

Preface

Welcome to the ninth edition of *Macroeconomics*, North America's best-selling economics textbook. More than 7 million Canadian and U. S. students have now used this book. It has been adapted into Australian, Italian, Russian, and Chinese editions, and translated into French, Spanish, and other languages.

WHAT'S NEW AND IMPROVED?

We thoroughly revised, polished, and updated this edition. To use a software analogy, this is version 9.0, not 8.1 or 8.2. The comments of reviewers and survey correspondents provided encouragement, motivated improvements, and sparked innovation.

Streamlined Presentations

A major revision goal was to streamline presentations, where possible, without compromising the thoroughness of our explanations. Our efforts resulted in a more efficient organization and greater clarity. An example is Chapter 4, "An Overview of the Market System and the Canadian Economy," which is both shorter and better organized than before. You will find similar kinds of improvements throughout the ninth edition. Where needed, of course, the "extra sentence of explanation" remains a distinguishing characteristic of *Macroeconomics*. Brevity at the expense of clarity is a false economy.

Improved Content

The Ten Key Concepts, which appeared in the eighth edition, have been reinforced with margin icons when they are discussed later in the text. This serves to integrate the key concepts throughout the text. The order of Chapters 3 and 4 has been reversed, presenting demand and supply before the market system. Chapter 7 ("Introduction to Economic Growth, Unemployment, and Inflation") now discusses economic growth as well as unemployment and inflation.

We have simplified the presentation of the Aggregate Expenditures Model in Chapter 8, (Chapters 9 and 10 in the eighth edition) by focussing the graphical analysis on the aggregate expenditures-real output model rather than on both it and the leakage-injection model. This allowed us to eliminate the most difficult graphs in the exposition of the aggregate expenditure model. Instead, we now develop the equilibrium condition $C + I_g + X_n + G = \text{GDP}$ graphically and then simply use tables to demonstrate that two subsidiary equilibrium conditions are met: leakages = injections and unintended changes in inventories are zero. The chapter on deficits, surpluses, and the public debt is now Chapter 11, moved up from Chapter 19 in the eighth edition. This makes it easier to tie this chapter to the Fiscal Policy area, covered in Chapter 10.

Part Four is now labelled “The Long Run and Economic Growth.” The chapters are revised and reorganized to reflect the new title and emphasis. Chapter 15 extends the analysis of aggregate supply to the long run. Chapter 16 looks at economic growth and includes a complete discussion of the New Economy thesis.

Other New Topics and Revised Discussions

Along with the improvements just discussed, there are many other revisions. Here are some examples.

- *Part One.* *Chapter 1:* Changed terminology from *material wants* to *economic wants*; revised discussion of economic methodology, focussing on the scientific method. *Chapter 2:* Reorganized section on applications; greatly consolidated section on economic systems. *Chapter 3:* Provided several new examples, including increased demand for coffee drinks, soy-enhanced hamburger as an inferior good, increased supply of Internet service provision. *Chapter 4:* Includes new chapter title and introduction; revised section on competition to generalize beyond pure competition; the Five Fundamental Questions to consolidated to Four, with discussion explicitly organized around each; briefer chapter. *Chapter 5:* New Figure 5-3 showing the types of international flows (trade flows, resource flows, information and technology flows, and money flows); new discussion of the euro; expanded discussion of the WTO.
- *Part Two.* *Chapter 6:* Condensed introduction; improved explanation of inventory changes as investment; revised discussion of government purchases to reflect the consumption and gross investment portions as now accounted for in GDP. *Chapter 7:* Revised Global Perspective 7.1 to show comparable growth rates since 1990, as well as since 1950; reorganized discussion of the unemployment section; new Figure 7-4 shows inflation rates over the years rather than tracing out the CPI; revised discussion of redistribution and output effects of inflation. *Chapter 8:* Moved the section on the historical backdrop to the aggregate expenditures model to a new Last Word (Say’s Law, the Great Depression, and Keynes); simplified terminology and discussion of the role of inventory changes in achieving equilibrium; expanded the discussion of the wealth effect; consolidated the application on the Great Depression and added a new application on recession in Japan during the late 1990s. *Chapter 9:* Organized the discussion of changes in AD and AS around specific macro outcomes; added new section on simultaneous full employment, strong growth, and price stability. *Chapter 10:* Added new Figure 10-4 and a greatly revised and simplified discussion of the full-employment budget and the method of evaluating whether fiscal policy is neutral, contractionary, or expansionary. *Chapter 11:* New discussion of budget surpluses and policy options for using them; new Figure 11-4 shows the rising percentage of the Canadian population over 65.
- *Part Three.* *Chapter 12:* The section on “Recent Developments” now stresses consolidation among banks, the convergence of services among financial institutions, and electronic transactions. *Chapter 14:* Deleted peripheral content; added new discussion of the ineffectiveness of expansionary monetary policy in Japan.
- *Part Four.* *Chapter 15:* Significantly revised and condensed section on the inflation-unemployment relationship; consolidated discussion of supply-side

economics. *Chapter 16*: New Figure 16-3 links shifts in the production possibilities curve and the long-run AS curve; replaced the discussion of the productivity slowdown with a new section on productivity growth and the New Economy; new Global Perspective 16.2 shows growth competitiveness rankings of countries; brought the material on “Is growth desirable?” from the Last Word of the prior edition to the body in this edition.

- *Part Five. Chapter 17*: Shortened this chapter; added new section on the WTO. *Chapter 18*: Eliminated the balance sheets in explaining the financing of export and import transactions; updated the discussion of the managed floating system in view of significant bailouts by the IMF and currency interventions by major countries.

Special Internet-Only Chapters

Three special Internet chapters: “Disputes Over Macro Theory and Policy,” “The Economics of Developing Countries,” and “Economies in Transition: Russia and China” are available for free at our Web site, www.mcgrawhill.ca/college/mcconnell9. These chapters contain all the features of regular chapters, in readable Adobe format, and can be printed if desired

Internet Math Notes

Although most students in the principles course have only modest math skills, a few have taken advanced high school courses in mathematics. For the latter group, seeing the algebra and, in a few cases, the calculus behind the economics is highly revealing and useful. For those students, we have included on our Web site a set of math notes. Written by Professor Peterson, these notes are creative, concise, and to the point. They undoubtedly will enhance the educational experience for math-minded students.

DISTINGUISHING FEATURES

This text embraces a number of distinguishing features.

- *Comprehensive Explanations at an Appropriate Level.* *Macroeconomics* is comprehensive, analytical, and challenging yet fully accessible to a wide range of students. Its thoroughness and accessibility enable instructors to select topics for special classroom emphasis with confidence that students can read and comprehend independently other assigned material in the book.
- *Fundamentals of the Market System.* Many economies throughout the world are making the difficult transition from central planning to market economies. Our detailed description of the institutions and operation of the *market system* in Chapter 4 is even more relevant than before. We pay particular attention to property rights, entrepreneurship, freedom of enterprise and choice, competition, and the role of profits because these concepts are poorly understood by beginning students.
- *Early Integration of International Macroeconomics.* We give the principles and institutions of the global economy early treatment. Chapter 5 examines the growth of world trade, the major participants in world trade, specialization and comparative advantage, the foreign exchange market, tariffs and subsidies,

and various trade agreements. This strong introduction to international economics permits an earlier and ongoing discussion of the “globalization theme.”

- *Early and Extensive Treatment of Government.* Government is an integral component of modern capitalism. This book introduces the economic functions of government early and accords them systematic treatment in Chapter 4. Government’s role in promoting full employment, price-level stability, and economic growth is central to the macroeconomic policy chapters.
- *Building-block Approach* We systematically present macroeconomics by
 - Establishing the real GDP concept and previewing economic growth, unemployment, and inflation
 - Building the aggregate expenditures model (AE model)
 - Developing the aggregate demand–aggregate supply model (AD-AS model)
 - Using the AD-AS model to discuss fiscal policy
 - Introducing monetary considerations into the AD-AS model
 - Using the AD-AS model to discuss monetary policy
 - Extending the AD-AS model by distinguishing between short-run and long-run aggregate supply
 - Applying the “long-run AD-AS model” to macroeconomic instability, economic growth, and disagreements on macro theory and policy.
 - Showing the derivation of the AD model from the AE model in a separate appendix to Chapter 9
- *Emphasis on Technological Change and Economic Growth* This edition continues to emphasize economic growth. Chapter 2 uses the production possibilities curve to show the basic ingredients of growth. Chapter 7 explains how growth is measured and presents the facts of growth. Chapter 16 discusses the causes of growth, looks at productivity growth and the New Economy, and addresses some of the controversies surrounding economic growth. The Internet Chapter on the less developed countries focusses on the growth obstacles they confront. The Internet Chapter on Transition Economies looks at growth in the transition economies of Russia and China.

Flexible Organization and Content

Macroeconomics reflects the challenge that specific topics and concepts will likely pose for average students. For instance, macro output and price-level determination are carefully treated. Here, simplicity is correlated with comprehensiveness, not brevity.

Our experience suggests that in treating each basic topic—aggregate demand and aggregate supply, money and banking, and international economics—it is desirable to couple analysis with policy. Generally, we use a three-step development of analytical tools: (1) verbal descriptions and illustrations, (2) numerical examples, and (3) graphical presentation based on these numerical illustrations.

All these considerations caused us to organized the book into five parts: Part One: An Introduction to Macroeconomics and the Economy; Part Two: National Income, Employment, and Fiscal Policy; Part Three: Money, Banking, and Monetary Policy;

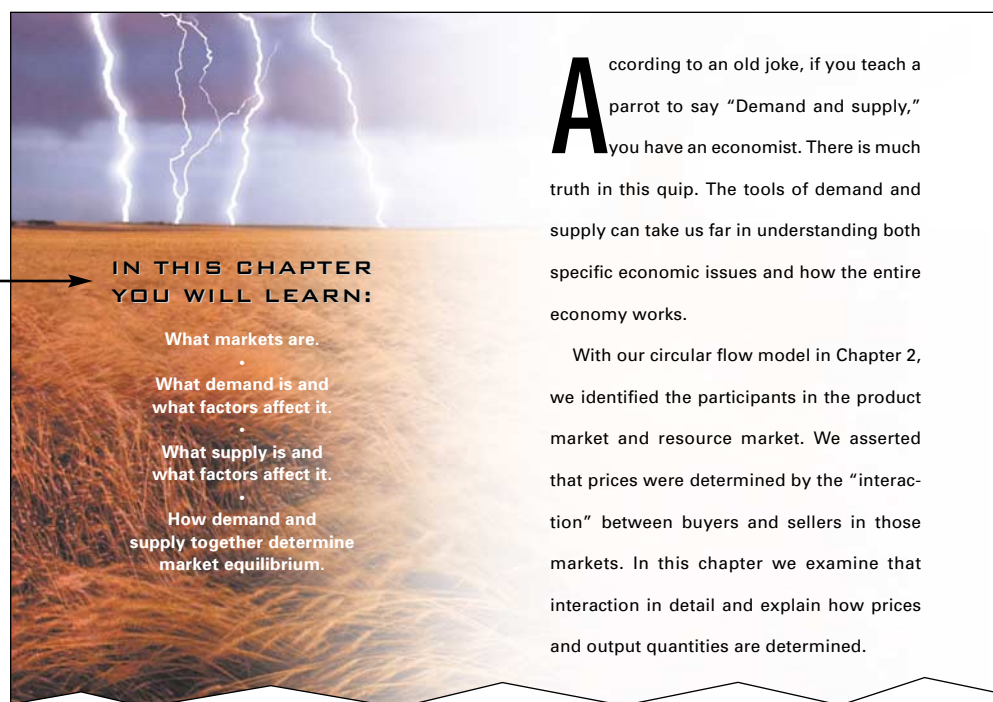
Part Four: The Long Run and Economic Growth; and Part Five: International Economics and the World Economy.

Although instructors generally agree as to the content of a principles of macroeconomics course, they often differ as to how to arrange the material. *Macroeconomics* provides considerable organizational flexibility. Our current users tell us they often substantially rearrange chapters with little sacrifice of continuity. Changes to the ninth edition make this even easier. For example, the AD-AS model appears in Chapter 9, after the chapter on aggregate expenditure analysis. Those who want to rely exclusively on AD-AS can omit Chapter 8, supplementing the AD analysis with a discussion of investment demand and the multiplier implicit within shifts of the AD curve in the appendix to Chapter 9.

PEDAGOGICAL AIDS FOR STUDENTS

Macroeconomics has always been student oriented. Economics is concerned with efficiency—accomplishing goals using the best methods. Therefore, we offer the student some brief introductory comments on how to improve their efficiency and hence their grades.

- *In This Chapter You Will Learn* We set out the learning objectives at the start of each chapter so the chapter's main concepts can easily be recognized.



IN THIS CHAPTER YOU WILL LEARN:

- What markets are.
- What demand is and what factors affect it.
- What supply is and what factors affect it.
- How demand and supply together determine market equilibrium.

According to an old joke, if you teach a parrot to say “Demand and supply,” you have an economist. There is much truth in this quip. The tools of demand and supply can take us far in understanding both specific economic issues and how the entire economy works.

With our circular flow model in Chapter 2, we identified the participants in the product market and resource market. We asserted that prices were determined by the “interaction” between buyers and sellers in those markets. In this chapter we examine that interaction in detail and explain how prices and output quantities are determined.



- **Web Links** New to this edition are the addition of Web site references, a key research tool directing students to Web sites that tie into the chapter material.
- **Terminology** A significant portion of any introductory course is terminology. In this edition key terms are highlighted in bold type the first time they appear in the text. Key terms are defined in the margin and a comprehensive list appears at the end of each chapter. A glossary of definitions can also be found at the end of the book and on the Web site.
- **Ten Key Concepts** Ten Key Concepts have been identified to help students organize the main principles. The Ten Key Concepts are introduced in Chapter 1 and are reinforced throughout the textbook with an icon.



TRADEOFFS AND OPPORTUNITY COSTS

Many current controversies illustrate the tradeoffs and opportunity costs indicated in movements along a particular production possibilities curve. (Any two categories of “output” can be placed on the axes of production possibilities curves.) Should scenic land be used for logging and mining or preserved as wilderness? If the land is used for logging and mining, the opportunity cost is the forgone benefits of wilderness. If the land is used for wilderness, the opportunity cost is the lost value of the wood and minerals that society forgoes.

Should society devote more resources to the criminal justice system (police, courts, and prisons) or to education (teachers, books, and schools)? If society devotes more resources to the criminal justice system, other things equal, the opportunity cost is forgone improvements in education. If more resources are allocated to education, the opportunity cost is the forgone benefits from an improved criminal justice system.

- **Data updates** can be found on the Web site www.mcgrawhill.ca/college/mcconnell9 for selected Tables and Figures.

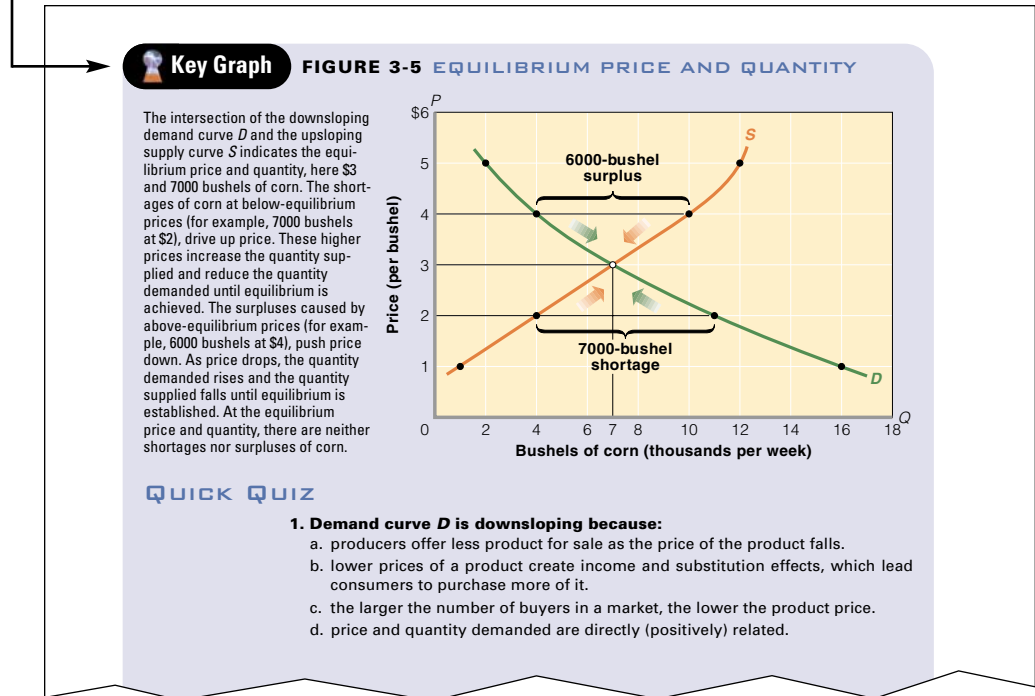
TABLE 5-1 PRINCIPAL CANADIAN EXPORTS AND IMPORTS OF GOODS, 2000

Exports	% of Total	Imports	% of Total
Machinery and equipment	25	Machinery and equipment	34
Automotive products	23	Automotive products	21
Industrial goods and materials	15	Industrial goods and materials	19
Forestry products	10	Consumer goods	11
Energy products	13	Agricultural and fishing products	5
Agricultural and fishing products	7	Energy products	5

Source: Statistics Canada, www.statisticscanada.ca/english/Pgdb/Economy/International/gblec05.htm
 Visit www.mcgrawhill.ca/college/mcconnell9 for data update.



- **Key Graphs** We have labelled graphs having special relevance as **Key Graphs**. There is a quick quiz of four questions related to each Key Graph, with answers provided at the bottom of the graph.



- **Interactive Graphs (Java Applets)** Developed under the supervision of Norris Peterson of Pacific Lutheran University, this interactive feature depicts major graphs and instructs students to shift the curves, observe the outcomes, and derive relevant generalizations. For selected Key Graphs, Java Applets are available on the McConnell Web site, www.mcgrawhill.ca/college/mcconnell9.

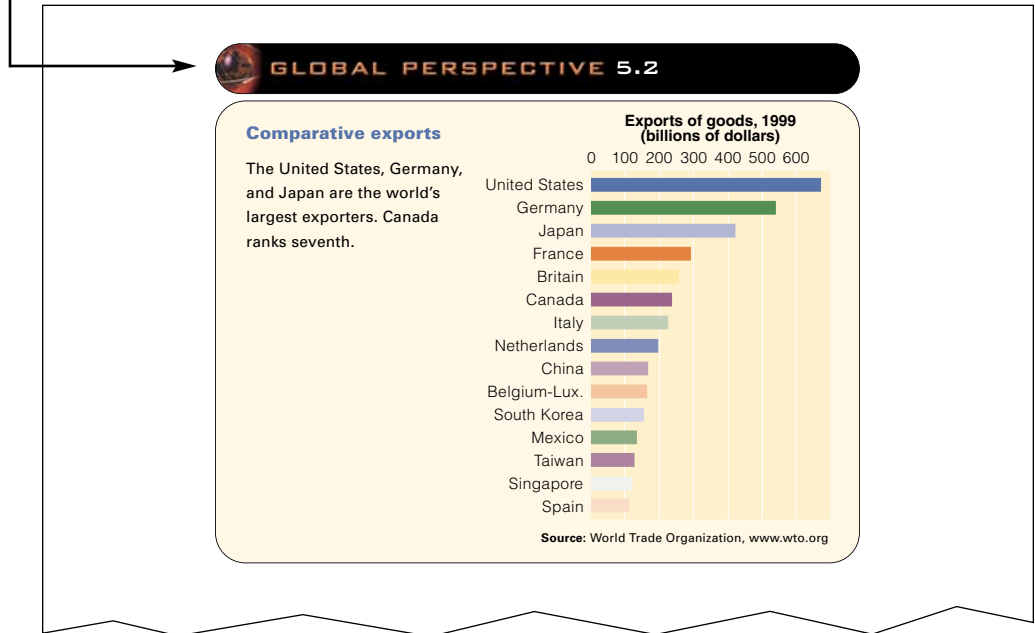
- **Reviewing the chapter** Important things should be said more than once. You will find a **Chapter Summary** at the conclusion of every chapter as well as two or three **Quick Reviews** within each chapter. These review statements will help you to focus on the essential ideas of each chapter and also to study for exams.

QUICK REVIEW

- The market system requires private ownership of property, freedom of enterprise, freedom of choice, and limited government.
- The market system permits economic entities—business, resource suppliers, and consumers—

- to pursue and further their self-interest. It prevents any single economic entity from dictating the prices of products or resources.
- The coordinating mechanism of the market system is a system of markets and prices.

- *Global Perspective boxes* Each nation functions increasingly in a global economy. To gain appreciation of this wider economic environment, be sure to take a look at the **Global Perspectives** features, which compare Canada to other nations.



- *Appendix on graphs* Being comfortable with graphical analysis and a few related quantitative concepts will be a big advantage to students in understanding the principles of economics. The appendix to Chapter 1, which reviews graphing, line slopes, and linear equations, should not be skipped.
- *New Last Words* About one-third of the Last Word boxes are new and others have been revised and updated. Some Last Words reveal applications of economic concepts, some are short case studies, and still others present views that contrast with mainstream thinking. All will deepen and broaden your grasp of economics. The new topics include the remarkable organizational ability of markets (Chapter 4, see page 95); Say's Law, the Great Depression, and Keynes (Chapter 8, see page 220); and the diminished impact of oil prices (Chapter 15, see page 374).

The LAST word

HAS THE IMPACT OF OIL PRICES DIMINISHED?

Significant changes in oil prices historically have had major impacts on the Canadian economy. Have the effects of such changes weakened?

Canada and other industrial countries have experienced several aggregate supply shocks caused by significant changes in oil prices. Major increases in oil prices occurred in the mid-1970s and then again in the late 1970s. In the late 1980s and through

The increased oil prices were immediately felt at the gasoline pump as gasoline prices rose significantly. Some economists feared that the rising price of oil would so increase energy prices as to shift the Canadian aggregate supply curve to the left, creating

Indeed, under heavy pressure from the buying nations, OPEC agreed in 2000 to boost output. By the end of 2000, oil prices had declined to about U.S. \$25 a barrel. Under the initial expectation of soon to be lower oil prices, many manufact-

- **Study Questions** A comprehensive list of questions is located at the end of each chapter. The old cliché that you “learn by doing” is very relevant to economics. Use of these questions will enhance your understanding. We designate several of them as “Key Questions” and answer them in the Study Guide.
- **Internet Application Questions** Students are presented with questions to explore on the Internet relevant to the topic discussed in the chapter. From the McConnell Web site, www.mcgrawhill.ca/college/mcconnell9, students will find direct links to the Web sites included in these questions.

INTERNET APPLICATION QUESTIONS

1. **Monetary Aggregates** Visit the Bank of Canada www.bank-banque-canada.ca/ and click on “Rates and Statistics,” then click on “Weekly Financial Statistics.” Find the seasonally adjusted data for *M1*, *M2*, and *M2+* for the most recent month.
2. **Everything You Wanted to Know about Canadian Currency but Were Afraid to Ask** Visit the Bank of Canada www.bank-banque-canada.ca/ and click “Currency” then click “Currency Museum.” Search for Canada’s First Coinage and Canada’s First Notes. What denomination were they?



- **Origin of the Idea** These brief histories, which can be found on the Web site, were written by Randy Grant of Linfield College and examine the origins of major ideas identified in the book. Students will find it interesting to learn about the person who first developed such ideas as opportunity costs, equilibrium price, the multiplier, comparative advantage, and elasticity.

SUPPLEMENTS FOR INSTRUCTORS

- **The Instructor Online Learning Centre** (www.mcgrawhill.ca/college/mcconnell9) includes a password-protected Web site for instructors. The site offers downloadable supplements and PageOut, the McGraw-Hill Ryerson course Web site development centre.
- **Instructor’s Resource Manual** Thomas Barbiero, Ryerson University, has revised and updated the *Instructor’s Resource Manual*. It includes chapter summaries, listings of “what’s new” in each chapter, teaching tips and suggestions, learning objectives, chapter outlines, data and visual aid sources with suggestions for classroom use, and questions and problems.
- **Microsoft® PowerPoint® Slide Powernotes** Prepared by Judith Skuce, Georgian College, this presentation system is found on the Instructor’s CD-ROM and on the Online Learning Centre. It offers visual presentations that may be edited and manipulated to fit a particular course format. They have been significantly revised for this edition and contain many animated graphs and figures that have been imported from Excel.
- **Test Bank 1** Prepared by Nargess Kayhani, Mount St. Vincent University, the test bank includes more than 5400 questions and is available in printed format and the electronic format can be found on the Instructor’s CD-ROM.

- Also available from the U.S. supplement list are:
 - *U.S. Test Bank II* Written by William Walstad, this test bank contains more than 5200 questions. All Test Bank II questions are categorized according to level of difficulty: easy, moderate, or difficult.
 - *U.S. Test Bank III* Also prepared by William Walstad, this test bank contains “constructive response” testing to evaluate student understanding in a manner different from conventional multiple-choice and true-false questions. Suggested answers to the essay and problem questions are included.
- *Instructor’s Resource CD-ROM* The CD-ROM contains everything the instructor needs for a multimedia lecture:
 - *Electronic Instructor’s Resource Manual* Available in this edition is an MS-WORD version of the Manual. Instructors can print out portions of the manual’s contents, complete with their own additions and alterations, for use as student handouts or in whatever ways they wish. This capability includes printing out answers to the end-of-chapter questions.
 - *Microsoft® PowerPoint® Slide Presentation*
 - *Computerized Test Bank* The Brownstone Diploma Testing System offers the test items for Microeconomics and Macroeconomics on CD-ROM.
- *CBC Video Cases* Accompanying the text is a series of video segments prepared by Bruno Fullone and Morris Marshall, George Brown College. Four are on microeconomics and four are on macroeconomics, drawn from CBC broadcasts of *Undercurrents*, *The National*, *Current Affairs*, and *Venture*. These videos have been chosen to aid students in relating real-world economic issues to the text, and to illuminate key ideas and concepts presented in the text. A set of instructor notes accompanies the segments and will be available at the Instructor Online Learning Centre. The video segments will be available in a VHS format for use in class and through video-streaming on the Online Learning Centre accessible by both instructors and students.
- *PageOut* Visit www.mhhe.com/pageout to create a Web page for your course using our resources. PageOut is the McGraw-Hill Ryerson Web site development centre. This Web page generation software is free to adopters and is designed to help faculty create an online course, complete with assignments, quizzes, links to relevant Web sites, lecture notes, and more in a matter of minutes.
- In addition, content cartridges are also available for course management systems, such as WebCT and Blackboard. These platforms provide instructors with more user friendly, flexible teaching tools. Please contact your local McGraw-Hill Ryerson sales representative for additional information.



SUPPLEMENTS FOR STUDENTS

- *Study Guide* (ISBN#0-07-088671-7) Torben Andersen, Chairperson of Humanities and Social Sciences at Red Deer College, revised the ninth edition of the *Study Guide*, which many students find indispensable. Each chapter contains an introductory statement, a checklist of behavioural objectives, an outline, a list of important terms, fill-in questions, problems and projects, objective questions, and discussion questions. The answers to both *Macroeconomics'* and *Microeconomics'* end-of-chapter Key Questions appear at the end of the corresponding *Study Guide*. The *Guide* comprises a superb “portable tutor” for the principles student.
- *DiscoverEcon* (ISBN# 0-07-246135-7) Developed by Jerry Nelson at the University of Illinois-Champaign/Urbana, *DiscoverEcon* is available in a CD format or on the Web site for those who purchase a code. This menu-driven software provides students with a complete tutorial linked to the text. Each chapter features two essay questions, interactive graphs, a multiple-choice test bank, and links to the glossary—all tied cohesively to the textbook.
- *Online Learning Centre* Here students will find self-grading Quiz Questions, Internet Application Questions, Annotated Web links, and student projects or cases (prepared by Morris Marshall of George Brown College)—all specific to *Macroeconomics*. For the math-minded student, there are **Internet Math Notes**, which explore more deeply the mathematical detail of the concepts in the text. There are also three bonus chapters on the Web titled “Disputes Over Macro Theory and Policy,” “The Economics of Developing Countries,” and “Transition Economies: Russia and China.” For more information on the Online Learning Centre, see page xxvi.)

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