



Welcome to *Economics: Brief Edition*, second edition, the trimmed and edited version of *Economics*, nineteenth edition, the nation's best-selling economics textbook.

Fundamental Objectives

We have three main goals for *Economics: Brief Edition*:

- Help the beginning student master the principles essential for understanding the economizing problem, specific economic issues, and the policy alternatives.
- Help the student understand and apply the economic perspective and reason accurately and objectively about economic matters.
- Promote a lasting student interest in economics and the economy.

Integrated, Distinct Book

Although *Economics: Brief Edition* is a spin-off of *Economics*, nineteenth edition, it is not a cut-and-paste book that simply eliminates several chapters of *Economics* and reorders and renumbers the retained content. We can prepare such books via custom publication. Instead, the *Brief Edition* is a

very concise, highly integrated economics textbook that is distinct in purpose, style, and coverage from *Economics* and its Micro and Macro splits.

What's New and Improved?

One of the benefits of writing a successful text is the opportunity to revise—to delete the outdated and install the new, to rewrite misleading or ambiguous statements, to introduce more relevant illustrations, to improve the organizational structure, and to enhance the learning aids.

We trust that you will agree that we have used this opportunity wisely and fully. Some of the more significant changes include the following:

New Public Finance Chapter

This traditional public finance chapter adds considerable new content to existing material that previously appeared in Chapter 5: Market Failures: Public Goods and Externalities. The chapter includes a circular flow diagram with government; an overview of federal, state, and local tax revenues and expenditures; explanations of marginal and average tax rates; discussions of the benefits-received and ability-to-pay principles of taxation; an explanation of progressive, regressive, and proportional taxes; tax incidence and efficiency losses due to taxation; and the redistributive incidence of the overall tax-spending system in the United States.

New and Updated “Illustrating the Idea,” “Applying the Analysis,” and “Photo Op” Pieces

These examples, applications, and illustrations help drive home central economic ideas in a student-oriented, real-world manner. New content includes a discussion of beekeepers to explain the Coase Theorem, analysis of the effects of rising gas prices on companies like FedEx and Symantec, and an illustration of federal versus state and local spending.

New Discussions of the Financial Crisis and the Recession

In this edition, we have focused on incorporating an analysis of the financial crisis, the recession, and the hesitant recovery into our discussions of macroeconomics. Although we found many ways to work the recession into our macro chapters, we are confident that our basic macroeconomic models will serve equally well in explaining economic recovery and expansion back to the economy's historical growth path. The new inclusions relating to the recession

simply help students see the relevance of the models to what they are seeing in the news and perhaps experiencing in their own lives. The overall tone of the book, including the macro, continues to be optimistic with respect to the long-term growth prospects of market economies.

Reworked End-of-Chapter Questions and Problems

We have extensively reworked the end-of-chapter questions, and we have added new problems to each chapter. The questions are analytic and often ask for free responses, whereas the problems are mainly quantitative. We have aligned the questions and problems with the learning objectives presented at the beginning of the chapters. All of the questions and problems are assignable through McGraw Hill's *Connect Economics*, and many contain additional algorithmic variations and can be automatically graded within the system.

Chapter-by-Chapter Changes

In addition to the changes and new features listed above, chapter-specific revisions include:

Chapter 1: Limits, Alternatives, and Choices features updated discussion of the 2007–2009 recession and streamlined coverage of the main concepts.

Chapter 2: The Market System and the Circular Flow includes an improved discussion of the circular flow model, additional coverage of property rights, and updated global data.

Chapter 3: Demand, Supply, and Market Equilibrium begins with a revised introduction to supply and demand and contains additional clarifications of key concepts.

Chapter 4: Elasticity of Demand and Supply provides an updated discussion of elasticity.

Chapter 5: Market Failures: Public Goods and Externalities features improved coverage of market failures and the distinction between demand-side and supply-side market failures, new topics including consumer and producer surplus and efficiency (deadweight) loss, enhanced discussion of public versus private goods, a new “Illustrating the Idea” piece on the Coase Theorem, and a more complete discussion of correcting for externalities. The coverage of financing public goods and taxation has been moved to Chapter 12 on public finance.

Chapter 6: Businesses and Their Costs includes an improved discussion of costs and a new “Applying the Analysis” piece that discusses rising gas prices.

Chapter 7: Pure Competition features revised discussions of pure competition in the long run and efficiency in

pure competition, plus an expanded figure illustrating a competitive firm and market in long-run equilibrium.

Chapter 8: Pure Monopoly contains an updated figure showing the inefficiency of pure monopoly relative to a purely competitive industry and a revised discussion of efficiency.

Chapter 9: Monopolistic Competition and Oligopoly includes a revised introduction, an updated figure illustrating the inefficiency of monopolistic competition, and an improved discussion of cartels and collusion.

Chapter 10: Wage Determination features improved discussions to clarify the main concepts.

Chapter 11: Income Inequality and Poverty contains extensive updates to the data on the distribution of income, poverty, and family wealth, plus revised coverage of income-maintenance programs.

Chapter 12: Public Finance: Expenditures and Taxes is a new chapter that incorporates the taxation content from the first-edition chapter “Public Goods and Externalities,” plus an expanded circular flow model; content on government purchases and transfer payments; material on federal, state, and local tax sources; efficiency losses from taxes; and additional discussion of tax incidence.

Chapter 13: GDP and Economic Growth includes a revised discussion of GDP accounting and updated coverage of productivity changes.

Chapter 14: Business Cycles, Unemployment, and Inflation contains a new chapter introduction, an improved discussion of business cycles and their causes, and detailed coverage of current unemployment rates and inflation throughout the world.

Chapter 15: Aggregate Demand and Aggregate Supply features detailed discussion, application, and analysis of the recession of 2007–2009.

Chapter 16: Fiscal Policy, Deficits, and Debt includes important updates related to the recession, the subsequent policy response, and the debt debate.

Chapter 17: Money, Banking, and Financial Institutions provides an extensive discussion of the 2007–2008 financial crisis and the postcrisis financial services industry.

Chapter 18: Interest Rates and Monetary Policy features updated coverage of recent U.S. monetary policy, a new explanation of the liquidity trap, a new discussion of the Fed's response to the financial crisis, and a new “Applying the Analysis” piece on the Fed's balance sheet and its extensive growth.

Chapter 19: Long-Run Aggregate Supply and Aggregate Demand contains streamlined coverage and clarification of the main concepts.

Chapter 20: International Trade and Exchange Rates includes updated material on recent U.S. trade deficits and a revised discussion related to changes in the relative value of the U.S. dollar.

Distinguishing Features

Economics: Brief Edition includes several features that encourage students to read and retain the content.

Design and Pedagogy

The *Brief Edition* incorporates a single-column design with a host of pedagogical aids, including a strategically placed “To the Student” statement, chapter opening objectives, definitions in the margins, combined tables and graphs, complete chapter summaries, lists of key terms, carefully constructed questions and problems, connections to our website, an appendix on graphs and a web appendix on additional examples of demand and supply, and an extensive glossary.

Focus on Core Models

Economics: Brief Edition shortens and simplifies explanations where appropriate but stresses the importance of the economic perspective, including explaining and applying core economic models. Our strategy is to develop a limited set of essential models, illustrate them with analogies or anecdotes, explain them thoroughly, and apply them to real-world situations. Eliminating unnecessary graphs and elaborations makes perfect sense in a brief edition, but cutting explanations of the truly fundamental graphs does not. In dealing with the basics, brevity at the expense of clarity is false economy.

We created a student-oriented textbook that draws on the methodological strengths of the discipline and helps students improve their analytical reasoning skills. Regardless of students’ eventual occupations, they will discover that such skills are highly valuable in their workplaces.

Illustrating the Idea

Numerous analogies, examples, and anecdotes are included throughout the book to help drive home central economic ideas in a lively, colorful, and easy-to-remember way. For instance, elastic versus inelastic demand is illustrated by comparing the stretch of an Ace bandage and that of a tight rubber tie-down. A piece on Bill Gates, Oprah Winfrey, and Alex Rodriguez illustrates the importance of opportunity costs in decision making. Art in the public square brings clarity to public goods and the free-rider problem. A pizza analogy walks students through the equity-efficiency trade-off, and a discussion of credit cards helps explain what money is and is not. These brief

vignettes flow directly from the preceding content and segue to the content that follows, rather than being “boxed off” away from the flow and therefore easily overlooked.

Applying the Analysis

A glance through this book’s pages will demonstrate that this is an application-oriented textbook. *Applying the Analysis* pieces immediately follow the development of economic analysis and are part of the flow of the chapters, rather than segregated from the main body discussion in a traditional boxed format. For example, the basics of the economic perspective are applied to why customers choose the shortest checkout lines. Differences in elasticity of supply are contrasted by the changing prices of antiques versus reproductions. The book describes the principal-agent problem via the problems of corporate accounting and financial fraud. The concept of price discrimination is illustrated by the difference in adult and child pricing for ballgame tickets compared to the pricing at the concession stands. McDonald’s sandwich “McHits” and “McMisses” over the years apply the concept of consumer sovereignty. The graphics of fiscal policy are followed by a discussion of recent fiscal policy, and the Federal Reserve’s role in the economy is demonstrated through an application of its responses to the mortgage debt crisis and the recession. These and many other applications clearly demonstrate the relevance and usefulness of mastering the basic economic principles and models to beginning students.

Photo Ops

Photo sets under the title *Photo Op* are included throughout the book to add visual interest, break up the density, and highlight important distinctions. Just a few of the many examples are sets of photos on traffic congestion and holiday lighting to contrast negative and positive externalities, Social Security checks and food stamps to highlight the differences between social insurance and public assistance, and photos of lumber and newly constructed homes to illustrate the difference between intermediate and final goods. Other photo sets illustrate normal versus inferior goods, complements versus substitutes in consumption, homogeneous versus differentiated products, substitute resources versus complementary resources, and more.

Web Buttons

The in-text web buttons (or indicators) merit special mention. Three differing colors of rectangular indicators appear throughout the book, informing readers that complementary content on a subject can be found at our website, www.mcconnellbrief2e.com. Scattered throughout the text you’ll see:

Worked Problems Written by Norris Peterson of Pacific Lutheran University, these pieces consist of side-by-side computational questions and procedures used to derive the answers. From a student perspective, they provide “cook-book” help for problem solving.

WORKED PROBLEMS

W 1.1
Budget Lines

Interactive Graphs These pieces (developed under the supervision of Norris Peterson) depict major graphs and instruct students to shift the curves, observe the outcomes, and derive relevant generalizations. This hands-on graph work will greatly reinforce the main graphs and their meaning.

INTERACTIVE GRAPHS

G 3.1
Supply and Demand

Origin of the Ideas These brief histories, written by Randy Grant of Linfield College (OR), examine the origins of major ideas identified in the book. Students will find it interesting to learn about the economists who first developed such ideas as opportunity costs, equilibrium price, elasticity, creative destruction, and comparative advantage.

ORIGIN OF THE IDEA

O 2.2
Specialization/division of labor

Global Snapshots

Global Snapshot pieces include bar charts and line graphs that compare data for a particular year or other time period among selected nations. Examples of these lists and comparisons include income per capita, the world’s 10 largest corporations, the world’s top brand names, the index of economic freedom, the differing economic status of North Korea and South Korea, and so forth. These *Global Snapshots* join other significant international content to help convey that the United States operates in a global economy.

Digital Solutions

McGraw-Hill’s Connect™ Economics *Less Managing. More Teaching. Greater Learning.* McGraw-Hill’s *Connect™ Economics* is a

web-based assignment and assessment platform that connects students with the tools and resources they’ll need to achieve success. *Connect™ Economics* helps prepare students for their future by enabling faster learning, more efficient studying, and higher retention of knowledge. *Connect™ Economics* offers a number of power-

ful tools and features to make managing assignments easier, so faculty can spend more time teaching. With *Connect™ Economics*, students can engage with their coursework anytime and anywhere, making the learning process more accessible and efficient. *Connect™ Economics* offers the features as described here.

Simple Assignment Management With *Connect™ Economics*, creating assignments is easier than ever, so you can spend more time teaching and less time managing. The assignment management function enables you to

- Create and deliver assignments easily with selectable end-of-chapter questions and test bank items.
- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.
- Go paperless with the e-book and online submission and grading of student assignments.

Smart Grading When it comes to studying, time is precious. *Connect™ Economics* helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. When it comes to teaching, your time also is precious. The grading function enables you to

- Score assignments automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response; manually change grades or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

Instructor Library The *Connect™ Economics* Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture.

Student Study Center The *Connect™ Economics* Student Study Center is the place for students to access additional resources. The Student Study Center

- Offers students quick access to lectures, practice materials, e-book, and more.
- Provides instant practice material and study questions, easily accessible on the go.
- Gives students access to the Self-Quiz and Study described below.

LearnSmart: Diagnostic and Adaptive Learning of Concepts Students want to make the best use of their study time. The LearnSmart adaptive self-study technology within *Connect™ Economics* provides students

with a seamless combination of practice,



assessment, and remediation for every concept in the textbook. LearnSmart's intelligent software adapts to every student response and automatically delivers concepts that advance the student's understanding while reducing time devoted to the concepts already mastered. The result for every student is the fastest path to mastery of the chapter concepts. LearnSmart

- Applies an intelligent concept engine to identify the relationships between concepts and to serve new concepts to each student only when he or she is ready.
- Adapts automatically to each student, so students spend less time on the topics they understand and practice more those they have yet to master.
- Provides continual reinforcement and remediation, but gives only as much guidance as students need.
- Integrates diagnostics as part of the learning experience.
- Enables you to assess which concepts students have efficiently learned on their own, thus freeing class time for more applications and discussion.

Self-Quiz and Study The Self-Quiz and Study (SQS) connects each student to the learning resources needed for success in the course. For each chapter, students

- Take a practice test to initiate the Self-Quiz and Study.
- Immediately upon completing the practice test, see how their performance compares to chapter Learning Objectives to be achieved within each section of the chapter.
- Receive a Study Plan that recommends specific readings from the text, supplemental study material, and practice work that will improve their understanding and mastery of each learning objective.

Student Progress Tracking *Connect™ Economics* keeps instructors informed about how each student, section, and class are performing, allowing for more productive use of lecture and office hours. The progress-tracking function enables you to

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB.

Lecture Capture Increase the attention paid to lecture discussion by decreasing the attention paid to note taking. For an additional charge, Lecture Capture offers new ways for students to focus on the in-class discussion,

knowing they can revisit important topics later. Lecture Capture enables you to

- Record and distribute your lecture with a click of a button.
- Record and index PowerPoint presentations and anything shown on your computer so it is easily searchable, frame by frame.
- Offer access to lectures anytime and anywhere by computer, iPod, or mobile device.
- Increase intent listening and class participation by easing students' concerns about note-taking.

Lecture Capture will make it more likely you will see students' faces, not the tops of their heads.

- To learn more about Tegrity, watch a 2-minute Flash demo at <http://tegritycampus.mhhe.com>.

McGraw-Hill's *Connect™ Plus Economics*

McGraw-Hill reinvents the textbook learning experience for the modern student with *Connect™ Plus Economics*. A seamless integration of an e-book and *Connect™ Economics*, *Connect™ Plus Economics* provides all of the features mentioned above plus the following:

- An integrated e-book, allowing for anytime, anywhere access to the textbook.
- Dynamic links between the problems or questions you assign to your students and the location in the e-book where that problem or question is covered.
- A powerful search function to pinpoint and connect key concepts in a snap.

In short, *Connect™ Economics* offers you and your students powerful tools and features that optimize your time and energies, enabling you to focus on course content, teaching, and student learning.

For more information about Connect, please visit www.mcgrawhillconnect.com, or contact your local McGraw-Hill sales representative.

McGraw-Hill Customer Care Contact Information

At McGraw-Hill, we understand that getting the most from new technology can be challenging. That's why our services don't stop after you purchase our products. You can e-mail our Product Specialists 24 hours a day to get product-training online. Or you can search our knowledge bank of frequently asked questions on our support website. For customer support, call **800-331-5094**, e-mail hmsupport@mcgraw-hill.com, or visit www.mhhe.com/support. One of our technical support analysts will be able to assist you in a timely fashion.

CourseSmart



CourseSmart is a new way for faculty to find and review e-textbooks. It's also a great option for students who are interested in accessing their course materials digitally. CourseSmart offers thousands of the most commonly adopted textbooks across hundreds of courses from a wide variety of higher education publishers. It is the only place for faculty to review and compare the full text of a textbook online. At CourseSmart, students can save up to 50 percent off the cost of a print book, reduce their impact on the environment, and gain access to powerful web tools for learning including full text search, notes and highlighting, and e-mail tools for sharing notes between classmates. Your e-book also includes tech support in case you ever need help. Finding your e-book is easy. Visit www.CourseSmart.com and search by title, author, or ISBN.

Online Learning Center

At www.mcconnellbrief2e.com, students have access to several learning aids. Along with the Interactive Graphs, Worked Problems, and Origin of the Idea pieces, the student portion of the website includes web-based study questions, self-grading quizzes, and PowerPoint presentations. For math-minded students, there is a “See the Math” section, written by Norris Peterson, where the mathematical details of the concepts in the text can be explored.

The password-protected instructor's side of the Online Learning Center holds all of the supplementary instructor resource materials.

Premium Content

The Premium Content, available at the Online Learning Center, enables students to study and self-test on their computer or on the go.

- One of the world's leading experts on economic education—William Walstad of the University of Nebraska at Lincoln—has prepared the *Study Guide*. Each chapter contains an introductory statement, a checklist of behavioral objectives, an outline, a list of important terms, fill-in questions, problems and projects, objective questions, and discussion questions. Many students will find this “digital tutor” indispensable.
- The Solman Videos, a set of more than 250 minutes of video created by Paul Solman of *The News Hour with Jim Lehrer*, cover core economic concepts such as elasticity, deregulation, and perfect competition.

Study Econ Mobile App



McGraw-Hill is proud to offer a new mobile study app for students learning economics from McConnell, Brue, and Flynn's *Economics: Brief Edition*. The features of the Study Econ app include: flashcards for all key terms, a basic math review, customizable self quizzes, common mistakes, and games. For additional information please refer to the back inside cover of this book. Visit your mobile app store and download a trial version of the McConnell: Brief Edition Study Econ app today!

Supplements for Instructors

Instructor's Manual

Amy Stapp of Cuesta College prepared the Instructor's Manual. It includes chapter learning objectives, outlines, and summaries; numerous teaching suggestions; discussions of “student stumbling blocks;” listings of data and visual aid sources with suggestions for classroom use; and sample chapter quizzes. Available in MS Word on the instructor's side of the website, the manual enables instructors to print portions of the contents, complete with their own additions and alterations, for use as student handouts or in whatever ways they wish.

Test Bank

The *Economics: Brief Edition* Test Bank, originally written by William Walstad and newly compiled and updated by Mark Wilson of West Virginia University and Jeffrey Phillips of Colby-Sawyer College, contains multiple choice and true-false questions. Each question is tied to a learning objective, topic, and AACSB Assurance of Learning and Bloom's Taxonomy guidelines. While crafting tests in EZTest Online, instructors can use the whole chapter, scramble questions, and narrow the group by selecting the criteria. The Test Bank is also available in MS Word on the instructor's side of the website.

PowerPoint Presentations

Amy Chataginer of Mississippi Gulf Coast Community College created these in-depth slides to accompany lectures. The slides highlight all the main points of each chapter and include all of the figures and key tables from the text, as well as additional discussion notes. Each slide is tied to a learning objective.

Digital Image Library

Every graph and table in the text is available on the website. These figures allow instructors to create their own PowerPoint presentations and lecture materials.

Computerized Test Bank Online

A comprehensive bank of test questions is provided within McGraw-Hill's flexible electronic testing program EZ Test Online, www.eztestonline.com. EZ Test Online allows instructors to simply and quickly create tests or quizzes for their students. Instructors can select questions from multiple McGraw-Hill test banks or author their own, and then either print the finalized test or quiz for paper distribution or publish it online for access via the Internet.

This user-friendly program allows instructors to sort questions by format; select questions by learning objectives or Bloom's taxonomy tags; edit existing questions or add new ones; and scramble questions for multiple versions of the same test. Instructors can export their tests for use in WebCT, Blackboard, and PageOut, making it easy to share assessment materials with colleagues, adjuncts, and TAs. Instant scoring and feedback are provided, and EZ Test Online's record book is designed to easily export to instructor gradebooks.

Assurance of Learning Ready

Many educational institutions today are focused on the notion of *assurance of learning*, an important element of many accreditation standards. *Economics: Brief Edition*, 2nd edition is designed specifically to support your assurance of learning initiatives with a simple, yet powerful, solution.

Each chapter in the book begins with a list of numbered learning objectives, which appear throughout the chapter as well as in the end-of-chapter content. Every Test Bank question for *Economics: Brief Edition* maps to a specific chapter learning objective in the textbook. Each Test Bank question also identifies topic area, level of difficulty, Bloom's Taxonomy level, and AACSB skill area. You can use our Test Bank software, *EZ Test* and *EZ Test Online*, or *Connect Economics* to easily search for learning 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/Irwin is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Economics: Brief Edition* recognizes the curriculum guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in

the text and the Test Bank to the general knowledge and skill guidelines in the AACSB standards.

The statements contained in *Economics: Brief Edition* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Economics: Brief Edition* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within *Economics: Brief Edition*, labeled selected questions according to the six general knowledge and skills areas.

Acknowledgments

We give special thanks to Randy R. Grant of Linfield College, who not only wrote the Origin of the Idea pieces on our website but also served as the content coordinator for *Economics: Brief Edition*. Professor Grant modified and seamlessly incorporated appropriate new content and revisions that the authors made in the nineteenth edition of *Economics* into this second edition of the *Brief Edition*. He also updated the tables and other information in *Economics: Brief Edition* and made various improvements that he deemed helpful or were suggested to him by the authors, reviewers, and publisher.

We also want to acknowledge Norris Peterson of Pacific Lutheran University, who created the See the Math pieces and the Worked Problem pieces on our website. Professor Peterson also oversaw the development of the Interactive Graph pieces that are on the site. Finally, we wish to acknowledge William Walstad and Tom Barbiero (the coauthor of the Canadian edition of *Economics*) for their ongoing ideas and insights.

We are greatly indebted to an all-star group of professionals at McGraw-Hill—in particular Douglas Reiner, Noelle Bathurst, Harvey Yep, Melissa Larmon, Katie White, and Brent Gordon for their publishing and marketing expertise. We thank Keri Johnson and Michelle Buhr for their selection of Photo Op images. Mary Kazak Sander provided the vibrant interior design and cover.

The second edition has benefited from a number of perceptive formal reviews. The reviewers, listed at the end of the preface, were a rich source of suggestions for this revision. To each of you, and others we may have inadvertently overlooked, thank you for your considerable help in improving *Economics: Brief Edition*.

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