



Welcome to *Macroeconomics: 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 *Macroeconomics: 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 *Macroeconomics: 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One of the benefits of writing a successful text is the opportunity to revise—to delete the outdated and install the new, to rewrite misleading or ambiguous statements, to introduce more relevant illustrations, to improve the organizational structure, and to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 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: 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 5: GDP and Economic Growth includes a revised discussion of GDP accounting and updated coverage of productivity changes.

Chapter 6: 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 7: Aggregate Demand and Aggregate Supply features detailed discussion, application, and analysis of the recession of 2007–2009.

Chapter 8: Fiscal Policy, Deficits, and Debt includes important updates related to the recession, the subsequent policy response, and the debt debate.

Chapter 9: Money, Banking, and Financial Institutions provides an extensive discussion of the 2007–2008 financial crisis and the postcrisis financial services industry.

Chapter 10: 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 11: Long-Run Aggregate Supply and Aggregate Demand contains streamlined coverage and clarification of the main concepts.

Chapter 12: 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

Macroeconomics: 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

Macroeconomics: 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. 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. 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 couple of the many examples are sets of photos on traffic congestion and holiday lighting to contrast negative and positive externalities, 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 powerful 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

 **LearnSmart** 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 *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 *Macroeconomics: 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. *Macroeconomics: 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 the *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, *Macroeconomics: 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 *Macroeconomics: 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 *Macroeconomics: Brief Edition* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within the *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 the *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 *Macroeconomics: 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.

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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 *Macroeconomics: Brief Edition*.

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PART ONE

Introduction

- To the Student 2
- 1** Limits, Alternatives, and Choices 3
- 2** The Market System and the Circular Flow 31

PART TWO

Price, Quantity, and Efficiency

- 3** Demand, Supply, and Market Equilibrium 52
- 4** Market Failures: Public Goods and Externalities 75

PART THREE

GDP, Growth, and Instability

- 5** GDP and Economic Growth 105
- 6** Business Cycles, Unemployment, and Inflation 134
- 7** Aggregate Demand and Aggregate Supply 153
- 8** Fiscal Policy, Deficits, and Debt 178

PART FOUR

Money, Banking, and Monetary Policy

- 9** Money, Banking, and Financial Institutions 205
- 10** Interest Rates and Monetary Policy 240

PART FIVE

Long-Run Considerations and International Economics

- 11** Long-Run Aggregate Supply and Aggregate Demand 263
- 12** International Trade and Exchange Rates 286

- Glossary 313
- Index 327

Contents

PART ONE

Introduction

To the Student 2

Chapter 1

Limits, Alternatives, and Choices 3

The Economic Perspective 4

Scarcity and Choice 4

Illustrating the Idea *Did Gates, Winfrey, and Rodriguez Make Bad Choices?* 4

Purposeful Behavior 5 / Marginalism: Comparing Benefits and Costs 5

Applying the Analysis *Fast-Food Lines* 6

Theories, Principles, and Models 7

Microeconomics and Macroeconomics 8

Microeconomics 8 / Macroeconomics 8

Individual's Economic Problem 8

Limited Income 9 / Unlimited Wants 9 /

A Budget Line 10

Society's Economic Problem 12

Scarce Resources 12 / Resource Categories 12

Production Possibilities Model 14

Production Possibilities Table 14 / Production Possibilities

Curve 15 / Law of Increasing Opportunity

Costs 15 / Optimal Allocation 16

Applying the Analysis *The Economics of War* 17

Unemployment, Growth, and the Future 18

A Growing Economy 18

Applying the Analysis *Information Technology and Biotechnology* 20

Present Choices and Future Possibilities 20

Summary 22

Terms and Concepts 22

Questions 22

Problems 23

APPENDIX CHAPTER 1: Graphs and Their Meaning 25

Chapter 2

The Market System and the Circular Flow 31

Economic Systems 32

The Command System 32 / The Market System 32

Characteristics of the Market System 33

Private Property 33 / Freedom of Enterprise and Choice 34 / Self-Interest 34 /

Competition 35 / Markets and Prices 36 / Technology and

Capital Goods 36 / Specialization 36 / Use

of Money 38 / Active, but Limited,

Government 39

Four Fundamental Questions 39

What Will Be Produced? 39

Applying the Analysis *McHits and McMisses* 40

How Will the Goods and Services Be Produced? 40 / Who Will Get the Output 41 / How Will the System Promote Progress? 41	
Applying the Analysis <i>The “Invisible Hand”</i> 42	
Applying the Analysis <i>The Demise of the Command Systems</i> 42	
The Circular Flow Model 44	
Households 44 / Businesses 44 / Product Market 45 / Resource Market 45	
Applying the Analysis <i>Some Facts about U.S. Businesses</i> 46	
Applying the Analysis <i>Some Facts about U.S. Households</i> 47	
Summary 49	
Terms and Concepts 49	
Questions 49	
Problems 50	
PART TWO	
Price, Quantity, and Efficiency	
Chapter 3	
Demand, Supply, and Market Equilibrium 52	
Demand 53	
Law of Demand 53 / The Demand Curve 53 / Market Demand 54 / Changes in Demand 56 / Changes in Quantity Demanded 58	
Supply 58	
Law of Supply 59 / Market Supply 59 / Determinants of Supply 60 / Changes in Supply 60 / Changes in Quantity Supplied 61	
Market Equilibrium 62	
Equilibrium Price and Quantity 62 / Rationing Function of Prices 63	
Applying the Analysis <i>Ticket Scalping</i> 64	
Changes in Demand, Supply, and Equilibrium 65	
Changes in Demand 65 / Changes in Supply 65 / Complex Cases 65	
Government-Set Prices 67	
Applying the Analysis <i>Price Ceilings on Gasoline</i> 67	
Applying the Analysis <i>Rent Controls</i> 68	
Applying the Analysis <i>Price Floors on Wheat</i> 69	
Summary 71	
Terms and Concepts 72	
Questions 72	
Problems 73	
APPENDIX CHAPTER 3W: Additional Examples of Supply and Demand	•••
www.mcconnellbrief2e.com	
Chapter 4	
Market Failures: Public Goods and Externalities 75	
Market Failures in Competitive Markets 76	
Demand-Side Market Failures 76 / Supply-Side Market Failures 76	
Efficiently Functioning Markets 77	
Consumer Surplus 77 / Producer Surplus 79 / Efficiency Revisited 80 / Efficiency Losses (or Deadweight Losses) 82	
Private and Public Goods 84	
Private Goods Characteristics 84 / Profitable Provision 84 / Public Goods Characteristics 85	
Illustrating the Idea <i>Art for Art’s Sake</i> 86	
Comparing Marginal Benefit and Marginal Cost 87	
Applying the Analysis <i>Cost-Benefit Analysis</i> 88	
Externalities 89	
Negative Externalities 89 / Positive Externalities 90	
Illustrating the Idea <i>Beekeepers and the Coase Theorem</i> 92	
Government Intervention 92	
Applying the Analysis <i>Lojack: A Case of Positive Externalities</i> 95	
Applying the Analysis <i>Reducing Greenhouse Gases</i> 96	
Society’s Optimal Amount of Externality Reduction 96	
Government’s Role in the Economy 98	
Summary 99	
Terms and Concepts 100	
Questions 100	
Problems 101	
PART THREE	
GDP, Growth, and Instability	
Chapter 5	
GDP and Economic Growth 105	
Gross Domestic Product 105	
A Monetary Measure 106 / Avoiding Multiple Counting 106 / Excluding Secondhand Sales and Financial Transactions 107	
Measuring GDP 108	
Personal Consumption Expenditures (C) 108 / Gross Private Domestic Investment (I_g) 108 / Government Purchases (G) 109 / Net Exports (X_n) 110 / Adding It Up: $GDP = C + I_g + G + X_n$ 110	
Nominal GDP versus Real GDP 111	
Applying the Analysis <i>The Underground Economy</i> 112	
Economic Growth 113	
Growth as a Goal 114 / Arithmetic of Growth 114	
Illustrating the Idea <i>Growth Rates Matter!</i> 114	
Growth in the United States 115	
Determinants of Growth 116	
Supply Factors 116 / Demand Factor 116 / Efficiency Factor 117	
Production Possibilities Analysis 117	
Growth and Production Possibilities 117 / Inputs and Productivity 118	
Accounting for Growth 119	
Labor Inputs versus Labor Productivity 119 / Technological Advance 120 / Quantity of Capital 121 / Education and	

Training 122 / Economies of Scale and Resource Allocation 122 / Institutional Structures That Promote Growth 123 / Other Factors 124

The Rise in the Average Rate of Productivity Growth 124

Reasons for the Rise in the Average Rate of Productivity Growth 125 / Implications for Economic Growth 127 / Skepticism about Longevity 128 / What Can We Conclude? 128

Is Growth Desirable and Sustainable? 129

The Antigrowth View 129 / In Defense of Economic Growth 129

Summary 131

Terms and Concepts 131

Questions 132

Problems 132

Chapter 6

Business Cycles, Unemployment, and Inflation 134

Business Cycles 135

Causes of Business Cycles 136 / Cyclical Impact: Durables and Nondurables 138

Applying the Analysis *Stock Prices and Macroeconomic Instability* 138

Unemployment 139

Measurement of Unemployment 139 / Types of Unemployment 140 / Definition of Full Employment 142 / Economic Cost of Unemployment 142 / International Comparisons 142

Inflation 143

Meaning of Inflation 143 / Measurement of Inflation 143 / Facts of Inflation 144 / Types of Inflation 145

Illustrating the Idea *Clipping Coins* 145

Redistribution Effects of Inflation 146

Who Is Hurt by Inflation? 147 / Who Is Unaffected or Helped by Inflation? 148 / Anticipated Inflation 148

Does Inflation Affect Output? 149

Cost-Push Inflation and Real Output 149 / Demand-Pull Inflation and Real Output 149

Applying the Analysis *Hyperinflation* 150

Summary 150

Terms and Concepts 151

Questions 151

Problems 151

Chapter 7

Aggregate Demand and Aggregate Supply 153

Aggregate Demand 154

Changes in Aggregate Demand 154

Consumer Spending 155

Applying the Analysis *What Wealth Effect?* 156

Investment Spending 157 / Government Spending 158 / Net Export Spending 159

Aggregate Supply 160

Aggregate Supply in the Immediate Short Run 160 / Aggregate Supply in the Short Run 161 / Aggregate Supply in the Long Run 163 / Focusing on the Short Run 164

Changes in Aggregate Supply 164

Input Prices 165 / Productivity 166 / Legal-Institutional Environment 167

Equilibrium Price Level and Real GDP 167

Changes in the Price Level and Real GDP 168

Applying the Analysis *Demand-Pull Inflation* 168

Applying the Analysis *Cost-Push Inflation* 169

Downward Price-Level Inflexibility 171

Illustrating the Idea *The Ratchet Effect* 171

Applying the Analysis *Recession and Cyclical Unemployment* 172

The Multiplier Effect 173 / Self-Correction? 174

Summary 174

Terms and Concepts 175

Questions 175

Problems 176

Chapter 8

Fiscal Policy, Deficits, and Debt 178

Fiscal Policy and the AD-AS Model 179

Expansionary Fiscal Policy 179 / Contractionary Fiscal Policy 180

Built-In Stability 182

Automatic or Built-In Stabilizers 182 / Economic Importance 183

Evaluating Fiscal Policy 183

Applying the Analysis *Recent U.S. Fiscal Policy* 185

Problems, Criticisms, and Complications 188

Problems of Timing 188 / Political Considerations 189 / Future Policy Reversals 190 / Offsetting State and Local Finance 190 / Crowding-Out Effect 190 / Current Thinking on Fiscal Policy 191

The U.S. Public Debt 192

Ownership 192 / Debt and GDP 192 / International Comparisons 193 / Interest Charges 194

False Concerns? 194

Bankruptcy 194 / Burdening Future Generations 195

Substantive Issues 196

Income Distribution 196 / Incentives 196 / Foreign-Owned Public Debt 196 / Crowding-Out Effect Revisited 196

The Long-Run Fiscal Imbalance: Social Security 198

The Future Funding Shortfall 198 / Policy Options 200

Summary 200

Terms and Concepts 201

Questions 202

Problems 202

PART FOUR**Money, Banking, and Monetary Policy****Chapter 9**

Money, Banking, and Financial Institutions	205
The Functions of Money	206
The Components of the Money Supply	207
Money Definition: M1 207 / Money Definition: M2 210	
What “Backs” the Money Supply?	211
Value of Money 211	
Illustrating the Idea <i>Are Credit Cards Money?</i> 212	
Money and Prices 213	
The Federal Reserve and the Banking System	213
Board of Governors 214 / The 12 Federal Reserve Banks 214 / FOMC 215 / Commercial Banks and Thrifts 216 / Fed Functions and Responsibilities 217 / Federal Reserve Independence 217	
The Financial Crisis of 2007 and 2008	218
The Mortgage Default Crisis 218 / Securitization 219 / Failures and Near-Failures of Financial Firms 220 / The Treasury Bailout: TARP 221	
The Postcrisis U.S. Financial Services Industry	221
The Fractional Reserve System	221
Illustrating the Idea <i>The Goldsmiths</i> 223	
A Single Commercial Bank	225
Transaction 1: Creating a Bank 225 / Transaction 2: Acquiring Property and Equipment 225 / Transaction 3: Accepting Deposits 226 / Transaction 4: Depositing Reserves in a Federal Reserve Bank 226 / Transaction 5: Clearing a Check Drawn against the Bank 228 / Transaction 6: Granting a Loan (Creating Money) 228	
The Banking System: Multiple-Deposit Expansion	231
The Banking System’s Lending Potential 232 / The Monetary Multiplier 234 / Reversibility: The Multiple Destruction of Money 234	
Applying the Analysis <i>The Bank Panics of 1930 to 1933</i> 235	
Summary 236	
Terms and Concepts 237	
Questions 237	
Problems 238	

Chapter 10

Interest Rates and Monetary Policy	240
Interest Rates	241
The Demand for Money 241 / The Equilibrium Interest Rate 244	
Illustrating the Idea <i>That Is Interest</i> 244	
Tools of Monetary Policy	244
Open-Market Operations 245 / The Reserve Ratio 246 / The Discount Rate 247 / Relative Importance 247 / Easy Money and Tight Money 248	
Monetary Policy, Real GDP, and the Price Level	249
Cause-Effect Chain 249 / Effects of an Easy Money Policy 251 / Effects of a Tight Money Policy 252	

Monetary Policy in Action	253
The Focus on the Federal Funds Rate 253	
Applying the Analysis <i>Recent U.S. Monetary Policy</i> 255	
Applying the Analysis <i>The Financial Crisis: The Fed Responds</i> 256	
Problems and Complications 257	
Applying the Analysis <i>Up, Up, and Away</i> 259	
Summary 259	
Terms and Concepts 260	
Questions 260	
Problems 261	

PART FIVE**Long-Run Considerations and International Economics****Chapter 11**

Long-Run Aggregate Supply and Aggregate Demand	263
From Short Run to Long Run	264
Short-Run Aggregate Supply 264 / Long-Run Aggregate Supply 265	
Long-Run Equilibrium in the AD-AS Model	266
Applying the Analysis <i>Demand-Pull Inflation in the Long-Run AD-AS Model</i> 267	
Applying the Analysis <i>Cost-Push Inflation in the Long-Run AD-AS Model</i> 269	
Applying the Analysis <i>Recession in the Long-Run AD-AS Model</i> 269	
Economic Growth and Ongoing Inflation	270
The Inflation-Unemployment Relationship	272
Short-Run Trade-Off: The Phillips Curve 273 / Aggregate Supply Shocks and Shifts of the Phillips Curve 274 / No Long-Run Inflation-Unemployment Trade-Off 276	
Taxation and Aggregate Supply	279
The Laffer Curve 279	
Illustrating the Idea <i>Sherwood Forest</i> 280	
Criticisms, Rebuttals, and Assessment 281	
Summary 282	
Terms and Concepts 283	
Questions 283	
Problems 284	

Chapter 12

International Trade and Exchange Rates	286
Trade Facts	287
Comparative Advantage and Specialization	288
Illustrating the Idea <i>A CPA and a House Painter</i> 289	
Comparative Advantage: Production Possibilities Analysis 290 / Trade with Increasing Costs 292	

The Foreign Exchange Market	294	Multilateral Trade Agreements and Free-Trade Zones	305
Exchange Rates 295 / Depreciation and Appreciation 296 / Determinants of Exchange Rates 296		General Agreement on Tariffs and Trade 305 / World Trade Organization 305 / European Union 305 / North American Free Trade Agreement 306	
Government and Trade	298	Recent U.S. Trade Deficits	306
Trade Protections and Subsidies 298 / Economic Impact of Tariffs 299 / Net Costs of Tariffs 300 / So Why Government Trade Protections 300 Illustrating the Idea <i>Buy American?</i> 301		Causes of the Trade Deficits 307 / Implications of U.S. Trade Deficits 307 Summary 309 Terms and Concepts 309 Questions 310 Problems 310	
Three Arguments for Protection	301	Glossary	313
Increased-Domestic-Employment Argument 301 / Cheap-Foreign- Labor Argument 302 / Protection-against-Dumping Argument 302		Index	327
Trade Adjustment Assistance	303		
Applying the Analysis <i>Is Offshoring of Jobs Bad?</i> 304			