

Preface for the Professor

“Imagine . . . a textbook that students enjoy!”

That comment, from Glen Waddell, who teaches at Purdue, was e-mailed to me as I was struggling to write the preface to an earlier edition. That comment still captures what I believe to be the most distinctive feature of my book. I’ve always felt that the books students read in their courses should speak to them and be as enjoyable as possible to read. Those beliefs continue to be the guiding principle for my writing.

For Those Who Are New to the Book

For those of you who haven’t used earlier editions, let me briefly describe where I see this book fitting in the panoply of top-selling books. Principles books are often categorized as old-style or new-style. In old-style books, short-run stabilization comes before growth; generally the flavor is Keynesian activist macro policy. New-style books do growth before stabilization, often with little coverage of stabilization issues, such as multiplier analysis; these new-style books generally have a Classical laissez-faire, macro-policy flavor.

This book is new-style in organization—it puts the long run first—but it is not new-style in terms of coverage; it presents stabilization as an important issue, and it doesn’t have that laissez-faire flavor of some new-style books. I like to think of the flavor of this book as neither old- nor new-style, but instead cutting-edge style. Much of the conceptual foundations for the theory underlying it are derived from the new work in behavioral economics, nonlinear dynamics, complexity, and strategic game theory.

The Cutting-Edge Style

Within this cutting-edge style work, everything is less certain than in either the new- or the old-style theory. Cutting-edge theory recognizes that Keynes and Keynesians had some important policy insights that need to be part of what we teach. However, it also recognizes that much of Keynesian policy was oversold, and that Keynesians underestimated government failure. So while theory may not tell us that laissez-faire is a desirable policy, a study of history and politics and the complexity of the system warns us about activist policy, even when our hearts tell us that government action is needed. Both these views show through in the presentations.

The Colloquial Style

Another way in which principles books are classified is on the easy–medium–difficult spectrum. This book is defi-

nately in the medium range. Based on writing style alone, it would probably be placed in the easy range, but since it tackles difficult conceptual topics that will challenge even the brightest students, it should be considered a medium-range text. Why do I choose that combination? Because I believe that most students have the ability to understand economic concepts even though on exams it often appears as if they have serious problems. In my opinion many of those problems are not conceptual; rather, they are problems in motivation, reading, and math. The economics found in principles courses is not students’ highest priority; it certainly wasn’t mine when I was 18. I’m continually amazed at how many supposedly not-so-good students are conceptually bright. The reality is that most principles books bore this MTV generation. To teach them effectively, we’ve got to get their attention and hold it.

One way I try to get students’ attention is to use a colloquial style. The book talks to students and makes them feel that the textbook is a second teacher who is urging them on to study harder, and trying to explain the material to them. That colloquial style helps with one of the biggest problems in the course—getting students to read the book. Some professors don’t always like the style, but even some of them have written to me to say that they use the book anyway because their students read it. And if the students have read the book, teaching is more rewarding.

A Focus on Policy

Another way the book relates to students is through its focus on policy. This book is not written for future economics majors. Most students aren’t going to go on in economics. It is written for students who will probably take only one or two economics courses in their lifetime. These students are interested in policy, so I present the basics of economic reasoning as it relates to policy questions. This discussion presents policy as students see it in the news: policy questions are seldom clear-cut; a book that presents policy any other way is unfair to students.

Institutions and History

This book also differs from some of the others in that it emphasizes the importance of institutions and history. Modern work in game theory and strategic decision making is making it clear that the implications of economic reasoning depend on the institutional setting. To understand economics requires an understanding of

existing institutions and the historical development of those institutions. In a principles course, while we don't have time to present much about history and institutions, we can at least let students know that these issues are important. And that's what I try to do.

Openness to Various Views

While I present standard economics in the book, I present it in such a way that it is open to many different points of view. Thus, the book doesn't present the material as "the truth" but simply as the conventional wisdom, the learning of which is a useful hurdle for all students to jump over. To encourage students to question conventional wisdom, in this edition I've added a new set of questions at the end of each chapter—Questions from Alternative Perspectives—which includes questions written by economists from a variety of different perspectives. These include Post-Keynesian, feminist, Austrian, Radical, Institutionalist, and religious questions. The radical questions come from the Dollars and Sense Collective, a group with whom I've worked to coordinate their *Readers* (www.dollarsandsense.org/bookstore.html) with this text. I also often integrate Austrian ideas into my class; I find that *The Free Market* (www.mises.org/freemarket.asp) is a provocative resource. I often pair an article in *The Free Market* with one in *Dollars and Sense* in my assignments to students for supplementary reading. Having students read both Radical and Austrian views and then contrasting those views with their own, generally middle-of-the-road, views is, for me, a perfect way of teaching the principles course. (If I have radicals and libertarians in the class, I argue in favor of middle-of-the-road views.) If you like to teach the course emphasizing alternative views, you might want to assign the brief survey of different approaches to economics in the "Preface for the Student" close to the beginning of the course, and then have the students answer, or at least discuss, the alternative perspective questions at the end of each chapter.

For Those Who Have Used the Book Before

Those of you who have used earlier editions will find that this sixth edition has the same basic structure and tone as the fifth. The reason is that the book has reached an equilibrium—I made the book consistent with the standard presentations, but I also have kept enough of the historical and institutional approaches, and enough of the informal, student-friendly writing style, to make the book distinctive. I guess the process of

reviewing and rewriting does finally lead to something like a steady-state equilibrium.

This is not the book I would have written for myself (my perspective often strays from conventional wisdom), but it is a book that I'm proud of, and one that reflects my views given the constraints of the market. Since optimizing subject to constraints is a central lesson of economics, it's not surprising that I would take that approach in writing this book.

Still, I want students to question everything and understand that economics is far more than what is presented in a textbook. Thus, I continually search for ways to challenge them to question. One of my latest attempts is to put together a book of essays that explores what we economists teach and why we teach it. The book is called *The Stories Economists Tell*. You can find the introductory essay to that book on the book's Web site (www.mhhe.com/economics/colander6). If you are considering using my textbook for your class and want to know more about my views on teaching economics, you can get a free copy of the book by contacting your McGraw-Hill representative.

Changes from the Last Edition

Although the structure of the chapters did not change significantly, the revision is substantial. The largest set of changes involves a significant increase in the coverage of global issues, especially as they relate to outsourcing. Students are thinking about these issues, and I felt that they should be dealt with fully. Thus, Chapters 2 and 3 have more coverage of global issues, and Chapters 6 and 18 return to the issue of outsourcing and contrast the layperson's view of outsourcing and trade with the economist's view to make the policy issues clear to students.

I added new end-of-chapter questions and problems and exercises and also updated facts, figures, and discussions to keep the book as up-to-date and relevant as possible. The economy and economics are constantly evolving, which means that the texts must change to reflect the changing institutions and events, presentation of data, and evolving thinking of the profession. To make room for the new questions, I removed the answers to even-numbered questions from the text and placed them on the Web site and in the Study Guide.

The final major change is the addition of alternative perspective questions to each chapter. These are designed to encourage the student to think more deeply about issues than do the standard questions, and to introduce a broader pluralism into the teaching of the standard material.

Changes by Chapter¹

- Chapter 1 (Economics and Economic Reasoning): I updated the chapter and added four new questions for thought and review and six new problems and exercises.
- Chapter 2 (Trade, Trade-Offs, and Government Policy): I simplified the graphical presentation of comparative advantage and added a discussion of how outsourcing is part of a global process guided by the law of one price, with specific reference to the situation in the United States.
- Chapter 3 (The Evolving U.S. Economy in Perspective): I added a new section on “Globalization and the Law of One Price” that continues the discussion begun in Chapter 2 about outsourcing by introducing the concept of convergence.
- Chapter 4 (Supply and Demand): The chapter is updated with new examples, two new questions for thought and review, and four new problems and exercises.
- Chapter 5 (Using Supply and Demand): The chapter has been updated for the changing price of the euro. I added three new questions for thought and review and seven new problems and exercises.
- Chapter 6 (Economic Growth, Business Cycles, Unemployment, and Inflation): I added a new section on prospects for future U.S. growth. I added coincident and lagging indicators to leading indicators and discussed the nature of deflation. I also added an explicit formula that students can use to calculate the percent change in real output. The appendix on nonmainstream approaches to macro was deleted because that discussion is now integrated into the new Preface for Students. Two new margin questions and two new questions for thought and review were added.
- Chapter 7 (National Income Accounting): All the data were updated and I added the formula for calculating the GDP deflator to make the calculations easier for students. I also made adjustments to account for comprehensive NIPA revisions.
- Chapter 8 (Growth, Productivity, and the Wealth of Nations): I added a discussion of the convergence hypothesis and connected this discussion with the earlier discussions on globalization and outsourcing. I also added a discussion of the work of economist Hernando DeSoto and

how the lack of formal property rights, along with excess bureaucracy and corruption, can limit development. Two new questions for thought and review and two new problems and exercises were added.

- Chapter 9 (Aggregate Demand, Aggregate Supply, and Modern Macroeconomics): I simplified the discussion of the slope of the short-run aggregate supply curve and clarified the discussion of the interest rate effect.
- Chapter 10 (The Multiplier Model): I redrew the graph showing the workings of the multiplier model to make it easier for the student to follow.
- Chapter 11 (Money, Banking, and the Financial Sector): I added a discussion of the distinction between real and nominal interest rates and discussed the increasing role of debit cards. I added three new questions for thought and review and two new problems and exercises.
- Chapter 12 (Monetary Policy and the Debate about Macro Policy): I updated the discussion of central banks in other countries to include the People’s Bank of China and added a new problem and exercise.
- Chapter 13 (Inflation and Its Relationship to Unemployment and Growth): This chapter is mostly unchanged other than for updated discussions, but I did add a new question for thought and review.
- Chapter 14 (Aggregate Demand Policy in Perspective): I added a discussion of formula flexibility in fiscal policy and a new question for thought and review.
- Chapter 15 (Politics, Deficits, and Debt): I modified the chapter introduction to reflect large budget deficits in recent years. I added a section entitled “Projections for the Deficit” along with a new section on privatizing Social Security.
- Chapter 16 (Macro Policies in Developing Countries): This chapter is mostly unchanged; I added a new problem and exercise.
- Chapter 17 (International Trade Policy, Comparative Advantage, and Outsourcing): This chapter has significant changes. I incorporated the appendix into the chapter so that it includes a graphical presentation of comparative advantage. I’ve also added a discussion of outsourcing and the U.S. economy and explained how the outsourcing debate integrates into the theory of comparative advantage, and how the next decade will likely play out in our trade relations. To do this I introduced two new terms, inherent sources of comparative advantage and transferable sources of comparative advantage. Finally, I incorporated the new discussion into the text with six new questions for

¹A more in-depth discussion of the changes can be found on the professor’s portion of the book’s Web site (www.mhhe.com/economics/colander6).

thought and review and five new problems and exercises.

- Chapter 18 (International Financial Policy): This chapter, along with Chapter 19, was reorganized to improve the flow and teachability. I moved the discussion of the effect of policy on the exchange rate to this chapter. To make room for that discussion, I deleted the Argentinean case study. I updated the balance of payments discussion to fit with the new presentation of international accounts in which the former capital account is now called the “financial and capital account.” I also updated the discussion of the EU and added a discussion of real exchange rates. Finally, I added nine new questions for thought and review and two new problems and exercises
- Chapter 19 (Macro Policy in a Global Setting): I modified the introduction to focus on more recent events. I moved material on the effect of macro policy on exchange rates to Chapter 18. I added a new section on “Balancing the Exchange Rate Goal with Domestic Goals” along with a discussion about how a goal of reducing the record U.S. trade deficit put pressure on the United States to run contractionary macro policy. I added a new section, “Globalization, Macro Policy, and the U.S. Economy.” Finally, I added three new questions for thought and review and two new problems and exercises.

A Final Comment

A number of my friends keep asking me why I spend so much thought and time on what goes into the book. The answer is that I care about teaching economic ideas, which I think is the most important job that society has assigned to academic economists. Research is nice, but good teaching is priceless, and if the writing and the ideas in this book contribute to good teaching, then I’m happy. As I get older, I find that I’m happier with less grandiose goals, and to have turned a few students on to economics seems like a worthwhile legacy.

Ancillaries

All reviewers agreed that the fifth edition’s ancillaries were top rate. We have continued to work hard to maintain that level of excellence in this sixth edition.

Study Guide

This guide—written by myself, Douglas Copeland of Johnson County Community College, and Jenifer Gamber—reviews the main concepts from each chapter and applies those concepts in a variety of ways: short-answer ques-

tions, matching terms with definitions, problems and applications, a brainteaser, multiple-choice questions, and potential essay questions. Since students learn best not by just knowing the right answer but by understanding how to get there, each answer comes with an explanation. Student will also find the answers to the even-numbered end-of-chapter questions. Timed cumulative pretests help students prepare for exams.

Instructor’s Manual

In the sixth edition, Tom Adams of Sacramento City College continues to maintain the high standard set in previous editions. Class preparation is easier than ever. “Chapter Overview” and “What’s New” provide a quick review of each chapter. “What’s New” will be invaluable when modifying lecture notes to fit the new edition. The manual provides you with comprehensive lecture outlines, but it also offers help for inevitable classroom trouble spots. “Discussion Starters” will help engage students and keep them thinking. “Tips for Teaching Large Sections,” written by Gail Hoyt of the University of Kentucky for micro and Dave Colander for macro, offers innovative ideas for teaching very large classes. “Student Stumbling Blocks” provides additional explanations or examples that help clarify difficult concepts. “Ties to the Tools” helps bring those text boxes into the classroom; a comprehensive list of relevant URLs brings the Internet in, too. Every chapter’s 10-question “Pop Quiz” will help students prepare for exams. The “Case Studies” provide contemporary, real-world economic examples. The entire instructor’s manual is available in print, on the Instructor’s Resource CD-ROM, and on the Colander Web site.

Test Banks

Robert Schenk of Saint Joseph’s College of Indiana with the help of James DeVault of Lafayette College and Susan Dadres of Southern Methodist University revised Test Banks A and B (the 10,500-question multiple-choice test banks). Each question is categorized by chapter learning objective; level of difficulty (easy, medium, hard); skill being tested (recall, comprehension, application); and type of question (word problem, calculation, graph). Approximately 20 percent of the questions are new or revised. In addition, James Chasey has tagged the questions that are best suited for a high school AP course.

Questions were reviewed by professors and each new question was reviewed by Jenifer Gamber and myself for accuracy, clarity, and consistency with the textbook. They are available in print form and in the EZ Test electronic test-generating system on the Instructor’s Resource CD-ROM.

Test Bank C, revised by Dave Horlacher of Middlebury College, now consists of approximately 600 short-answer questions, essay questions, and graphical and mathematical problems. Questions vary in level of difficulty and type of skill being tested. Test Bank C is available in print and on the Instructor's Resource CD-ROM.

Problem Sets

Thomas Swanke of Chadron State College and John Blair and Carole Endres of Wright State University have written a Student Problem Set, a new ancillary with this edition. Each chapter has its own set of 7–10 problems that professors can assign for class. Problem sets give students the opportunity to work with the numbers, formulas, and graphs in the textbook. Most of the problems require working with numbers and graphs, but they also emphasize thinking by the students. These problems emphasize the core concepts in each chapter and provide further preparation for quizzes and tests. An answer key for the problem sets is available for professors on the book's Web site.

DiscoverEcon with Paul Solman Videos

A video and software program, the DiscoverEcon student online tutorial, accessible at www.discoverecon.com/colander6, is available with every new copy of the sixth edition text. Developed by Gerald C. Nelson of the University of Illinois at Urbana-Champaign, this fully updated and enhanced version of DiscoverEcon with Paul Solman Videos features new learning opportunities for students and easy integration into existing courses for the instructor. The syllabus development tool allows instructors to create interactive syllabi by linking DiscoverEcon exercises, special Web sites, and Solman Videos to their class syllabus. Students can submit exercise results directly to their professor using the e-submission function. DiscoverEcon provides professors with easy-to-use course management options and pedagogically sound, self-grading exercises for homework assignments.

The software acts like an interactive text; software chapters parallel text chapters and software pages include specific page references to the text. All DiscoverEcon chapters contain a multiple-choice quiz, discussion questions with online links, and match-the-terms exercises. Interactive graphs, animated charts, and live tables let students manipulate variables and study the outcomes. The program provides links to videos created by Paul Solman of *The NewsHour with Jim Lehrer*. This video component consists of more than 30 short video segments. Each 5- to 10-minute video explains a key economic idea such as economic growth, elasticity, and production possibilities in a memorable accessible way.

Access to DiscoverEcon with Paul Solman Videos is accessible online, via a password code card available with each new text.

PowerPoint Presentation

Doris Bennett of Jacksonville State University has prepared an extensive slide program that includes all text exhibits and key concepts. It is available on the Instructor's Resource CD-ROM and on our Web site.

Overhead Transparencies

We offer all key text exhibits in full-color acetate form for use with overhead projectors.

Economics Web Newsletter

This electronic newsletter contains 10 questions related to current economic events that can be used as an in-class quiz and reprints one recent *Wall Street Journal* article along with 5 in-depth questions (and answers) that are tied to specific text chapters. Seven new exercises are added each semester.

Classic Readings in Economics

This collection includes selections from the writings of economists, such as Smith, Marx, Hayek, and Veblen, who have raised questions that changed the direction of economic thinking. This material is especially useful for courses that stress the importance of economic ideas.

Dollars and Sense Readers

While not directly an ancillary to the book, the *Dollars and Sense* readers are annotated to fit with chapters of this book for professors who want to supplement the text with a radical perspective. This book can be ordered as a package with this book. Just contact your McGraw-Hill representative.

Economics: An Honors Companion

The *Honors Companion* presents mathematical techniques that underlie numerous basic economic concepts. It presupposes a solid student background in algebra and geometry and some familiarity with basic calculus, thereby giving *Macroeconomics, Sixth Edition*, flexibility for use in more rigorous classes.

Package Pricing

To help lower costs of using ancillaries, McGraw-Hill has developed a variety of separate packages in which the book can be bought together with the ancillaries for a price that is close to the price of the book alone. Each of these packages has a separate ISBN number. For information on these packages contact your

McGraw-Hill sales representative, or Marty Quinn at martin_quinn@mcgraw-hill.com.

More Questions from Alternative Perspectives

As I said above, I am happy to be including questions from alternative perspectives in this edition. I, together with a group of economists from a variety of alternative perspectives, will be working on expanding this feature into a full-length book over the next couple of years. The hope is to include as many different perspectives as possible. I've already recruited a number of contributors from a variety of perspectives—Radical, Austrian, feminist, Institutional, and Post-Keynesians, and contributions from religious-oriented economists. As we develop this feature, I hope to expand this group considerably, so that we have a truly pluralistic selection of questions. As these questions are developed and refined, we will post them on the book Web site. If you would like to contribute to these alternative perspectives questions, contact me (Colander@Middlebury.edu) with some suggestions. The ideal questions for this section are tied to the material in the chapter but designed to get the student to look at the material from a slightly different perspective.

www.mhhe.com/economics/colander6

The Online Learning Center to accompany Colander's sixth edition is a Web site full of exciting new content that follows the text chapter by chapter. Students and instructors alike will find a wealth of new online resources.

For the Student Center, Douglas Copeland of Johnson County Community College has prepared chapter-level study aids, including Chapter Introductions, Tutorials (3–5 problems per chapter using interactive graphing applets), and Practice Exercises (3–5 problems per chapter, with answers). Students can test their knowledge of the chapter's concepts with a multiple-choice Pre-Test and Post-Test, plus Learning Objectives, end-of-chapter Web Questions, Web Newsletters, a section called Writing about Economics, Flashcards, the Glossary and Colloquial Glossary, and answers to even-numbered end-of-chapter questions.

Kit Taylor of Bellevue Community College has updated the Web Notes from the book; this feature extends the text discussion onto the Web. Web Notes are flagged in the margin and links are on the book's Web site. In addition, a *New York Times* Web feed presents students with economics-related news headlines.

On the book's Web site, instructors will find downloadable PowerPoints, the Instructor's Manual, Sample Syllabi, a link to Dave Colander's own Web site, and Help for AP Courses. The entire Web site content also can be delivered through PageOut or within a course management system (i.e., WebCT or Blackboard).