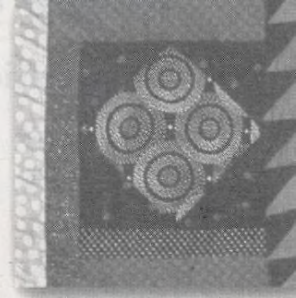


BRIEF CONTENTS

Foreword	xviii
Preface to the Instructor	xxii
Preface to the Student	xxv



PART 1

Economics as a Tool for Critical Thinking in a Changing Global Economy 1

- 1 Economics as a Social Science 3
 - 2 Exploring the Emerging Global Economy 17
- Thinking Critically:** Economic Paradigms and Globalization:
What Are Sweatshops For? 33

PART 2

Economic History and the Development of Modern Economic Thought 39

- 3 The Evolution of Economic Systems 40
 - 4 Adam Smith, Classical Liberalism and the Division of Labor 57
 - 5 Karl Marx and the Socialist Critique of Capitalism 71
 - 6 The Rise and Fall of Laissez-Faire in the U.S. Economy 87
- Thinking Critically:** Technological Innovation,
the New Economy, and the Future 103

PART 3

Microeconomics 109

- 7 Scarcity: "You Can't Always Get What You Want" 111
 - 8 The Theory of Markets 124
 - 9 Perfect Competition and Efficiency 156
 - 10 Noncompetitive Markets and Inefficiency 189
 - 11 Resource Markets and the Distribution of Income 219
 - 12 Corporations and Labor Unions 247
 - 13 The Economic Role of Government 270
- Thinking Critically:** Explorations in Microeconomics—Affirmative Action 300

PART 4

Macroeconomics 311

- 14 Macroeconomics: Issues and Problems 313
 - 15 Macroeconomic Theory: Classical and Keynesian Models 338
 - 16 Fiscal Policy: Government Spending and Taxation 374
 - 17 Financial Markets, Money, and Monetary Policy 398
 - 18 Aggregate Demand and Aggregate Supply 434
 - 19 Unemployment, Inflation, and Stabilization Policy in a Global Economy 455
- Thinking Critically:** Spend Me to the Moon 469

PART 5

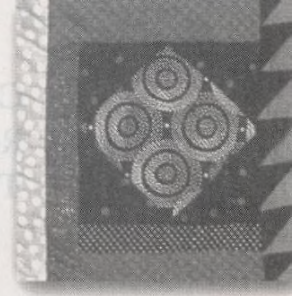
International Economics and Finance 477

- 20** International Trade and Interdependence 479
- 21** International Finance 505
- 22** The Economics of Developing Nations 529
- 23** Economic Systems in Transition 549
- Thinking Critically: Globalization in the Twenty-first Century 578**

Glossary 587

Name Index 603

Subject Index 607



CONTENTS

Foreword	xviii
The Eighth Edition	xix
Acknowledgments	xx
Dedication	xxi
Preface to the Instructor	xxii
Suggested One-Semester Course Outline	xxiii
Suggested One-Semester Micro Course Outline	xxiv
Suggested One-Semester Macro Course Outline	xxiv
Supplements	xxiv
Preface to the Student	xxv
Economics: What's in It for You?	xxv
Objectives, or What We Have Designed This Book to Accomplish	xxvi

PART 1

Economics as a Tool for Critical Thinking in a Changing Global Economy 1

CHAPTER 1 Economics as a Social Science 3

Introduction	3
■ Definitions in This Book	3
What Is Economics?	4
■ One Method for Economic Theory	6
Economics and Economists	7
Paradigms and Ideologies	9
The Realm of Theory	9
The Realm of the Economist	10
Conservative, Liberal, and Radical Economics	11
Conservatives, Liberals, and Radicals on Poverty	14
Conclusion	13
Review Questions	16

CHAPTER 2 Exploring the Emerging Global Economy 17

Introduction	17
Globalization: Making a Big World Smaller	18
The World Economy	19
Global Investment Trends	20
Globalization's Winners and Losers	24
Why Nations Trade	25
The Theory of Comparative Advantage	26
Free Trade versus Protectionism	27
Financing International Trade	27
Exchange Rates	28
Technological Change and Competitiveness	29
Energy and the Environment	29

Energy	29
The Environment	30
Conclusion	32
Review Questions	32

Thinking Critically: Economic Paradigms and Globalization:

What Are Sweatshops For?	33
■ Low-Wage Costa Ricans Make Baseballs for Millionaires	35

PART 2

Economic History and the Development of Modern Economic Thought 39

CHAPTER 3 The Evolution of Economic Systems 40

Introduction	40
Economic Development	41
From Feudalism to Capitalism	42
Precursors of Feudalism	43
Feudalism	44
■ Feudalism	44
The Breakdown of Feudalism	46
The Development of Capitalism in the United States	50
■ The Significance of Property	51
Those without Property—The Peasants	52
Private Property and the Rise of Capitalism	52
Critics of the Institution of Private Property	53
Emergent Capitalism	54
Mercantilism	55
Conclusion	55
Review Questions	56

CHAPTER 4 Adam Smith, Classical Liberalism, and the Division of Labor 57

Introduction	57
The Rise of Classical Liberalism and the Industrial Revolution	57
Adam Smith and the Division of Labor	59
Side Effects of the Division of Labor	62
The Distribution of Income	63
The Flow of Economic Activity	65
J.B. Say and Say's Law	66
J.B. Say and Gluts	67
Laissez-Faire	68
Conclusion	70
Review Questions	70

CHAPTER 5 Karl Marx and the Socialist Critique of Capitalism 71

Introduction	71
Karl Marx: Political Economist and Revolutionary	72
Marx's General System of Thought	73
Dialectics	73

Materialism 74

The Materialistic Conception of History: Historical Materialism 75

The Marxian Analysis of Capitalism 77

Social Revolution 81

■ Hayek and the Road to Serfdom 83

An Assessment of Marxism 83

Conclusion 85

Review Questions 85

CHAPTER 6 The Rise and Fall of Laissez-Faire in the U.S. Economy 87

Introduction 87

The Flowering of Laissez-Faire 87

The Development of Capitalism in the United States 89

Sources of U.S. Development 89

The Situation in the United States and Veblen's Critique 91

The Great Depression and the Keynesian Critique of Laissez-Faire 93

■ Joseph Schumpeter, Laissez-Faire, and Creative Destruction 96

The Post-World War II Experience 96

The Last Decades of the Twentieth Century 98

Conclusion 102

Review Questions 102

Thinking Critically: Technological Innovation, the New Economy, and the Future 103

■ Catch the Wave 105

PART 3

Microeconomics 109

CHAPTER 7 Scarcity: "You Can't Always Get What You Want" 111

Introduction 111

Scarcity: A Fundamental Economic Fact of Modern Life 112

The Production Possibilities Curve 113

Economic Growth and the Production Possibilities Curve 116

Military versus Civilian Priorities 117

Applying the Concept of Choice to Personal Decisions 121

Conclusion 122

Review Questions 122

CHAPTER 8 The Theory of Markets 124

Introduction 124

◆ THE BIG PICTURE Supply and Demand 125

Markets and Price Determination: Supply-and-Demand Analysis 126

Demand 129

Ceteris Paribus and the Demand Curve 131

Supply 133

Ceteris Paribus and the Supply Curve 135

The Market and the Equilibrium Price 136

A Tinge of Reality: It's Not a *Ceteris Paribus* World 139

A Word of Caution	143
Applying Supply and Demand	143
Gasoline Prices	144
Supply and Demand and the Value of the Dollar	145
Elasticity	148
Price Elasticity of Demand	148
Price Elasticity of Supply	153
Income Elasticity	153
Conclusion	154
Review Questions	154

CHAPTER 9 Perfect Competition and Efficiency 156

Introduction	156
◆ THE BIG PICTURE Perfectly Competitive Markets	156
Profit Maximization and the Competitive Firm	157
Specialization, Diminishing Returns, and Short-run Costs	159
Fixed Costs	159
Variable Costs	160
Average Cost	164
The Firm's Revenues	165
Profit Maximization	166
An Example of Profit Maximization in the Short Run	167
The Firm in the Long Run	176
Competitive Markets in the Long Run	179
Competition and Efficiency	181
The "Invisible Hand" and Consumer Sovereignty	183
Conclusion	186
Review Questions	187

CHAPTER 10 Noncompetitive Markets and Inefficiency 189

Introduction	189
Models of Noncompetitive Market Structures	189
◆ THE BIG PICTURE Imperfect Competition	190
Monopoly	191
Short-Run Equilibrium for the Monopolist	192
Long-Run Equilibrium for the Monopolist	196
Monopoly and Inefficiency	196
■ Disrupting Regulated Monopolies	196
Monopolistic Competition and Oligopoly	199
Monopolistic Competition	200
■ Monopolistic Competition in Fast Foods	205
Oligopoly	206
■ Game Theory	209
■ Movie Rental Oligopoly	212
The Importance of Noncompetitive Markets in the U.S. Economy	213
Sources of Concentration in the Economy	215
Conclusion	216
Review Questions	217

Introduction	219
◆ THE BIG PICTURE Resource Markets	220
The Economics of Resource Markets	221
Demand for a Resource	222
Supply of a Resource	224
The Economics of the Minimum Wage	225
The Distribution of Income	229
The Size Distribution of Income	229
The Influence of Property	234
The Influence of Labor Incomes	235
Transfer Income	238
The Influence of Race and Gender	239
Income Distribution and Child Poverty	244
Conclusion	243
Review Questions	245

CHAPTER 12 Corporations and Labor Unions 247

Introduction	247
Kinds of Firms	247
The Corporation	248
The Role of Profits in the Corporate System	249
U.S. Corporations Go Global	251
Free Enterprise versus Regulation	253
The Corporate Climate Today	255
Labor Unions in the United States	256
The History of U.S. Labor Unions	257
The Economic Effects of Labor Unions	260
The Future of Labor Unions	265
■ Labor-Centered Principles	265
Corporations and Labor: The Twenty-first Century	267
Conclusion	269
Review Questions	269

CHAPTER 13 The Economic Role of Government 270

Introduction	270
The Role of Government in the Economy	270
The Growth of Government's Role	274
Market Failure, Public Goods, and Externalities	279
Public Goods	281
External Benefits	282
External Costs	284
■ The Tragedy of the Commons: Property Rights and Atlantic Fishing	287
Regulation of Economic Concentration	288
Regulating Monopolies	288
Antitrust and Economic Concentration	290

- The Microsoft Monopoly Case 292
- Poverty and Income Redistribution 294
- The Limits of Government's Role 296
- Conclusion 298
- Review Questions 298
- Thinking Critically:** Explorations in Microeconomics—Affirmative Action 300
 - Acme and Affirmative Action 304

PART 4

Macroeconomics 311

CHAPTER 14 Macroeconomics: Issues and Problems 313

- Introduction 313
- Macroeconomic Goals 313
 - Economic Growth 314
 - Full Employment 314
 - Price Stability 319
- Macroeconomic Tools 322
 - The Rise of Pax Americana: 1946 to the 1960s 322
 - The Decline of Pax Americana: 1970s to mid-1980s 323
 - The U.S. Economy: Late 1980s and Early 1990s 324
 - A Rebirth of Pax Americana? 1992 and Beyond 325
- National Accounting Measures 326
- Potential Problems with the National Income Accounts 328
 - Real versus Nominal GDP 332
 - Value-Added Counting 332
 - What Is Counted in GDP? 333
- Conclusion 335
- Review Questions 336

CHAPTER 15 Macroeconomic Theory: Classical and Keynesian Models 338

- Introduction 338
- The Classical Model 339
 - ◆ THE BIG PICTURE An Introduction to the Classical Model 339
 - The Quantity Theory of Money 340
 - The Goods and Labor Markets in Classical Economics 341
 - Say's Law 342
 - The Classical Credit Market 342
- Flaws in the Classical Model 343
- The Great Depression 344
- Enter John Maynard Keynes 346
 - Capitalism's Savior 347
- ◆ THE BIG PICTURE The Keynesian Model 348
 - The Keynesian Model: The Details 354
- The Keynesian Economic Model 355
 - Consumption 355

Marginal Propensity to Consume	359
Saving	360
Marginal Propensity to Save	360
Consumption and Real GDP	360
Investment and the Two-Sector Model	361
Changes in Investment and the Keynesian Multiplier	361
■ A Simple Derivation of the Multiplier	365
The Three-Sector Model	367
The Four-Sector Model	369
◆ THE BIG PICTURE Chapter 15 Wrap-up	371
Conclusion	372
Review Questions	372

CHAPTER 16 Fiscal Policy: Government Spending and Taxation 374

Introduction	374
Fiscal Policy	375
◆ THE BIG PICTURE Fiscal Policy	376
Government Spending	377
Tax Policy and Income Effects	379
Transfer Payments	380
Problems with Fiscal Policy	381
Lags and Lumps in Fiscal Measures	381
Procyclical Tax and Spending Policy	382
Fiscal Policy in an Open Economy	382
The Federal Budget	383
The Federal Budget and the Economy	384
Federal Deficits and Surpluses	388
Cyclical and Structural Deficits and Surpluses	392
Conclusion	393
Review Questions	393
■ Note	394

CHAPTER 17 Financial Markets, Money, and Monetary Policy 398

Introduction	398
The Uses of Money	398
Demand for Money	399
Changes in the Demand for Money	401
Supply of Money	402
The Fed	402
Regulation of Financial Markets	404
■ Banking and Thrift Instability, 1980s- and 1990s-Style	406
Measures of the Money Supply	407
Suppliers of Money	410
The Myth and Mystique of Money	413
◆ THE BIG PICTURE Money and the Keynesian System	414
Money and the Keynesian System: The Details	416

The Liquidity Trap	417
Monetary Policy	418
Tools of the Trade	418
■ Interest Rates, Bond Prices, and the Money Supply	420
Lags in Monetary Policy	422
Monetary Policy in an Open Economy	423
A Brief History of Monetary Policy	425
Greenspan's Fed: 1987–2005	425
Bernanke's Fed	427
Stock Markets in the Greenspan Era	429
The Future of Monetary Policy	429
Monetary and Fiscal Policy	431
Coordination of Monetary and Fiscal Policy	432
Conclusion	433
Review Questions	433

CHAPTER 18 Aggregate Demand and Aggregate Supply 434

◆ THE BIG PICTURE Introduction	434
Aggregate Analysis	435
Aggregate Demand	435
Conditions for Goods and Money Market Equilibrium: A Review	436
Shifts in the Aggregate Demand Curve	439
Short-Run Aggregate Supply	441
Causes of Shifts in the Short-Run Aggregate Supply Curve	442
Long-Run Aggregate Supply	444
Arriving at Equilibrium	444
Shifts in the Long-Run Aggregate Supply Curve	446
Productivity	446
■ Aggregate Supply and Economic Growth	449
Supply-Side Economic Policy	451
Rationale for Supply-Side Economics	451
Supply-Side Critics	452
◆ THE BIG PICTURE And, The Big Picture Concluded	453
Conclusion	454
Review Questions	454

CHAPTER 19 Unemployment, Inflation, and Stabilization Policy in a Global Economy 455

Introduction	455
The Trade-Off: Unemployment and Inflation	455
The Phillips Curve	456
Inflation	459
The Impact of Unemployment and Inflation	462
Stabilization Policy: An International Perspective	463
Macroeconomic Solutions: The Alternatives	463
Monetarist Solutions	464
Supply-Side Solutions	464

New Classical Solutions	464
Post-Keynesian (Managed Capitalist) Solutions	465
Feminist Economists' Solutions	465
Radical Solutions	466
Conclusion	466
Review Questions	468
Thinking Critically: Spend Me to the Moon	469
■ Forget Bush and Gore; Our Economy Needs Another Khrushchev	472

PART 5

International Economics and Finance 477

CHAPTER 20 International Trade and Interdependence 479

Introduction	479
World Trade	480
The Impact of International Trade on the United States	482
The Modern Theory of International Trade	484
◆ THE BIG PICTURE Comparative Advantage	484
Who Trades What, and Why?	486
Comparative Advantage and Output	488
Terms of Trade	490
Problems with the Theoretical Assumptions of Free Trade	492
Restrictions to Free Trade: Protectionism	493
International Trade Issues	495
North American Free Trade Agreement (NAFTA)	496
Free Trade Area of the Americas (FTAA)	497
Asia-Pacific Economic Cooperation (APEC) Agreements	497
■ NAFTA, CAFTA Not Working	498
The WTO and GATT	499
European Integration	500
Japan as a Neomercantilist Trading Partner	500
■ U.S.–Asia Trade Relationship	501
Conclusion	503
Review Questions	504

CHAPTER 21 International Finance 505

Introduction	505
The Balance of Payments	505
The Current Account	506
The Capital Account	508
■ U.S. Capital Flow Sustainability	508
The Financial Account	510
Balancing the Accounts	510
■ The U.S. Capital Account Surplus	511
Trade Deficits	512
Exchange Rates and the Balance of Payments	514

◆ THE BIG PICTURE Exchange Rates	514
The Dollar and the Euro	516
Determinants of Exchange Rates	516
The Value of the Dollar since the 1970s	520
■ Volatile Dollar May Not Be Scary to Washington	522
The Future of the International Financial System	524
■ Exchange Rate Systems: An Historical Perspective	525
Conclusion	528
Review Questions	528

CHAPTER 22 The Economics of Developing Nations 529

Introduction	529
Common Characteristics of Developing Nations	529
Global Poverty	530
Underdevelopment: The Reality and Significance	530
Basic Economic Problems of Developing Nations	531
■ Components of the Human Development Paradigm	532
Economic Growth	532
Population: Undermining Economic Growth	532
Macroeconomic Instability	534
International Trade	536
International Finance and Development	538
Environmental Problems	541
Explanations and Solutions for Underdevelopment	542
The Neoliberal Model	543
The Structuralist Model	543
The Dependency Model	544
Recent Economic Trends	545
■ Why Mexico's Small Corn Farmers Go Hungry	546
Conclusion	548
Review Questions	548

CHAPTER 23 Economies in Transition 550

Introduction	550
Looking Backward	550
Economic Systems Revisited: Capitalism and Socialism	552
■ Capitalism and Socialism	553
The End of the Cold War and the Movement Toward Economic Liberalization and Global Capitalism	553
■ A New World Economy	554
The People's Republic of China	563
The Coming Energy Revolution and the Challenge of Global Warming and Climate Change	565
■ The Energy [R]evolution	570

Sustainable Development and the Environmental Crisis	573
Global Restructuring and the Future of Capitalism	573
Conclusion	577
Review Questions	577
Thinking Critically: Globalization in the Twenty-First Century	578
■ The Future of Outsourcing	578
Glossary	587
Name Index	603
Subject Index	607