

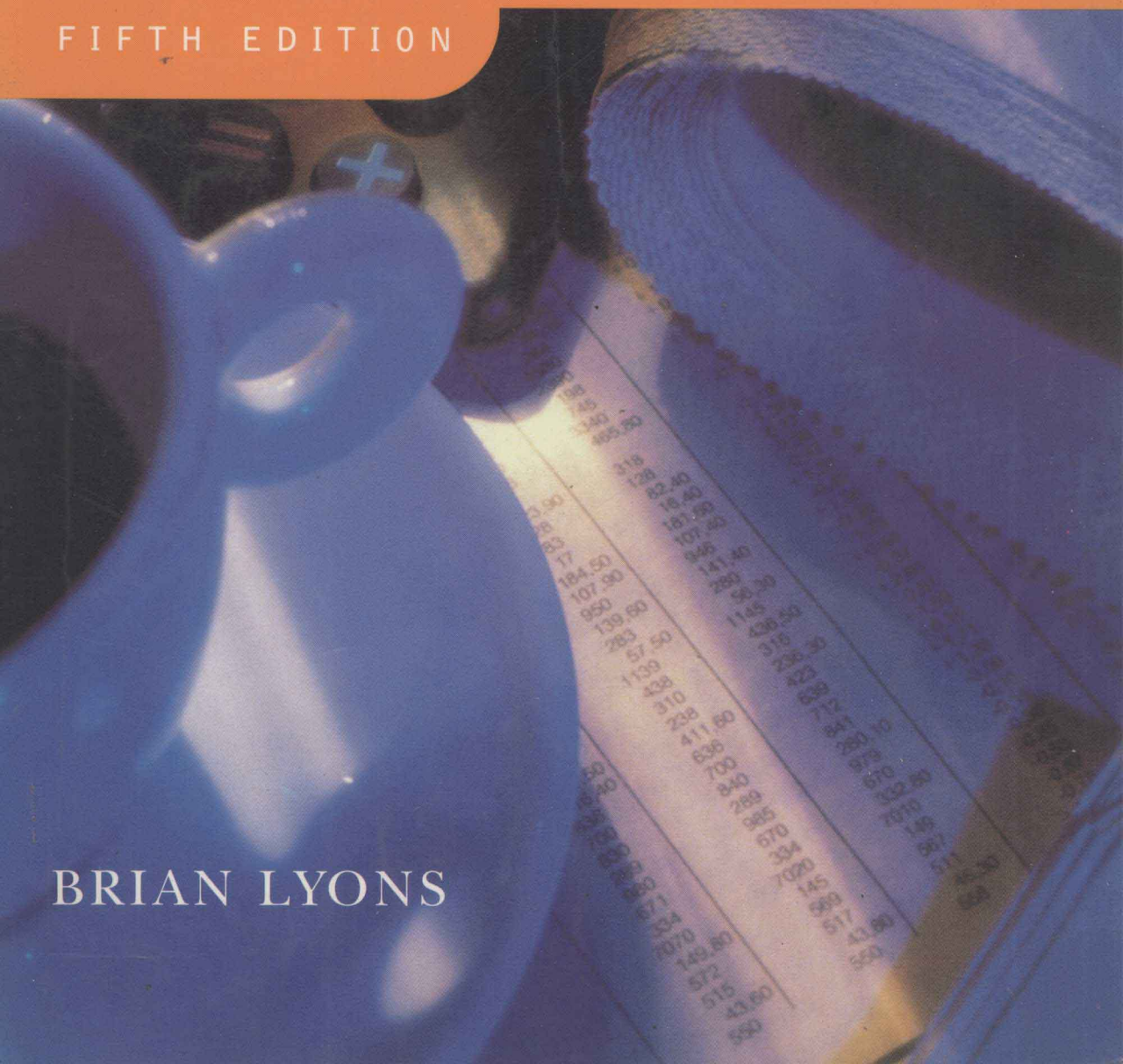
CANADIAN

MACROECONOMICS

Problems and Policies

FIFTH EDITION

BRIAN LYONS



C A N A D I A N

MACROECONOMICS

Problems and Policies

FIFTH EDITION

Brian Lyons

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For Barb, Marnie and Amber

Preface

Introduction

This book is an introductory macroeconomics text that addresses itself to the major economic challenges and opportunities facing Canada today and the policy choices for governments in dealing with these issues. It is not oriented toward rigorous, abstract, or elegant economic theory, nor to a mathematical approach to economics — students of introductory economics neither want nor need these. Rather, its approach tends to be practical and pragmatic, introducing theory not for its own sake so much as to contribute to an understanding of the issues being discussed.

The text is ideally suited for a student's first course in macroeconomics and has been used in this role at the secondary school, community college, and university levels. For the fifth edition, this book and its companion book are being published in separate volumes only and not in the combined text as was done in the previous edition.

New to This Edition

For this edition, the subject matter of the book has been extensively reorganized to reflect Canada's changing economic circumstances. In particular, the topics of *inflation* and *government deficits and debt* have been repositioned toward the end of the book where they are not as prominent as key current issues. Rather, these topics serve as important background material for understanding the policies adopted in recent years by the federal government and the Bank of Canada with respect to inflation and fiscal policy in the globalized economic environment of our times. Another aspect of the reorganization is the relocation of the chapter on Money and Banking to earlier in the text, so as to integrate it more effectively with coverage of the demand side of the economy and the problem of economic instability.

For this fifth edition, the “boxes” that became increasingly prominent over previous editions have been rationalized and organized into three types: margin boxes, which add interesting facts not covered in the text, “In the News” boxes, and “You Decide” boxes. The latter two types of boxes present a situation and ask questions for students to answer. They can then turn to Appendix 1 at the back of the book for the correct answers, creating an opportunity for interactive learning. These boxes can also be used for in-class discussions, in addition to the questions at the end of each chapter. Finally, Appendix 2, which directs you to economics information from a variety of sources on the Internet, has been added.

The overall intended result of these changes is a text that is not only more current, but that also has fewer chapters and flows more effectively — in short, a book that is more concise, better integrated, and more interactive.

Features

According to both students and teachers, a major feature of this book is its *readability*, which helps considerably in the learning and teaching of a subject that has an (undeserved) reputation of being rather formidable. Other aspects of the text include:

- **Organization** The material is organized in a manner that students find logical and easy to follow.
- **Flexibility** The reduced number of chapters fits well into most schools' programs — if time is short, chapters 12 and 14 can be omitted, bringing the number of chapters covered down to twelve. In addition, the material in Chapter 13 on inflation and government deficits and debt can be covered as a separate chapter or integrated into earlier sections of the text.
- **Interactiveness** The boxes described above, together with the discussion questions at the end of each chapter and the Study Guide, provide extensive opportunities for students to interact with the material, both in groups and on their own.

Organization

For the main body of the book, the reorganization has created a more focused and cleanly-flowing presentation of macroeconomics. Following the introductory material in the first two chapters, the *supply side* of the economy is presented, followed by the *demand side*, providing a structured overview of the economy on a macroeconomic scale at an earlier point in the text. Money and banking are then covered, expanding on the coverage of the demand side and providing a link to the major topic of economic instability in Chapter 6. In the next chapter, fiscal policy and the monetary policy used to stabilize the economy are covered, followed by a chapter on the realities that limit what can be achieved by these policies in the Canadian context.

Chapter 9 introduces international trade and the World Trade Organization, followed by a chapter on Canadian trade policy, with emphasis on the impact that the *globalization* of the world economy has had on

Canada and Canadian trade policy, including the North American Free Trade Agreement. The next two chapters cover exchange rates and the international monetary system.

Chapter 13 presents two major lessons that Canada has learned through hard experience — the dangers of inflation and of excessive government budget deficits and debt, and the problems that these have caused for Canada. This material serves as background to both the economic problems that characterized much of the 1990's and the government policy directions that are outlined in the next chapter. For this edition, the material on the "Great Inflation" of the 1970's that was covered in the appendices to Chapters 28 and 29 in previous editions has been relocated to the Instructor's Solutions Manual, where it can be used as background material. Finally, Chapter 14 summarizes Canada's economic position and government policy directions for the future with respect to trade, monetary policy, fiscal policy, and the improvement of productivity.

Supplements

The following supplements are available for this text:

- Instructor's Solutions Manual with Video Guide
- CBC/Prentice Hall Canada Video Library
- Test Item File
- Prentice Hall Custom Test
- Transparency Masters
- Study Guide

Acknowledgments

Anyone undertaking a project such as this finds themselves indebted to many people. In particular, I would like to express my gratitude to Bill Trimble, who said I should do it, Len Rosen, who refused to let me say I wouldn't, and all those teachers and students who used the first four editions and offered helpful comments and suggestions. I would also like to thank the people whose reviews of all five editions of the manuscript were so helpful: for the first edition, Ray Canon, Gord Cleveland, Ward Levine, Jim Thompson and Ian Wilson; for the second, Alan Idiens and Chuck Casson; for the third, Linda Nitso, Bo Renneckendorf, Gord Enemark, L.W. Van Niekerk, Stephen Wise and Ann Dunkley; for the fourth, Carol Ann Waite, Izhar Mirza, John Parry and Byron Eastman; and for the fifth, Valerie Beckingham of Keewatin Community College, Michael Loconte of Brebeuf Collegiate, Pauline A. Lutes of New Brunswick Community College, Peter J.

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Finally, I want to express my appreciation to my family — Barb, Marnie, and Amber — who have provided support and understanding over unduly long periods of time.

I have no doubt that there are many improvements that can be made to this book, and welcome suggestions from teachers and students. Please write to me at Sheridan College, 7899 McLaughlin Road, Brampton, Ontario L6V 1G6, or e-mail me at **brian.lyons@sheridanc.on.ca**.

Brian Lyons
1998

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