for tax cuts to stimulate the economy. These and other changes are reflected in the second edition through an updated discussion of the former Soviet Union, new textbook examples, and many new “Use Your Economic Reasoning” selections.

In addition to this general updating, the second edition contains a major revision of the macroeconomics chapters. The aggregate demand–aggregate supply framework is now presented earlier in the text and is developed more extensively than in the first edition. Chapter 10 introduces the aggregate demand–aggregate supply (AD–AS) framework, and uses it to examine the debate between Keynes and the classical economists. Chapter 14 completes the development of the AD–AS framework and uses it to develop a model of the self-correcting economy. Chapter 15 closes the discussion of macroeconomics by using the AD–AS framework to examine the modern activist-nonactivist debate.

The intervening macro chapters (Chapters 11–13) provide additional detail for those who desire it. Chapter 11 presents the Keynesian total expenditures model, and Chapter 12 uses the total expenditures framework to examine Keynesian fiscal policy. Chapter 13 examines money, banking, and monetary policy. This chapter is not tied to the total expenditures model, so it can be used by instructors omitting Chapters 11 and 12.

The intent in revising the macroeconomic chapters is to provide instructors with greater flexibility in choosing how to teach the macroeconomics section of the course. Although the Keynesian aggregate expenditures model is fully developed, the chapters are organized so that this discussion can be omitted by instructors who prefer a more abbreviated coverage of macroeconomics. These options are discussed more fully below.

Strategies for Using the Text

Introduction to Economic Reasoning provides balanced coverage of microeconomics and macroeconomics. The book is divided into four parts. A two-chapter introduction (Part 1) examines the basic economic problem and economic systems. This is followed by six chapters on microeconomics (Part 2), seven chapters on macroeconomics (Part 3), and two chapters on international economics (Part 4).

The chapters in the text are arranged in micro-macro sequence, but an instructor could easily reverse this order by covering Chapters 1, 2, and 3 and then moving directly to Part 3. The remaining micro chapters and Part 4 could then be covered in sequence.

If an instructor desired to shorten the micro portion of the course, Chapter 4 ("The Elasticity of Demand and Supply") and Chapter 8 ("Market Failure") could be omitted with no loss in continuity. Chapter 7 ("Industry Structure and Public Policy") extends the analysis presented in Chapter 6 and could also be skipped if necessary.

The macro coverage of the text can also be reduced. Instructors who want to omit the detailed coverage of fiscal and monetary policy (or who want to concentrate on the aggregate demand–aggregate supply framework) can skip Chapters 11 through 13 and still have a cohesive discussion of macroeconomics. Chapter 13, "Money, Banking, and Monetary Policy," does not require material contained in Chapters 11 or 12, so it could easily be added by those who desire to include greater detail in this area. Likewise, instructors who want to concentrate on the basic Keynesian model can select only Chapters 11–13, omitting Chapters 10, 14, and 15.

International economics is the last part of the book. This material has traditionally been the first to be omitted whenever an instructor found it necessary to shorten his or her course. Today, the growing importance of this subject matter may call for a different strategy. As a compromise course of action, an instructor might cover Chapter 16 ("International Trade") and omit Chapter 17 ("International Finance").

The Instructor's Manual

The instructor's manual that accompanies this book is intended to make the instructor's job easier. New instructors may benefit from the teaching tips provided for each chapter. The manual also contains a chapter-by-chapter listing of additional news articles that may be suitable for writing assignments or class discussion, answers to the "Use Your Economic Reasoning" questions, answers to the "Problems and Questions for Discussion" at the end of each chapter, and a test bank of multiple-choice questions.

Acknowledgments

One author is listed on the cover of this textbook, but there are many people who have helped in its preparation and to whom I owe my thanks.

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