

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. 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. The cutting-edge style sees economic theory taking us only so far in answering policy questions about whether or not the government should intervene in the economy. At the cutting edge of modern theory, no side is totally right or totally wrong in the ongoing policy debates. It's that ongoing debate about policy that makes economics so interesting to me.

The Colloquial Style

Another way in which principles books are classified is on the easy–medium–difficult spectrum. This book is definitely 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 Internet 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 is 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; to present 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.

A Focus on the Modeling Method

As Robert Solow has said, for better or worse economics is a modeling science, and an important aspect of any introductory book is to introduce students to models and the modeling approach to understanding the world. My book does that, but its approach is slightly different than most of the other top introductory books. My book follows Alfred Marshall's approach to economics, which sees economics more as an approach to problems than as a body of confirmed truths. In my view, *it is the modeling method, not the models* that are most important to teach our students. In my presentation of models, I carefully try to guide students in the modeling method, rather than having them memorize truths from models. I carefully emphasize the limitations of the models and the assumptions that underlie them, and am constantly urging students to think beyond the models. This approach pushes the students a bit harder than the alternative, but it is, in my view, the best pedagogical approach.

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 there is a set of questions at the end of each chapter—Questions from Alternative Perspectives—that includes questions written by economists from a variety of different perspectives. These include Post-Keynesian, feminist, Austrian, Radical, Institutional, 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 seventh edition has the same basic structure and tone as the sixth. 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/colander7e). 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

The guiding principles of this revision were to make it

- simpler,
- shorter,
- more organized, and
- more applicable to the real world.

Toward those ends, I simplified complicated discussions where possible, cut some of my beloved tangents, moved material around to keep each chapter more narrowly focused on a particular topic, and added more real-world examples throughout. Let me briefly outline some of the major changes.

In the intro section (Chapters 1–5), I reworked the presentation in Chapters 2 and 3 so each is shorter and more focused, with Chapter 2 discussing trade and international issues and Chapter 3 discussing institutions. In the micro section (Chapters 6–21), I shortened and simplified the

presentation of taxation in Chapter 7. I shortened Chapter 13 on market structures, moving the discussion of game theory and strategic thinking to a new chapter entitled *Game Theory, Strategic Thinking, and Behavioral Economics*. Given the increasing importance of game theory in economic analysis, I felt it was time that the subject had a chapter all its own. The game theory presentation is highly simplified, with only a brief introduction to formal noncooperative game theory analysis, but it provides students with a flavor of the game theory approach and, for those faculty who heavily use game theory, an opening to go beyond what is presented in the book. To make room for this new chapter, I moved the agricultural economics chapter to the Web.

I have also updated facts, figures, discussions, and end-of-chapter questions to keep the book as up-to-date and relevant as possible. The economy and economics are constantly evolving, which means that the text must change to reflect the changing institutions, data, and evolving thinking in the profession. Where interest has changed, I changed the discussion, and where the chapter organization was not tight, I tightened it.

Finally, I have made some design and pedagogical changes. Each chapter now begins with a photograph that connects with an example that begins the chapter, making the presentation more visually appealing to students. I changed the name of boxed features to “A Reminder,” “Added Dimension,” and “Real-World Application” to more closely match their content. I also added learning objectives to questions, and identified some of the more challenging questions as “difficult.” Overall, it is a substantial revision that I believe will make the book more teachable to a broader group of students.

Changes by Chapter¹

Intro Chapters

- **Chapter 1 (Economics and Economic Reasoning):** I added an example of economic reasoning from Steven Levitt’s book, *Freakonomics*, and a box on the costs and benefits of addressing or not addressing global warming.
- **Chapter 2 (The Production Possibility Model, Trade, and Globalization):** I reorganized the presentations in Chapters 2 and 3 so that Chapter 2 focuses more on trade and international issues and Chapter 3 focuses on institutions. Specifically, the

role of government in the economy is moved from Chapter 2 to Chapter 3, and the discussion of globalization is moved from Chapter 3 to Chapter 2. I also deleted the box “Dealing with Math Anxiety” and added a new box on insourcing.

- **Chapter 3 (Economic Institutions):** This chapter was reorganized to focus more on economic institutions. The discussion of the roles of government that was previously in Chapter 2 was moved here, and the globalization discussion that was here was moved to Chapter 2. I updated the discussion of socialism to include a discussion of Hugo Chavez’s “21st century socialism.” I deleted a number of boxes and made the chapter shorter.
- **Chapter 4 (Supply and Demand):** I replaced the example that illustrates a shift in supply versus a movement along the supply curve with an example from Hurricane Katrina in 2005. I moved the discussion of what equilibrium isn’t to after the discussion of excess supply and excess demand.
- **Chapter 5 (Using Supply and Demand):** I shortened the initial presentation so that the chapter now begins with three real-world examples, two of which are new to this edition. I deleted the discussion of the market for advertising and moved the presentation of the exchange rate market to later in the chapter.

Micro Chapters

- **Chapter 6 (Describing Supply and Demand: Elasticities):** I revised the introduction to begin with a real-world example of Jet Blue entering the airline market. I updated other examples, and discussed the effect of the recent road pricing changes in London.
- **Chapter 7 (Taxation and Government Intervention):** I revised the chapter to provide a simpler presentation of the burden of taxation, deleting the discussion of the ability-to-pay principle and the benefit principle. I added a discussion of the general rule of political economy (which had been in the agricultural chapter).
- **Chapter 8 (The Logic of Individual Choice: The Foundation of Supply and Demand):** I deleted the historical discussion of measuring utility, and I redesigned the tables to clarify the relationship between marginal values and changes in levels. (This redesign is carried through the entire book when marginal values are presented.) I modified

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/colander7e).

and changed boxes and streamlined the presentation of material.

- **Chapter 9 (Production and Cost Analysis I):** I revised the chapter opening to discuss how markets coordinate production in reference to a freshly brewed cup of Starbucks coffee, and I modified the boxes.
- **Chapter 10 (Production and Cost Analysis II):** I added a box (based on the book *Travels of a T-Shirt in a Global Economy*) about why cotton for a t-shirt that is manufactured in China is grown in the United States.
- **Chapter 11 (Perfect Competition):** I updated the box on the shut-down decision with an example of GM and fixed labor costs.
- **Chapter 12 (Monopoly):** I moved the discussion of monopsony to a later chapter and added an Internet example of price discrimination. I also added a new box on the game *Monopoly*.
- **Chapter 13 (Monopolistic Competition and Oligopoly):** I shortened the chapter, moving the discussion about payoff matrixes and strategic pricing to a new Chapter 14.
- **Chapter 14 (Game Theory, Strategic Decision Making, and Behavioral Economics):** This is an entirely new chapter about game theory, behavioral economics, and how they both relate to oligopoly and strategic decision making. I added it because of the increasing importance of game theory and behavioral economics within economics.
- **Chapter 15 (Real-World Competition and Technology):** I updated the introduction to discuss Zune as a competitor to the iPod, and added a discussion of private equity firms to the discussion of takeovers.
- **Chapter 16 (Antitrust Policy and Regulation):** I updated and shortened the discussion of the anti-trust cases. I broadened the discussion to include recent actions by the European Union against Microsoft.
- **Chapter 17 (Work and the Labor Market):** I updated the data and expanded the discussion of monopsony.
- **Chapter 17W (Nonwage and Asset Income: Rents, Profits, and Interest):** I updated the data and examples.
- **Chapter 18 (Who Gets What? The Distribution of Income):** I updated the data and added a discussion of the decline in social and economic mobility

in the United States. I added the discussion of proportional, regressive, and progressive taxation, which was previously in Chapter 2, to this chapter.

- **Chapter 19 (Market Failure versus Government Failure):** I added a box, “Global Warming and Economic Policy,” that discusses the difficulties of policies to address global warming.
- **Chapter 19W (Politics and Economics: The Case of Agricultural Markets):** I updated the data and the discussion of agricultural subsidies to include recent developments.
- **Chapter 20 (Microeconomic Policy, Economic Reasoning, and Beyond):** I added a box on valuing life in situations of wrongful death, and a box on Larry Summer’s World Bank memo on where dirty industries should be located.
- **Chapter 21 (International Trade Policy, Comparative Advantage, and Outsourcing):** I changed the learning objectives to better fit the discussion, and added a discussion of the Doha round of WTO trade negotiations.

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

McGraw-Hill has established a strong history of top-rate supplements to accompany this book, and this seventh edition strives to carry on the tradition of excellence.

Study Guide

The study guide—written by myself, Doug Copeland, and Jenifer Gamber—provides a review of the concepts from each chapter. It gives students options to match a variety of learning styles: short-answer questions, matching terms with definitions, problems and applications, multiple-choice questions, brainteasers, and potential essay questions. To make the guide a true study tool, each answer includes an explanation of why it is correct. In addition,

the answers to the even-numbered end-of-chapter questions can be found in the study guide (as well as on the book's Web site).

Instructor's Manual

This book boasts one of the strongest Instructor's Manuals on the market, and Keith Jakee of Florida Atlantic University has worked incredibly hard to maintain the high standard set in previous editions. Elements include

- Chapter Overview, which provides a quick review of each chapter.
- What's New, which helps instructors modify established lecture notes from edition to edition.
- Lecture Modules, which provide bite-sized lecture modules by learning objective for quick reference to key concepts and graphs in each chapter for lectures.
- Addressing Common Areas of Difficulty in the Classroom, which reviews areas students often find difficult in the chapter and sometimes provides an additional classroom exercise for more practice.
- Real-World Applications, which provide contemporary, real-world economic examples of chapter concepts.
- Student Problem Sets, which include five to eight short-answer and problem-type questions to be assigned for homework to help students prepare for the exam.

The Instructor's Manual also includes an essay about how to meet the unique challenges of teaching large classes. The Instructor's Manual is available in print, on the Instructor's Resource CD-ROM, and on the instructor's portion of the book's Web site, www.mhhe.com/colander7e.

Test Banks

Test Banks A and B contain about 4,000 unique micro questions for instructors to draw from in their classrooms—a great resource for all professors, and especially for departments with multiple sections. Robert Schenk of Saint Joseph's College of Indiana, James Wetzel of Virginia Commonwealth University, Karla Morgan of Whitworth College, and Rimma Shiptsova of Utah State University-Logan worked diligently for months to make sure that this revised version is clear and useful. 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). Test items have also been identified by the

AACSB and Bloom's Taxonomy skill they cover for ease of use. In addition, James Chasey has tagged the questions that are best suited for a high school Advanced Placement course for those using the book in AP sections.

Questions were reviewed by professors and students alike to make sure that each one was effective for classroom use, and each new question was reviewed by Jenifer Gamber for accuracy, clarity, and consistency with the textbook.

Test Bank C, revised by David Horlacher of Middlebury College, now consists of approximately 300 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. Testbanks A, B, and C are available both in print form and in the EZ Test electronic test-generator on the Instructor's Resource CD-ROM.



McGraw-Hill's Homework Manager Plus is a complete, Web-based solution that includes and expands upon the actual problem sets found at the end of each chapter and features algorithmic technology that provides a limitless supply of online, self-graded assignments and graphing exercises, tied to the learning objectives in the book. McGraw-Hill's Homework Manager can be used for student practice, graded homework assignments, and formal examinations, all easily integrated with your course management system, including WebCT, Blackboard, and Desire2Learn.

McGraw-Hill's Homework Manager content can be delivered over the Web, automatically grading and storing results in a private grade book. Detailed results let you see at a glance how each student does on an assignment or an individual problem. This valuable feedback also helps you gauge how the class is performing overall.

For more information on this and other digital solutions, including Aplia, please contact your McGraw-Hill sales representative or Melissa Larmon at melissa_larmon@mcgraw-hill.com.

PowerPoint Presentations

Doris Bennett of Jacksonville State University has prepared an extensive slide program that includes all text exhibits and key concepts, as well as a narrated option to provide additional review. Each chapter has been scrutinized to ensure an accurate, direct connection to the textbook and concepts. This presentation is available on the Instructor's Resource CD-ROM and on the textbook's Web site.

Overhead Transparencies

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

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. Contact your McGraw-Hill representative for more information.

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 *Microeconomics, Seventh 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 Melissa Larmon at melissa_larmon@mcgraw-hill.com.

Assurance of Learning Ready

Many educational institutions today are focused on the notion of assurance of learning, an important element of some accreditation standards. *Microeconomics, 7e* is designed specifically to support your assurance of learning initiatives with a simple, yet powerful, solution.

Each test bank question for *Microeconomics, 7e* maps to a specific chapter learning outcome/objective listed in the text. You can use our test bank software, *EZ Test*, to easily query for learning outcomes/objectives that directly relate to the learning objectives for your course. You can then use the reporting features of *EZ Test* to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB Statement

McGraw-Hill Companies is a proud corporate member of AACSB International. Recognizing the importance and value of AACSB accreditation, the authors of *Microeconomics, 7e* have sought to recognize the curricula guidelines detailed in AACSB standards for business accreditation by connecting selected questions in the *Microeconomics, 7e* test bank to the general knowledge and skill guidelines found in the AACSB standards. While *Microeconomics, 7e* and its teaching package make no claim of any specific AACSB qualification or evaluation, we have labeled selected questions according to the six general knowledge and skills areas. It is important to note that the statements contained in *Microeconomics, 7e* are provided only as a guide for the users of this text.

www.mhhe.com/economics/colander7e

The Online Learning Center to accompany Colander's seventh edition is a Web site that follows the text chapter by chapter and provides a number of useful study tools:

- Learning Objectives provide an at-a-glance list of what concepts students need to master.
- Chapter Summaries give an overview of the chapter.
- Pretests help students assess areas for further study.
- Practice Exercises give students the opportunity to test what they have learned using fill-in-the-blank, short-answer, and graphing questions.
- Interactive graphs provide students with additional practice working with graphical material in the chapter.
- Post-tests help students know if they are ready for the exam.
- Flash cards can be flipped for quick recall of key terms.
- PowerPoint Presentations, now with narration, are another great way to review the chapter material.
- Web Notes bring the chapter alive. These are keyed to the Web Note symbol in the margin of the text.
- Web Questions provide active links for Web Questions in the text.

WWW Web Note

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 by James Chasey. The entire Web site content also can be delivered through PageOut or within a course management system (i.e., WebCT, Desire2Learn, or Blackboard).

People to Thank

Let me conclude this preface by thanking the hundreds of people who have offered suggestions, comments, kudos, and criticism on this project since its inception. This book would not be what it is without their input. So many people have contributed to this text in so many ways that I cannot thank everyone. So, to all the people who have helped—many, many thanks.

I specifically want to thank the seventh edition reviewers, whose insightful comments kept me on track.

A. F. Alhajji <i>Ohio Northern University</i>	Andrew Kohen <i>James Madison University</i>
Gerald Bialka <i>University of North Florida</i>	Fred May <i>Trident Technical College</i>
Taggart T. Brooks <i>University of Wisconsin—La Crosse</i>	Karla Morgan <i>Whitworth College</i>
M. Neil Browne <i>Bowling Green State University</i>	Steve Pecsok <i>Middlebury College</i>
Gregory DeFreitas <i>Hofstra University</i>	Larry L. Ross <i>University of Alaska—Anchorage</i>
James Frew <i>Williamette University</i>	Abdulhakeem Salaam <i>Park University</i>
Shelby Frost <i>Georgia State University</i>	Garvin Smith <i>Daytona Beach Community College</i>
Doris Geide-Stevenson <i>Weber State University</i>	Gokce Soydemir <i>University of Texas—Pan American</i>
Kirk D. Gifford <i>Brigham Young University—Idaho</i>	Carol O. Stivender <i>University of North Carolina—Charlotte</i>
Julia Heath <i>University of Memphis</i>	Travis K. Taylor <i>Christopher Newport University</i>
Jannett Highfill <i>Bradley University</i>	Dale Thompson <i>University of St. Thomas</i>
Alexander Holmes <i>University of Oklahoma</i>	Deborah Thorsen <i>Palm Beach Community College</i>
Gail Hoyt <i>University of Kentucky</i>	Don Uy-Barreta <i>De Anza College</i>
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Fadhel Kaboub <i>Drew University</i>	
Rodney Kingery <i>Hawkeye Community College</i>	

In addition to the comments of the formal reviewers listed above, I have received helpful suggestions, encouragement, and assistance from innumerable individuals via e-mails, letters, symposia, and focus groups. Their help made this edition even stronger than its predecessor. They include James Wetzel, Virginia Commonwealth University; Dmitry Shishkin, Georgia State University; Amy Cramer, Pima Community College—West; Andrea Terzi, Franklin College; Shelby Frost, Georgia State University; Doris Geide-Stevenson, Weber State University; James Chasey, Advanced Placement Economics Teaching Consultant and Homewood-Flossmoor High School (ret.), David Tufte, Southern Utah University; Eric Sarpong, Georgia State University; Jim Ciecka, DePaul University; Fran Bradley, George School; Ron Olive, University of Massachusetts—Lowell; and Rachel Kreier, Hofstra University.

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I'd also like to thank the economists who wrote the alternative perspective questions. These include Ann Mari May of the University of Nebraska—Lincoln, John Miller of Wheaton College, Dan Underwood of Peninsula College, Ric Holt of Southern Oregon University, and Bridget Butkevich of George Mason University. I enjoyed working with each of them, and while their views often differed substantially, they were all united in wanting questions that showed economics as a pluralist field that encourages students to question the text from all perspectives.

I have hired numerous students to check aspects of the book, to read over my questions and answers to questions, and to help proofread. These include Yan Min Choo, John Meyer, Zach Colander, Yunfei Ren, Hasat Cakkalkurt, Tom Brush, Dinesh Palhak, Tizzy Dominguez, Zhen Chen Wu, Yan Oak, Tugce Erten, Rachel Butera, Vijay Chowdhari, Eric Elderbrock, Elliott Fox, Catherine Horner, Saad Ahmed Khan, Kate Macfarlane, Andrew Matson, Allison Shanholt, and Yuki Yoshida. I thank them all.

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improving them, guiding the ancillaries, and being a good friend. She has an amazing set of skills, and I thank her for using them to improve the book. The second is Karen Fisher, who came into this project as it was ongoing and with her hard work, dedication, and superb ability made it possible to get the book done on time, even during a period of turmoil. She and Jenifer are two amazing women.

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Finally, I want to thank Pat, my wife, and my sons, Kasey and Zach, for helping me keep my work in perspective, and for providing a loving environment in which to work.

PREFACE FOR THE STUDENT: ALTERNATIVE PERSPECTIVES

This book is written for you, the student. It's meant to give you a sense of what economics is, how economists think, and how they approach policy problems. There's only so much that an introductory text can cover, which means that much is left out. That includes much of the subtlety of economic thinking. So if you have a problem swallowing some of the ideas, and you believe that there's more to the issue than is presented in the text, rest assured; generally you're right. Hard choices have to be made for pedagogical purposes—issues have to be simplified and presentations curtailed. Otherwise this would be a 1,200-page book and much too heavy to carry around in a backpack.

Economics as a Method of Reasoning, Not the Truth

This book is what would be called mainstream (it presents the conventional wisdom of economists) both because I'm mainstream and because most economists are as well. But pedagogically, I also believe that students learn by questioning—to say, no, that's not right, that's not the way I see things, and then to compare their way of thinking with the conventional way. Despite my being mainstream, I'm by nature also a skeptic, and in terms of pedagogy often find myself in sympathy with Joan Robinson, a famous economist, who argued that “the purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.” So, to encourage questioning everything, I don't present models and insights of economists as the truth (the field of economics is far too complicated to have arrived at a single truth) but as a set of technical hurdles, reasoning processes,

and arguments that students should know, and that will help prepare them to deal with economic issues. Economics primarily teaches you how to approach problems; it does not provide definitive answers about what is right and what is wrong. It is a method, not a set of truths.

Alternative Perspectives in Economics

One of the pedagogical choices I made in writing the book was to concentrate almost exclusively on the mainstream view. I strongly believe that focusing on that view is the best way to teach the course. However, I also believe that students should be aware of the diversity in economics and know that the mainstream view is not the only view out there. In fact, there are probably as many views out there as there are economists. Still, for a majority of economists, the concepts presented in this book are an acceptable pedagogical simplification of the myriad views held by economists.

Some economists, however, don't find aspects of what is presented in this text to be an acceptable simplification. They wouldn't necessarily say that the presentation is wrong; they are more likely to see it as misleading, or as diverting the discussion away from other, more relevant, issues. These economists are generally called nonmainstream or heterodox economists. A heterodox economist is *one who doesn't accept the basic underlying model used by a majority of economists as the most useful model for analyzing the economy.*

In this preface, I will briefly introduce six heterodox economic approaches to give you a sense of how their analyses differ from the mainstream analyses presented in this book. The six heterodox approaches are Austrian, Post-Keynesian, Institutional, Radical, feminist, and

religious. Below are brief descriptions of each group, written with the help of the team of alternative-perspective economists.

Austrian Economists

Austrian economists believe in methodological individualism, by which they mean that social goals are best met through voluntary, mutually beneficial interactions. Lack of information and unsolvable incentive problems undermine the ability of government to plan, making the market the best method for coordinating economic activity. Austrian economists oppose state intrusion into private property and private activities. They are not all economists from Austria; rather, they are economists from anywhere who follow the ideas of Ludwig von Mises and Friedrich von Hayek, two economists who were from Austria.

Austrian economists are sometimes classified as conservative, but they are more appropriately classified as libertarians, who believe in liberty of individuals first and in other social goals second. Consistent with their views, they are often willing to support what are sometimes considered radical ideas, such as legalizing addictive drugs or eliminating our current monetary system—ideas that most mainstream economists would oppose. Austrian economists emphasize the uncertainty in the economy and the inability of a government controlled by self-interested politicians to undertake socially beneficial policy.

One proposal of Austrian economists will give you a flavor of their approach. That proposal is to eliminate the Federal Reserve System and to establish a free market in money—a policy that would leave people free to use any money they want and that would significantly reduce banking regulation. In a sense, their proposal carries the Classical argument in favor of *laissez-faire* to its logical conclusions. Why should the government have a monopoly of the money supply? Why shouldn't people be free to use whatever money they desire, denominated in whatever unit they want? Why don't we rely upon competition to prevent inflation? Why don't we have a free market in money? Well-known Austrian economists include Peter Boettke, Veronique de Rugy, Mario Rizzo, David Gordon, Israel Kirzner, Peter Leeson, Chris Coyne, Steve Horwitz, Roger Garrison, and Roger Koppl.

Institutionalist Economists

Institutionalist economists argue that any economic analysis must involve specific considerations of institutions. The lineage of Institutionalist economics begins with the pioneering work of Thorstein Veblen, John R. Commons, and Wesley C. Mitchell. Veblen employed evolutionary analysis to explore the role of institutions in directing and retarding

the economic process. He saw human behavior driven by cultural norms and conveyed the way in which they were with sardonic wit and penetrating insight, leaving us with enduring metaphors such as the leisure class and conspicuous consumption. Commons argued that institutions are social constructs that could improve general welfare. Accordingly, he established cooperative investigative programs to support pragmatic changes in the legal structure of government. Mitchell was a leader in developing economics as an empirical study; he was a keen observer of the business cycle and argued that theory must be informed by systematic attention to empirical data, or it was useless.

Contemporary Institutionalists employ the founders' "trilogy"—empirically informed evolutionary analysis directed toward pragmatic alteration of institutions shaping economic outcomes—in their policy approach. Examples include indicative planning—a macroeconomic policy in which the government sets up an overall plan for various industries and selectively directs credit to certain industries; and income support programs, including those assuring employment for all willing. Well-known Institutionalists include Greg Hayden, Geoff Hodgson, Anne Mayhew, James Peach, and Ronnie Phillips.

Radical Economists

Radical economists believe substantial equality-preferring institutional changes should be implemented in our economic system. Radical economists evolved out of Marxian economics. In their analysis they focus on the lack of equity in our current economic system and on institutional changes that might bring about a more equitable system. Specifically, they see the current economic system as one in which a few people—capitalists and high-level managers—benefit enormously at the expense of many people who struggle to make ends meet in jobs that are unfulfilling or who even go without work at times. They see the fundamental instability and irrationality of the capitalist system at the root of a wide array of social ills that range from pervasive inequality to alienation, racism, sexism, and imperialism. Radical economists often use a class-oriented analysis to address these issues and are much more willing to talk about social conflict and tensions in our society than are mainstream economists.

A policy favored by many Radicals is the establishment of worker cooperatives to replace the corporation. Radicals argue that such worker cooperatives would see that the income of the firm is more equitably allocated. Likewise, Radical theorists endorse policies such as universal health care insurance that conform to the ethic of "putting people before profits."

There are a number of centers of Radical thought, including The Political Economy Research Institute, The

New School for Social Research, and some campuses of the University of Massachusetts. A good place to find Radical views is the *Dollars & Sense* magazine. Well-known Radical economists include Lourdes Beneria, Sam Bowles, Arthur MacEwan, Robert Pollin, Gerald Epstein, Anwar Shaik, Michael Reich, Richard Wolff, and Stephen Resnick, as well as a number of feminist economists who would be considered both Radicals and feminists.

Feminist Economists

Feminist economics offers a substantive challenge to the content, scope, and methodology of mainstream economics. Feminist economists question the boundaries of what we consider economics to be and examine social arrangements surrounding provisioning. Feminist economists have many different views, but all believe that in some way traditional economic analysis misses many important issues pertaining to women.

Feminist economists study issues such as how the institutional structure tends to direct women into certain types of jobs (generally low-paying jobs) and away from other types of jobs (generally high-paying jobs). They draw our attention to the unpaid labor performed by women throughout the world and ask, “What would GDP look like if women’s work were given a value and included?” They argue for an expansion in the content of economics to include “women as practitioners and as objects of study” and for the elimination of the masculine bias in mainstream economics. Is there such a bias? To see it, simply compare the relative number of women in your economics class to the relative number of women at your school. It is highly likely that your class has relatively more men. Feminist economists want you to ask why that is, and whether anything should be done about it.

The historical roots of feminist economics can be found in the work of such authors as Mary Wollstonecraft, John Stuart Mill, Harriet Taylor Mill, and Charlotte Perkins Gilman. Feminist economics has expanded significantly in the past 15 years and has emerged as an influential body of thought. Well-known feminist economists include Myra Strober, Diana Strassmann, Barbara Bergmann, Julie Nelson, Jane Humphries, Marianne Ferber, Randy Albelda, Nancy Folbre, and Heidi Hartmann.

Religious Economists

Religion is the oldest and, arguably, the most influential institution in the world—be it Christianity, Islam, Judaism, Buddhism, Hinduism, or any of the many other religions in the world. Modern science, of which economics is a part, emphasizes the rational elements of thought. It attempts

to separate faith and normative issues from rational analysis in ways that some religiously oriented economists find questionable. The line between a religious and nonreligious economist is not hard and fast; all economists bring elements of their ethical considerations into their analysis. But those we call “religious economists” integrate the ethical and normative issues into economic analysis in more complex ways than the ways presented in the text.

Religiously oriented economists have a diversity of views; some believe that their views can be integrated reasonably well into standard economics, while others see the need for the development of a distinctive faith-based methodology that focuses on a particular group of normative concerns centered on issues such as human dignity and caring for the poor.

One religious perspective that is represented by a defined group in the U.S. economics profession is Christianity, and a number of Christian economists have joined together in the Association of Christian Economists (ACE). Its stated goal is “to encourage Christian scholars to explore and communicate the relationship between their faith and the discipline of economics, and to promote interaction and communication among Christian economists.” Centers of ACE are Pepperdine University, Calvin College, and Gordon College. Leading Christian economists include Kurt Schaefer, Andrew Yuengert, and Stephen Smith.

Many of the religious alternative perspective questions that we provide in the text are from the Judeo-Christian perspective, the perspective most familiar to U.S. students. However, we intersperse some questions from other religious perspectives, both to show the similarity of views and to encourage students to think in a multicultural framework.

Post-Keynesian Economists

Post-Keynesian economists believe that uncertainty is a central issue in economics. They follow J. M. Keynes’s approach more so than do mainstream economists in emphasizing institutional imperfections in the economy and the importance of fundamental uncertainty that rationality cannot deal with. They agree with Institutionalists that the study of economics must emphasize and incorporate the importance of social and political structure in determining market outcomes.

While their view about the importance of uncertainty is similar to the Austrian view, their policy response to that uncertainty is quite different. They do not see uncertainty as eliminating much of government’s role in the economy; instead, they see it leading to policies in which government takes a larger role in guiding the economy.

One of their policy proposals that gives you a flavor of their approach is tax-based income policies—policies in

which the government tries to directly affect the nominal wage- and price-setting institutions. Under a tax-based income policy, any firm raising its wage or price would be subject to a tax, and any firm lowering its wage or price would get a subsidy. Such a plan, they argue, would reduce the upward pressure on the nominal price level and reduce the rate of unemployment necessary to hold down inflation. Well-known Post-Keynesian economists include Paul Davidson, Jamie Galbraith, Barkley Rosser, John Cornwall, Shelia Dow, Malcolm Sawyer, Philip Ar-estis, Victoria Chick, Jan Kregel, and Geof Harcourt.

Consistency of the Various Approaches

A characteristic of almost all heterodox economists of all types is that their analyses tend to be less formal than mainstream analysis. *Less formal* doesn't mean better or worse. There are advantages and disadvantages to formality, but *less formal* does mean that there's more potential for ambiguity in interpretation. It's easy to say whether the logic in a formal model is right or wrong. It's much harder to say whether the logic in an informal model is right or wrong because it's often hard to see precisely what the logic is. The advantage of an informal model is that it can include many more variables and can be made more realistic, so you can discuss real-world problems more easily with that model. Nonmainstream economists often want to talk about the real world, which is why they use informal models.

Often, after I discuss the mainstream and heterodox approaches, some student asks which is right. I respond with a story told by a former colleague of mine, Abba Lerner:

"But look," the rabbi's wife remonstrated, "when one party to the dispute presented their case to you, you said, 'You are quite right,' and then when the other party presented their case you again said, 'You are quite right.' Surely they cannot both be right?" To which the Rabbi answered, "My dear, you are quite right!"

The moral of the story is that there's nothing necessarily inconsistent among mainstream and heterodox economists' approaches. Their approaches are simply different ways of looking at the same event. Which approach is most useful depends on what issues and events you are analyzing. The class analysis used by radicals is often more appropriate to developing countries than it is to the United States, and, in analyzing developing countries, many mainstream economists also include class fights in their approach. Similarly, Austrian analysis provides more insight into the role of the entrepreneur and individual in the economy than does mainstream analysis, while Post-Keynesian and

Institutionalist analyses are useful when considering major institutional changes.

The distinctions between heterodox and mainstream economists can be overdone. One economist may well fall into two or three different groupings and use a combination of various analyses.

I follow the work of heterodox economists carefully. Their writing is often more interesting than mainstream writing, which can often get rather technical and boring. But in this book, I present primarily mainstream views. I do that because that's what I see as the job of the principles of economics course. My goal, however, is to present those views to you, not to indoctrinate you with those views, and throughout the text I include some challenges to the standard views. At the end of each chapter, I also include some questions that challenge the view presented in the chapter. These questions are written by representatives of different heterodox groups. I also encourage you to look for these other views in your outside reading. The *Dollars and Sense* companion to the book has radical critiques and *Free Market*, an Austrian newsletter found at www.mises.org/freemarket.asp, has Austrian critiques. There are many other sources and Web sites for heterodox groups. Exploring these sites and learning about the many different views that are competing in the marketplace for ideas make your economics course more interesting.

A Concluding Thought

There are many ways to explore economics, and in your exploration, the textbook is only a map. You and your professor determine what you discuss and learn and what path you will take. Ultimately, that's the way it has to be. Most of you are in this course for the grade—college is a way of progressing up the ladder. That's how it was for me. But the process also can be transforming; it can change how you look at issues, how you think, and who you are. The economics courses I took were especially important in determining who I have become.

Much of the principles course is what I call hurdle jumping—calisthenics of the mind. It is a set of mind-strengthening exercises. Separately, each is not especially relevant, but combined, they help turn your weak cranial muscle into a strong muscle better able to handle the problems that life throws at you. So, do the work, even if it seems boring; follow your professor's reasoning, even if you don't agree with what he or she is arguing; and keep thinking. Read newspapers and try to apply the lessons, deciding when they apply and when they don't. But, in the process, be happy—enjoy the moment, because that moment will never be again.