

# Contents

|   |            |
|---|------------|
| <b>Preface</b>  | <b>xi</b>  |
| <b>Acknowledgements</b>                               | <b>xix</b> |
| <b>Skills Resource</b>                                | <b>xxi</b> |
| <br>  |            |
| <b>Part 1: Working with Economics</b>                 | <b>1</b>   |
| <b>Chapter 1: The Economic Problem</b>                | <b>2</b>   |
| 1.1 What Economists Do                                | 3          |
| 1.2 Economic Choice                                   | 6          |
| 1.3 The Production Possibilities Model                | 7          |
| 1.4 Economic Systems                                  | 23         |
| Last Word   | 20         |
| Key Concepts  | 20         |
| Questions   | 20         |
| Internet Application Question                         | 23         |
| The Founder of Modern Economics: Adam Smith           | 24         |
| Economics as an Art: The Craft of Economic Thinking   | 27         |
| <br>  |            |
| <b>Chapter 2: Demand and Supply</b>                   | <b>29</b>  |
| 2.1 The Role of Demand                                | 30         |
| 2.2 The Role of Supply                                | 36         |
| 2.3 How Competitive Markets Operate                   | 40         |
| Last Word   | 44         |
| Key Concepts  | 45         |
| Questions   | 45         |
| Internet Application Questions                        | 48         |
| Spoilt for Choice: William Stanley Jevons             | 49         |
| <br>  |            |
| <b>Chapter 3: Competitive Dynamics and Government</b> | <b>52</b>  |
| 3.1 Price Elasticity of Demand                        | 53         |
| 3.2 Price Elasticity of Supply                        | 62         |
| 3.3 Excise Taxes                                      | 66         |
| 3.4 Price Controls                                    | 69         |
| Last Word   | 73         |
| Key Concepts  | 73         |
| Questions   | 73         |
| Internet Application Question                         | 76         |
| Prophet of Capitalism's Doom: Karl Marx               | 77         |
| For the Public Good: The Economic Role of Government  | 80         |

|  |            |
|--|------------|
| <b>Part 2: Efficiency and Equity</b>                       | <b>85</b>  |
| <b>Chapter 4: Costs of Production</b>                      | <b>86</b>  |
| 4.1 Production, Costs, and Profit                          | 87         |
| 4.2 Production in the Short Run                            | 90         |
| 4.3 Costs in the Short Run                                 | 95         |
| 4.4 Production and Costs in the Long Run                   | 99         |
| Last Word  | 104        |
| Key Concepts   | 105        |
| Questions  | 105        |
| Internet Application Questions                             | 108        |
| Critic of the Modern Corporation: John Kenneth Galbraith   | 109        |
| <b>Chapter 5: Perfect Competition</b>                      | <b>111</b> |
| 5.1 Market Structures                                      | 112        |
| 5.2 Perfect Competition in the Short Run                   | 116        |
| 5.3 Perfect Competition in the Long Run                    | 124        |
| 5.4 Benefits of Perfect Competition                        | 126        |
| Last Word  | 127        |
| Key Concepts   | 127        |
| Questions  | 127        |
| Internet Application Question                              | 129        |
| Appendix: How Resource Markets Operate                     | 130        |
| Can Capitalism Survive? Joseph Schumpeter                  | 137        |
| <b>Chapter 6: Monopoly and Imperfect Competition</b>       | <b>140</b> |
| 6.1 Demand Differences                                     | 141        |
| 6.2 Monopoly   | 144        |
| 6.3 Imperfect Competition                                  | 149        |
| 6.4 Traits of Imperfect Competition                        | 159        |
| Last Word  | 163        |
| Key Concepts   | 164        |
| Questions  | 164        |
| Internet Application Question                              | 168        |
| The Games People Play: Thomas C. Schelling and Game Theory | 169        |
| <b>Chapter 7: Economic Welfare and Income Distribution</b> | <b>171</b> |
| 7.1 Economic Welfare                                       | 172        |
| 7.2 Spillover Effects                                      | 178        |
| 7.3 The Distribution of Income                             | 182        |
| 7.4 Poverty  | 191        |
| 7.5 The Canadian Welfare Society                           | 194        |
| Last Word  | 198        |
| Key Concepts   | 199        |
| Questions  | 199        |
| Internet Application Question                              | 202        |
| The Doomsday Prophet: Thomas Malthus                       | 203        |

|   |            |
|---|------------|
| <b>Part 3: Economic Stability</b>                         | <b>205</b> |
| <b>Chapter 8: Measures of Economic Activity</b>           | <b>206</b> |
| 8.1 Gross Domestic Product                                | 207        |
| 8.2 GDP and Living Standards                              | 216        |
| 8.3 Other Economic Measures                               | 220        |
| Last Word   | 222        |
| Key Concepts  | 222        |
| Questions   | 223        |
| Internet Application Questions                            | 224        |
| Adding the Human Dimension: Mahbub ul Haq                 | 225        |
| <b>Chapter 9: Inflation and Unemployment</b>              | <b>228</b> |
| 9.1 Inflation   | 229        |
| 9.2 Unemployment  | 237        |
| Last Word   | 245        |
| Key Concepts  | 245        |
| Questions   | 245        |
| Internet Application Questions                            | 248        |
| Boom Bust & Echo: David Foot                              | 249        |
| <b>Chapter 10: Economic Fluctuations</b>                  | <b>252</b> |
| 10.1 Aggregate Demand                                     | 253        |
| 10.2 Aggregate Supply                                     | 260        |
| 10.3 Equilibrium  | 265        |
| 10.4 Economic Growth                                      | 270        |
| 10.5 Economic Growth and Business Cycles                  | 278        |
| Last Word   | 283        |
| Key Concepts  | 283        |
| Questions   | 284        |
| Internet Application Questions                            | 286        |
| Appendix: The Aggregate Expenditures Model                | 287        |
| Making an Economy Grow: Paul Romer                        | 292        |
| <b>Chapter 11: Fiscal Policy</b>                          | <b>295</b> |
| 11.1 Fiscal Policy  | 296        |
| 11.2 The Spending Multiplier                              | 300        |
| 11.3 Impact of Fiscal Policy                              | 308        |
| Last Word   | 312        |
| Key Concepts  | 312        |
| Questions   | 313        |
| Internet Application Questions                            | 314        |
| Appendix: The Aggregate Expenditures Model and Government | 315        |
| Economist Extraordinaire: John Maynard Keynes             | 319        |
| Mountain or Mirage: The Debate over Public Debt           | 322        |
| <b>Chapter 12: Money</b>                                  | <b>325</b> |
| 12.1 Money and Its Uses                                   | 326        |
| 12.2 The Money Market                                     | 333        |
| 12.3 Money Creation                                       | 337        |
| Last Word   | 343        |

|  |            |
|--|------------|
| Key Concepts   | 343        |
| Questions  | 343        |
| Internet Application Questions   | 345        |
| We Are What We Make: Harold Innis  | 346        |
| <b>Chapter 13: Monetary Policy</b>   | <b>349</b> |
| 13.1 The Bank of Canada  | 350        |
| 13.2 Monetary Policy   | 352        |
| 13.3 Tools of Monetary Policy  | 354        |
| 13.4 Inflation and Unemployment  | 358        |
| Last Word  | 364        |
| Key Concepts   | 364        |
| Questions  | 364        |
| Internet Application Questions   | 365        |
| Money Matters: Milton Friedman   | 367        |
| <b>Part 4: Canada in the Global Economy</b>  | <b>371</b> |
| <b>Chapter 14: The Foreign Sector</b>  | <b>372</b> |
| 14.1 The Balance of Payments   | 373        |
| 14.2 Exchange Rates  | 380        |
| 14.3 Exchange Rate Systems   | 386        |
| Last Word  | 392        |
| Key Concepts   | 392        |
| Questions  | 392        |
| Internet Application Questions   | 395        |
| Sharing Prosperity: Judith Maxwell   | 396        |
| <b>Chapter 15: Foreign Trade</b>   | <b>398</b> |
| 15.1 Canada's Foreign Trade  | 399        |
| 15.2 The Case for Trade  | 103        |
| 15.3 The Impact of Trade Protection  | 408        |
| 15.4 Trade Policies  | 414        |
| Last Word  | 420        |
| Key Concepts   | 420        |
| Questions  | 420        |
| Internet Application Questions   | 422        |
| Shifting Gears: Nuala Beck   | 423        |
| Additional Chapters (available at <a href="http://www.mcgrawhill.ca/olc/lovewell">www.mcgrawhill.ca/olc/lovewell</a> ) |            |
| <b>Chapter 16: Resource Demand</b>   |            |
| <b>Chapter 17: Wages, Rent, Interest, and Profit</b>   |            |
| <b>Chapter 18: Economic Development</b>  |            |
| <b>Glossary</b>  | <b>427</b> |
| <b>Index</b>   | <b>434</b> |