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Title: Macroeconomics / R. Glenn Hubbard, Columbia University, Anthony Patrick O’Brien, Lehigh University.
Subjects: LCSH: Macroeconomics.
Classification: LCC HB172.3 .H86 2018 | DDC 339—dc23
LC record available at https://lccn.loc.gov/2017050532

ISBN 10: 0-13-473831-4
For Constance, Raph, and Will
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## CONTENTS

Preface P-1  
A Word of Thanks P-25

### PART 1  Introduction

**CHAPTER 1:** Economics: Foundations and Models 2

Why Does Ford Assemble Cars in Both the United States and Mexico? 2

1.1 Three Key Economic Ideas 4
   - People Are Rational 5
   - People Respond to Economic Incentives 5
   **Apply the Concept:** Does Health Insurance Give People an Incentive to Become Obese? 5
   - Optimal Decisions Are Made at the Margin 7
   **Solved Problem 1.1:** The Marginal Benefit and Marginal Cost of Speed Limits 7

1.2 The Economic Problem That Every Society Must Solve 8
   - What Goods and Services Will Be Produced? 9
   - How Will the Goods and Services Be Produced? 9
   - Who Will Receive the Goods and Services Produced? 9
   - Centrally Planned Economies versus Market Economies 10
   - The Modern “Mixed” Economy 10
   - Efficiency and Equity 11

1.3 Economic Models 12
   - The Role of Assumptions in Economic Models 12
   - Forming and Testing Hypotheses in Economic Models 13
   - Positive and Normative Analysis 14
   **Don’t Let This Happen to You:** Don’t Confuse Positive Analysis with Normative Analysis 14
   **Apply the Concept:** What Can Economics Contribute to the Debate over Tariffs? 15

1.4 Microeconomics and Macroeconomics 16

1.5 Economic Skills and Economics as a Career 16

1.6 A Preview of Important Economic Terms 17

**Conclusion** 19

*Chapter Summary and Problems 22

   - Key Terms, Summary, Review Questions, Problems and Applications, and Critical Thinking Exercises

Appendix: Using Graphs and Formulas 28

Graphs of One Variable 29

Graphs of Two Variables 30
   - Slopes of Lines 31

Taking into Account More Than Two Variables on a Graph 32
   - Positive and Negative Relationships 32
   - Determining Cause and Effect 34
   - Are Graphs of Economic Relationships Always Straight Lines? 35
   - Slopes of Nonlinear Curves 35

**Formulas** 36
   - Formula for a Percentage Change 37
   - Formulas for the Areas of a Rectangle and a Triangle 37
   - Summary of Using Formulas 38
   - Problems and Applications 38

**CHAPTER 2:** Trade-offs, Comparative Advantage, and the Market System 40

Managers at Tesla Motors Face Trade-offs 40

2.1 Production Possibilities Frontiers and Opportunity Costs 42
   - Graphing the Production Possibilities Frontier 42
   **Solved Problem 2.1:** Drawing a Production Possibilities Frontier for Tesla Motors 44
   - Increasing Marginal Opportunity Costs 46
   - Economic Growth 47

2.2 Comparative Advantage and Trade 48
   - Specialization and Gains from Trade 48
   - Absolute Advantage versus Comparative Advantage 50
   - Comparative Advantage and the Gains from Trade 51
   **Don’t Let This Happen to You:** Don’t Confuse Absolute Advantage and Comparative Advantage 51
   **Solved Problem 2.2:** Comparative Advantage and the Gains from Trade 52
   **Apply the Concept:** Comparative Advantage, Opportunity Cost, and Housework 53

2.3 The Market System 54
   - The Circular Flow of Income 55
   - The Gains from Free Markets 56
   - The Market Mechanism 56
   **Apply the Concept:** A Story of the Market System in Action: How Do You Make an iPad? 57
   - The Role of the Entrepreneur in the Market System 59
   - The Legal Basis of a Successful Market System 59
   **Apply the Concept:** Managers at Feeding America Use the Market Mechanism to Reduce Hunger 62

* These end-of-chapter resource materials repeat in all chapters. Select chapters also include Real-Time Data Exercises. Students can complete all questions, problems, and exercises in MyLab Economics.
CHAPTER 4: Economic Efficiency, Government Price Setting, and Taxes


4.1 Consumer Surplus and Producer Surplus 110
Consumer Surplus 110

Apply the Concept: The Consumer Surplus from Uber 112
Producer Surplus 114

What Consumer Surplus and Producer Surplus Measure 115

4.2 The Efficiency of Competitive Markets 115
Marginal Benefit Equals Marginal Cost in Competitive Equilibrium 115
Economic Surplus 116
Deadweight Loss 117
Economic Surplus and Economic Efficiency 117

4.3 Government Intervention in the Market: Price Floors and Price Ceilings 118
Price Floors: Government Policy in Agricultural Markets 118

Apply the Concept: Price Floors in Labor Markets: The Debate over Minimum Wage Policy 119
Price Ceilings: Government Rent Control Policy in Housing Markets 121

Don’t Let This Happen to You: Don’t Confuse “Scarcity” with “Shortage” 122
Black Markets and Peer-to-Peer Sites 122

Solved Problem 4.3: What’s the Economic Effect of a Black Market in Renting Apartments? 123
The Results of Government Price Controls: Winners, Losers, and Inefficiency 124

Apply the Concept: Price Controls Lead to Economic Decline in Venezuela 124
Positive and Normative Analysis of Price Ceilings and Price Floors 126

4.4 The Economic Effect of Taxes 126
The Effect of Taxes on Economic Efficiency 126

Tax Incidence: Who Actually Pays a Tax? 127

Solved Problem 4.4: When Do Consumers Pay All of a Sales Tax Increase? 128

Don’t Let This Happen to You: Is the Burden of the Social Security Tax Really Shared Equally between Workers and Firms? 130

Conclusion 131

An Inside Look: Will Uber Be Required to Pay British VAT? 132

Chapter Summary and Problems 134

Appendix: Quantitative Demand and Supply Analysis 141

Demand and Supply Equations 141
Calculating Consumer Surplus and Producer Surplus 142

Review Questions 144
Problems and Applications 144
CHAPTER 5: The Economics of Health Care 146
Where Will You Find Health Insurance? 146
5.1 The Improving Health of People in the United States 148
Changes over Time in U.S. Health 149
Reasons for Long-Run Improvements in U.S. Health 149
5.2 Health Care around the World 150
The U.S. Health Care System 150
Apply the Concept: The Increasing Importance of Health Care in the U.S. Economy 152
The Health Care Systems of Canada, Japan, and the United Kingdom 153
Comparing Health Care Outcomes around the World 154
How Useful Are Cross-Country Comparisons of Health Outcomes? 155
5.3 Information Problems and Externalities in the Market for Health Care 156
Adverse Selection and the Market for “Lemons” 156
Asymmetric Information in the Market for Health Insurance 157
Don’t Let This Happen to You: Don’t Confuse Adverse Selection with Moral Hazard 158
Externalities in the Market for Health Care 159
Should the Government Run the Health Care System? 161
5.4 The Debate over Health Care Policy in the United States 162
The Rising Cost of Health Care 162
Apply the Concept: Are U.S. Firms Handicapped by Paying for Their Employees’ Health Insurance? 164
Explaining Increases in Health Care Spending 165
The Continuing Debate over Health Care Policy 168
Solved Problem 5.4: Recent Trends in U.S. Health Care 169
Apply the Concept: How Much Is That MRI Scan? 171
Conclusion 173
Chapter Summary and Problems 174

PART 2 Firms in the Domestic and International Economies

CHAPTER 6: Firms, the Stock Market, and Corporate Governance 180
Is Snapchat the Next Facebook . . . or the Next Twitter? 180
6.1 Types of Firms 182
Who Is Liable? Limited and Unlimited Liability 182
Corporations Earn the Majority of Revenue and Profits 183
Apply the Concept: Why Are Fewer Young People Starting Businesses? 184
The Structure of Corporations and the Principal–Agent Problem 185
6.2 How Firms Raise Funds 186
Sources of External Funds 186
Apply the Concept: The Rating Game: Are the Federal Government or State Governments Likely to Default on Their Bonds? 187
Stock and Bond Markets Provide Capital—and Information 189
The Fluctuating Stock Market 190
Don’t Let This Happen to You: When Snap Shares Are Sold, Snap Doesn’t Get the Money 190
Apply the Concept: Why Are Many People Poor Stock Market Investors? 192
Solved Problem 6.2: Why Does Warren Buffett Like Mutual Funds? 193
6.3 Using Financial Statements to Evaluate a Corporation 194
The Income Statement 194
The Balance Sheet 195
6.4 Recent Issues in Corporate Governance Policy 196
The Accounting Scandals of the Early 2000s 196
Corporate Governance and the Financial Crisis of 2007–2009 196
Government Regulation in Response to the Financial Crisis 197
Did Principal–Agent Problems Help Cause the 2007–2009 Financial Crisis? 197
Apply the Concept: Should Investors Worry about Corporate Governance at Snapchat? 198
Conclusion 200
Chapter Summary and Problems 201
Appendix: Tools to Analyze Firms’ Financial Information 206
Using Present Value to Make Investment Decisions 206
Solved Problem 6A.1: How to Receive Your Contest Winnings 208
Using Present Value to Calculate Bond Prices 209
Using Present Value to Calculate Stock Prices 210
A Simple Formula for Calculating Stock Prices 210
Going Deeper into Financial Statements 211
Analyzing Income Statements 212
Analyzing Balance Sheets 212
Review Questions 214
Problems and Applications 214

CHAPTER 7: Comparative Advantage and the Gains from International Trade 216
President Trump, Oreo Cookies, and Free Trade 216
7.1 The United States in the International Economy 218
The Importance of Trade to the U.S. Economy 219
U.S. International Trade in a World Context 220
## 7.2 Comparative Advantage in International Trade

A Brief Review of Comparative Advantage 220
Comparative Advantage and Absolute Advantage 221

## 7.3 How Countries Gain from International Trade

Increasing Consumption through Trade 222
Solved Problem 7.3: The Gains from Trade 224
Why Don’t We See Complete Specialization? 225
Does Anyone Lose as a Result of International Trade? 226
Don’t Let This Happen to You: Remember That Trade Creates Both Winners and Losers 226
Apply the Concept: Who Gains and Who Loses from U.S. Trade with China? 226
Where Does Comparative Advantage Come From? 229

## 7.4 Government Policies That Restrict International Trade

Tariffs 230
Quotas and Voluntary Export Restraints 232
Measuring the Economic Effect of the Sugar Quota 232
Solved Problem 7.4: Measuring the Economic Effect of a Quota 234
The High Cost of Preserving Jobs with Tariffs and Quotas 235
Apply the Concept: Smoot-Hawley, the Politics of Tariffs, and the Cost of Protecting a Vanishing Industry 235
Gains from Unilateral Elimination of Tariffs and Quotas 237
Other Barriers to Trade 237

## 7.5 The Debate over Trade Policies and Globalization

Why Do Some People Oppose the World Trade Organization? 237
Apply the Concept: Protecting Consumer Health or Protecting U.S. Firms from Competition? 240
Dumping 241
Positive versus Normative Analysis (Once Again) 241
Conclusion 242
Chapter Summary and Problems 243

---

## PART 3 Macroeconomic Foundations and Long-Run Growth

### CHAPTER 8: GDP: Measuring Total Production and Income

The Ford Motor Company Meets Macroeconomics 252

#### 8.1 Gross Domestic Product Measures Total Production

Measuring Total Production: Gross Domestic Product 255
Solved Problem 8.1: Calculating GDP 256
Production, Income, and the Circular-Flow Diagram 256
Components of GDP 258
Don’t Let This Happen to You: Remember What Economists Mean by Investment 259
An Equation for GDP and Some Actual Values 259
Apply the Concept: Microsoft’s Steve Ballmer Uses the U.S. Constitution to Reorganize Government Data 260
Measuring GDP Using the Value-Added Method 262

#### 8.2 Does GDP Measure What We Want It to Measure?

Shortcomings in GDP as a Measure of Total Production 262
Apply the Concept: Why Do Many Developing Countries Have Such Large Underground Economies? 263
Shortcomings of GDP as a Measure of Well-Being 264

#### 8.3 Real GDP versus Nominal GDP

Calculating Real GDP 265
Solved Problem 8.3: Calculating Real GDP 265
Comparing Real GDP and Nominal GDP 266
The GDP Deflator 267
Apply the Concept: Did the Standard of Living in Nigeria Almost Double Overnight? 268

#### 8.4 Other Measures of Total Production and Total Income

Gross National Product 269
National Income 269
Personal Income 270
Disposable Personal Income 270
The Division of Income 270
Conclusion 271
Chapter Summary and Problems 272

### CHAPTER 9: Unemployment and Inflation

Why Would Boeing Cut Thousands of Jobs As the Economy Expands? 278

#### 9.1 Measuring the Unemployment Rate, the Labor Force Participation Rate, and the Employment–Population Ratio

The Household Survey 280
Solved Problem 9.1: What Happens if the BLS Includes the Military? 282
Problems with Measuring the Unemployment Rate 283
Trends in Labor Force Participation 284
Unemployment Rates for Different Groups 285
How Long Are People Typically Unemployed? 286
Apply the Concept: Eight Million Workers Are Missing! 286
The Establishment Survey: Another Measure of Employment 288
Revisions in the Establishment Survey 288
Employment Data: How Bad Was the 2007–2009 Recession? 289
Job Creation and Job Destruction over Time 289
CONTENTS

9.2 Types of Unemployment 290
Frictional Unemployment and Job Search 290
Structural Unemployment 291
Cyclical Unemployment 291
Full Employment 292
Apply the Concept: How Should We Categorize the Unemployment Resulting from Boeing’s Layoffs? 292

9.3 Explaining Unemployment 293
Government Policies and the Unemployment Rate 293
Labor Unions 294
Efficiency Wages 295

9.4 Measuring Inflation 295
The Consumer Price Index 295
Is the CPI Accurate? 297
Don’t Let This Happen To You: Don’t Miscalculate the Inflation Rate 297
The Producer Price Index 298

9.5 Using Price Indexes to Adjust for the Effects of Inflation 298
Solved Problem 9.5: What Has Been Happening to Real Wages in the United States? 299

9.6 Nominal Interest Rates versus Real Interest Rates 301

9.7 Does Inflation Impose Costs on the Economy? 302
Inflation Affects the Distribution of Income 303
The Problem with Anticipated Inflation 303
The Problem with Unanticipated Inflation 304
Apply the Concept: What’s So Bad about Falling Prices? 304

Conclusion 306
Chapter Summary and Problems 307

CHAPTER 10: Economic Growth, the Financial System, and Business Cycles 318

Economic Growth and the Business Cycle at Chevron Corporation 318

10.1 Long-Run Economic Growth 320
Apply the Concept: The Connection between Economic Prosperity and Health 321
Calculating Growth Rates and the Rule of 70 323
What Determines the Rate of Long-Run Growth? 324
Solved Problem 10.1: Where Does Productivity Come From? 325
Apply the Concept: Can India Sustain Its Rapid Growth? 326
Potential GDP 328

10.2 Saving, Investment, and the Financial System 329
An Overview of the Financial System 329
The Macroeconomics of Saving and Investment 330
The Market for Loanable Funds 332
Apply the Concept: Ebenezer Scrooge: Accidental Promoter of Economic Growth? 333
Solved Problem 10.2: Are Future Budget Deficits a Threat to the Economy? 335

10.3 The Business Cycle 337
Some Basic Business Cycle Definitions 337
How Do We Know When the Economy Is in a Recession? 338
What Happens during the Business Cycle? 339
Don’t Let This Happen To You: Don’t Confuse the Price Level and the Inflation Rate 341
Will the U.S. Economy Return to Stability? 344

Conclusion 345
Chapter Summary and Problems 346

CHAPTER 11: Long-Run Economic Growth: Sources and Policies 352

What Explains Slow Growth in Mexico? 352

11.1 Economic Growth over Time and around the World 354
Economic Growth from 1,000,000 B.C.E. to the Present 354
Apply the Concept: Why Did the Industrial Revolution Begin in England? 355
Small Differences in Growth Rates Are Important 356
Why Do Growth Rates Matter? 357
Don’t Let This Happen To You: Don’t Confuse the Average Annual Percentage Change with the Total Percentage Change 357
“The Rich Get Richer and …” 357
Apply the Concept: Is Income All That Matters? 358

11.2 What Determines How Fast Economies Grow? 359
The Per-Worker Production Function 360
Technological Change: The Key to Sustaining Economic Growth 361
Apply the Concept: What Explains the Economic Failure of the Soviet Union? 362
Solved Problem 11.2: Using the Economic Growth Model to Analyze the Failure of the Soviet Economy 363
New Growth Theory 364
Joseph Schumpeter and Creative Destruction 366

11.3 Economic Growth in the United States 366
Economic Growth in the United States since 1950 366
Is the United States Headed for a Long Period of Slow Growth? 367

11.4 Why Isn’t the Whole World Rich? 369
Catch-up: Sometimes but Not Always 370
Solved Problem 11.4: The Economic Growth Model’s Prediction of Catch-Up 372
Why Haven’t Most Western European Countries, Canada, and Japan Caught Up to the United States? 373
Why Don’t More Low-Income Countries Experience Rapid Growth? 375
Apply the Concept: Why Hasn’t Mexico Grown as Fast as China? 376
The Benefits of Globalization 378
## CONTENTS

11.5 Growth Policies 379

Enhancing Property Rights and the Rule of Law 379

*Apply the Concept*: Will China’s Standard of Living Ever Exceed That of the United States? 379

Improving Health and Education 381

Policies That Promote Technological Change 381

Policies That Promote Saving and Investment 381

Is Economic Growth Good or Bad? 382

**Conclusion** 383

Chapter Summary and Problems 384

### PART 4 Short-Run Fluctuations

**CHAPTER 12**: Aggregate Expenditure and Output in the Short Run 392

**Fluctuating Demand Helps—and Hurts—Intel and Other Firms** 392

12.1 The Aggregate Expenditure Model 394

Aggregate Expenditure 394

The Difference between Planned Investment and Actual Investment 395

Macroeconomic Equilibrium 395

Adjustments to Macroeconomic Equilibrium 396

12.2 Determining the Level of Aggregate Expenditure in the Economy 397

Consumption 397

The Relationship between Consumption and National Income 400

Income, Consumption, and Saving 402

*Solved Problem 12.2*: Calculating the Marginal Propensity to Consume and the Marginal Propensity to Save 403

Planned Investment 404

*Apply the Concept*: Is Student Loan Debt Causing Fewer Young People to Buy Houses? 405

Government Purchases 407

Net Exports 408

*Apply the Concept*: The iPhone Is Made in China . . . or Is It? 410

12.3 Graphing Macroeconomic Equilibrium 410

Showing a Recession on the 45°-Line Diagram 414

The Important Role of Inventories 415

A Numerical Example of Macroeconomic Equilibrium 415

*Don’t Let This Happen to You*: Don’t Confuse Aggregate Expenditure with Consumption Spending 416

*Solved Problem 12.3*: Determining Macroeconomic Equilibrium 416

12.4 The Multiplier Effect 417

*Apply the Concept*: The Multiplier in Reverse: The Great Depression of the 1930s 420

A Formula for the Multiplier 421

*Summarizing the Multiplier Effect* 422

*Solved Problem 12.4*: Using the Multiplier Formula 423

The Paradox of Thrift 424

12.5 The Aggregate Demand Curve 424

**Conclusion** 426

Chapter Summary and Problems 427

**Appendix**: The Algebra of Macroeconomic Equilibrium 434

Review Questions 435

**CHAPTER 13**: Aggregate Demand and Aggregate Supply Analysis 436

The Fortunes of KB Home Follow the Business Cycle 436

13.1 Aggregate Demand 438

Why Is the Aggregate Demand Curve Downward Sloping? 438

Shifts of the Aggregate Demand Curve versus Movements along It 440

The Variables That Shift the Aggregate Demand Curve 440

*Don’t Let This Happen to You*: Understand Why the Aggregate Demand Curve Is Downward Sloping 441

*Solved Problem 13.1*: Movements along the Aggregate Demand Curve or Shifts of the Curve? 442

*Apply the Concept*: Which Components of Aggregate Demand Changed the Most during the 2007–2009 Recession? 444

13.2 Aggregate Supply 446

The Long-Run Aggregate Supply Curve 446

The Short-Run Aggregate Supply Curve 447

*Apply the Concept*: How Sticky Are Wages? 448

Shifts of the Short-Run Aggregate Supply Curve versus Movements along It 450

Variables That Shift the Short-Run Aggregate Supply Curve 450

13.3 Macroeconomic Equilibrium in the Long Run and the Short Run 452

Recessions, Expansions, and Supply Shocks 453

*Apply the Concept*: Does It Matter What Causes a Decline in Aggregate Demand? 454

*Apply the Concept*: How Long Is the Long Run in Macroeconomics? 457

13.4 A Dynamic Aggregate Demand and Aggregate Supply Model 459

What Is the Usual Cause of Inflation? 460

The Recession of 2007–2009 460

*Solved Problem 13.4*: Showing the Oil Shock of 1974–1975 on a Dynamic Aggregate Demand and Aggregate Supply Graph 463

**Conclusion** 464

Chapter Summary and Problems 465
PART 5 Monetary and Fiscal Policy

CHAPTER 14: Money, Banks, and the Federal Reserve System

Does India Need Paper Currency? 478
14.1 What Is Money, and Why Do We Need It? 480
Barter and the Invention of Money 480
The Functions of Money 481
What Can Serve as Money? 482
Apply the Concept: Your Money Is No Good Here! 483
14.2 How Is Money Measured in the United States Today? 484
M1: A Narrow Definition of the Money Supply 484
M2: A Broad Definition of Money 485
Don’t Let This Happen to You: Don’t Confuse Money with Income or Wealth 486
Solved Problem 14.2: The Definitions of M1 and M2 486
What about Credit Cards and Debit Cards? 487
Apply the Concept: Are Bitcoins Money? 487
14.3 How Do Banks Create Money? 488
Bank Balance Sheets 488
Apply the Concept: Will Fintech Make It Easier for You to Borrow? 489
Using T-accounts to Show How a Bank Can Create Money 490
The Simple Deposit Multiplier 492
Don’t Let This Happen to You: Don’t Confuse Assets and Liabilities 493
Solved Problem 14.3: Showing How Banks Create Money 494
The Simple Deposit Multiplier versus the Real-World Deposit Multiplier 496
14.4 The Federal Reserve System 497
The Establishment of the Federal Reserve System 497
How the Federal Reserve Manages the Money Supply 498
The “Shadow Banking System” and the Financial Crisis of 2007–2009 501
14.5 The Quantity Theory of Money 503
Connecting Money and Prices: The Quantity Equation 504
The Quantity Theory Explanation of Inflation 504
How Accurate Are Forecasts of Inflation Based on the Quantity Theory? 505
Apply the Concept: Karl Marx: Capitalism’s Severe Critic 476

CHAPTER 15: Monetary Policy

Why Would a Bank Pay a Negative Interest Rate? 516
15.1 What Is Monetary Policy? 518
The Goals of Monetary Policy 518
15.2 The Money Market and the Fed’s Choice of Monetary Policy Targets 520
Monetary Policy Targets 520
The Demand for Money 520
Shifts in the Money Demand Curve 521
How the Fed Manages the Money Supply: A Quick Review 522
Equilibrium in the Money Market 522
A Tale of Two Interest Rates 524
Choosing a Monetary Policy Target 524
The Importance of the Federal Funds Rate 524
The Fed’s New Policy Tools 525
15.3 Monetary Policy and Economic Activity 526
How Interest Rates Affect Aggregate Demand 526
The Effects of Monetary Policy on Real GDP and the Price Level 527
Apply the Concept: Too Low for Zero: Central Banks, Quantitative Easing, and Negative Interest Rates 528
Can the Fed Eliminate Recessions? 530
Fed Forecasts 531
Apply the Concept: Trying to Hit a Moving Target: Making Policy with “Real-Time Data” 532
A Summary of How Monetary Policy Works 533
Don’t Let This Happen to You: Remember That with Monetary Policy, It’s the Interest Rates—Not the Money—that Counts 534
15.4 Monetary Policy in the Dynamic Aggregate Demand and Aggregate Supply Model 534
The Effects of Monetary Policy on Real GDP and the Price Level: A More Complete Account 535
Using Monetary Policy to Fight Inflation 536
Solved Problem 15.4: The Effects of Monetary Policy 537
15.5 A Closer Look at the Fed’s Setting of Monetary Policy Targets 539
Should the Fed Target the Money Supply? 539
Why Doesn’t the Fed Target Both the Money Supply and the Interest Rate? 539
The Taylor Rule 540
Solved Problem 15.5: Applying the Taylor Rule 541
Inflation Targeting 542
Apply the Concept: Should the Fed Worry about the Prices of Food and Gasoline? 543
High Rates of Inflation 506
Apply the Concept: The German Hyperinflation of the Early 1920s 506
Conclusion 507
Chapter Summary and Problems 508
The following chart helps you organize your syllabus based on your teaching preferences and objectives:

<table>
<thead>
<tr>
<th>Core</th>
<th>Optional</th>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chapter 1</strong>: Economics: Foundations and Models</td>
<td><strong>Chapter 1 Appendix</strong>: Using Graphs and Formulas</td>
<td></td>
</tr>
<tr>
<td><strong>Chapter 2</strong>: Trade-offs, Comparative Advantage, and the Market System</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chapter 3</strong>: Where Prices Come From: The Interaction of Demand and Supply</td>
<td><strong>Chapter 4 Appendix</strong>: Quantitative Demand and Supply Analysis</td>
<td><strong>Chapter 4</strong>: Economic Efficiency, Government Price Setting, and Taxes</td>
</tr>
<tr>
<td></td>
<td><strong>Chapter 5</strong>: The Economics of Health Care</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Chapter 6</strong>: Firms, the Stock Market, and Corporate Governance</td>
<td><strong>Chapter 6 Appendix</strong>: Tools to Analyze Firms' Financial Information</td>
</tr>
<tr>
<td><strong>Chapter 7</strong>: Comparative Advantage and the Gains from International Trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chapter 8</strong>: GDP: Measuring Total Production and Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chapter 9</strong>: Unemployment and Inflation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chapter 10</strong>: Economic Growth, the Financial System, and Business Cycles</td>
<td></td>
<td></td>
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<tr>
<td><strong>Chapter 11</strong>: Long-Run Economic Growth: Sources and Policies</td>
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<th>Core</th>
<th>Optional</th>
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<tr>
<td>Chapter 12: Aggregate Expenditure</td>
<td>Chapter 12 Appendix: The Algebra of Macroeconomic Equilibrium</td>
<td>Chapter 15: Monetary Policy</td>
</tr>
<tr>
<td>and Output in the Short Run</td>
<td></td>
<td>Chapter 16: Fiscal Policy</td>
</tr>
<tr>
<td>Chapter 13: Aggregate Demand</td>
<td>Chapter 13 Appendix: Macroeconomic Schools of Thought</td>
<td>Chapter 17: Inflation, Unemployment, and Federal Reserve Policy</td>
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<td>and Aggregate Supply Analysis</td>
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<td>Chapter 18: Macroeconomics in an Open Economy</td>
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<td>Chapter 14: Money, Banks, and the</td>
<td></td>
<td>Chapter 19: The International Financial System</td>
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<tr>
<td>Federal Reserve System</td>
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<td>Chapter 19 Appendix: The Gold Standard and the Bretton Woods System</td>
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PREFACE

Our approach in this new edition remains what it was in the first edition, published nearly 15 years ago: to provide students and instructors an economics text that delivers complete economics coverage with many real-world business examples. Our goal has been to teach economics in a “widget-free” way by using real-world business and policy examples. We are gratified by the enthusiastic response from students and instructors who have used the first six editions of this book and who have made it a best-selling economics textbook.

Much has happened in the U.S. and world economies since we prepared the previous edition, including the election of a U.S. president with a distinctive approach to economic policy. We have incorporated many of these developments in the new real-world examples and policy discussions in this edition and also in the digital resources.

New to This Edition

We are grateful to the many instructors and students who made suggestions for improvements in the previous edition. We have done our best to incorporate as many of those suggestions as possible. Here is an overview of the revisions, followed by a more detailed description.

Overview of Changes

- All the chapter openers feature either new companies or have updated information. Students can visit MyLab Economics to watch a brief video that summarizes the key points of each chapter opener.
- Chapters 1–4, include new An Inside Look features to help students apply economic thinking to current events and policy debates as they are presented in news articles. Additional news articles and analyses appear weekly on MyLab Economics.
- There are 12 new Apply the Concept features (formerly titled Making the Connection) to help students tie economic concepts to current events and policy issues. The Apply the Concept features that were retained from the previous edition are updated. Students can visit MyLab Economics to watch more than 60 videos in which we summarize the key points in each feature. Related assessment accompanies each video, so students can test their understanding before moving on to a new section of the chapter.
- There are 2 new Solved Problems and 10 heavily revised Solved Problems. This feature helps students break down and answer economic problems step by step. There are additional Interactive Solved Problems on MyLab Economics, where students can receive feedback and tutorial help.
- There is a new category of end-of-chapter material titled Critical Thinking Exercises. We were motivated to add this new category of exercises because many instructors have told us that students need help building skills in the following areas: (1) analyzing and interpreting information; (2) applying reasoning and logic to new or unfamiliar ideas and situations; (3) examining ideas and concepts from multiple perspectives; and (4) clearly communicating their findings in a brief paper or class presentation. Students can complete these exercises on MyLab Economics and receive feedback and tutorial help.
- All the figures and tables are updated with the latest data available. Video animations of all the numbered figures and select tables are located on MyLab Economics. Graded practice exercises are included with these animations.
• We have replaced or updated many of the end-of-chapter Problems and Applications. In most chapters, one or two problems include graphs or tables for students to analyze. Select chapters have a category titled Real-Time Data Exercises, and we updated some of these exercises. Students can complete these exercises on MyLab Economics and receive feedback and tutorial help.

New Content and Features by Chapter

Here is a description of key changes by chapter.

Chapter 1, “Economics: Foundations and Models,” opens with a new discussion of why Ford Motor Company manufactures cars in both the United States and Mexico. An Inside Look at the end of the chapter presents a news article and analysis of how likely it is that significant numbers of manufacturing jobs will return to the United States from overseas. New Solved Problem 1.1 analyzes the marginal benefit and marginal cost of speed limits on highways. A new Apply the Concept examines why countries trade with each other and how economic concepts can help us evaluate policy debates about tariffs on imports. Taking a principles of economics class requires students to learn different terms, models, and a new way of analyzing real-world events. It can be challenging for students, especially non-majors, to appreciate how this course can help them in a career in business or government or in a nonprofit organization. We therefore decided to add to Chapter 1 a new section that describes economics as a career and highlights the key skills students of any major can gain from studying economics.

Chapter 2, “Trade-offs, Comparative Advantage, and the Market System,” opens with an updated discussion of the resource allocation decisions managers at Tesla Motors face. An Inside Look at the end of the chapter discusses Tesla’s decision to build a factory in Nevada to mass produce lithium-ion batteries for its electric cars. A new Apply the Concept illustrates how managers at the nonprofit organization Feeding America use the market mechanism to more efficiently allocate food based on the needs of food programs around the country.

Chapter 3, “Where Prices Come From: The Interaction of Demand and Supply,” opens with a new discussion of how Coca-Cola and Pepsi-Cola responded to a fall in demand for sodas by introducing premium bottled water, sometimes called smart water. We use the market for premium bottled water to develop the demand and supply model. An Inside Look at the end of the chapter examines how McDonald’s responded to shifts in consumer demand by serving breakfast all day and offering online ordering and home delivery. There are three new Apply the Concepts: “Virtual Reality Headsets: Will a Substitute Fail for a Lack of Complements?”; “Millennials Shake Up the Markets for Soda, Groceries, Big Macs, and Running Shoes”; and “Forecasting the Demand for Premium Bottled Water.”

Chapter 4, “Economic Efficiency, Government Price Setting, and Taxes,” opens with a new discussion about the economic link between food riots in Venezuela and the rise in popularity of Uber in the United States. At the end of the chapter, An Inside Look examines problems Uber has encountered in attempting to expand its services in the United Kingdom. There are two new Apply the Concepts: “The Consumer Surplus from Uber” and “Price Controls Lead to Economic Decline in Venezuela.”

Chapter 5, “The Economics of Health Care,” opens with a new discussion of how insurance companies are dealing with the effects of the Patient Protection and Affordable Care Act of 2010. There is also a discussion of the 2017 debate in Congress over whether that act should be extensively revised.
Chapter 6, “Firms, the Stock Market, and Corporate Governance,” opens with a new comparison of the initial public offerings of Snap, Twitter, and Facebook. A new Apply the Concept explores why investors are concerned about potential corporate governance issues at Snap and other social media firms.

Chapter 7, “Comparative Advantage and the Gains from International Trade,” opens with the decision by Mondelez to move production of Oreo cookies to Mexico to provide context for a new discussion of recent debates about the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership (TPP). A new Apply the Concept analyzes who gains and who loses from U.S. trade with China.

Chapter 8, “GDP: Measuring Total Production and Income,” opens with an updated discussion of how Ford and other car companies deal with the business cycle. A new Apply the Concept discusses an innovative Web site created by Steve Ballmer, former CEO of Microsoft, that uses the preamble to the U.S. Constitution as a framework for reorganizing macroeconomic data.

Chapter 9, “Unemployment and Inflation,” opens with a new discussion of Boeing’s decision in 2017 to lay off workers, despite a growing U.S. economy. The chapter includes an updated analysis of the reasons for the decline in labor force participation among prime-aged males. A new Apply the Concept discusses how to characterize the unemployment resulting from Boeing’s layoffs.


Chapter 11, “Long-Run Economic Growth: Sources and Policies,” begins with a new opener that uses Wisconsin-based Rexnord Corporation’s decision to relocate some production to Mexico to frame the discussion of whether that country is capable of increasing its growth rate.

Chapter 12, “Aggregate Expenditure and Output in the Short Run,” contains thoroughly updated graphs and tables.

Chapter 13, “Aggregate Demand and Aggregate Supply Analysis,” opens with a new discussion of the effect of the business cycle on KB Home and other home builders.

Chapter 14, “Money, Banks, and the Federal Reserve System,” opens with a new discussion of why many people in India are using Paytm, an app that allows users to make payments at retail stores or online. A new Apply the Concept continues the analysis of this topic by discussing why some businesses in the United States and Europe no longer accept cash.

Chapter 15, “Monetary Policy,” opens with an updated account of why interest rates on some mortgages in Europe are negative. An important new section describes the policy tools the Federal Reserve uses to manage its target for the federal funds rate, now that banks hold $2 trillion in excess reserves.

Chapter 16, “Fiscal Policy,” opens with a new discussion of the effects of federal government infrastructure spending on Vulcan Materials and other construction firms, as well as on the wider economy. A centerpiece of President Trump’s economic plan is using changes to the federal tax code, as well as other policies, to increase the annual growth rate of real GDP to 3 percent. We discuss what would be required
to achieve this goal in a new section, “Explaining Long-Run Increases in Real GDP,” and in a new Apply the Concept. New Table 16.4 summarizes how the Congressional Budget Office forecast real GDP growth for 2017–2027.

Chapter 17, “Inflation, Unemployment, and Federal Reserve Policy,” opens with a new discussion of how the Fed’s attempts to bring the economy in for a soft landing will affect General Motors, Toll Brothers, and other firms.

Chapter 18, “Macroeconomics in an Open Economy,” opens with a new discussion of the effect of fluctuations in exchange rates on Amazon’s profit. New Solved Problem 18.2 analyzes how fluctuations in the value of the yen affect Toyota, and an updated Apply the Concept considers how the Trump administration has reacted to fluctuations in the value of the dollar.

Chapter 19, “The International Financial System,” contains updated coverage of the struggles of the euro and the pressure the Trump administration has faced to label China a currency manipulator.

To make room for the new content described earlier, we have cut approximately 13 Apply the Concepts and 2 Solved Problems from the previous edition and transferred some of them to the book’s Instructor’s Manual, where they are available for instructors who wish to continue using them.

Solving Teaching and Learning Challenges

Many students who take a principles of economics course have difficulty seeing the relevance of the key concepts of opportunity cost, trade-offs, scarcity, and demand and supply to their lives and their careers. This reduces the willingness of some students to prepare for class and to be engaged during class. We address this challenge with contextual learning, a modern organization of content, and an extensive selection of digital assets available on MyLab Economics.

The Foundation:
Contextual Learning and Modern Organization

We believe a course is successful if students can apply what they have learned to both their personal lives and their careers, and if they have developed the analytical skills to understand what they read in the media. That’s why we explain economic concepts by using many real-world business examples and applications in the chapter openers, graphs, Apply the Concept features, An Inside Look features, and end-of-chapter problems. This approach helps majors from all disciplines become educated consumers, voters, and citizens. In addition to our widget-free approach, we have a modern organization and place interesting policy topics early in the book to pique student interest.

Students come to study macroeconomics with a strong interest in understanding events and developments in the economy. We capture that interest and develop students’ economic intuition and understanding by presenting macroeconomics in a way that is modern and based in the real world of business and economic policy. And we believe we achieve this presentation without making the analysis more difficult. We avoid the recent trend of using simplified versions of intermediate models, which are often more detailed and complex than what students need to understand the basic macroeconomic issues. Instead, we use a more realistic version of the familiar aggregate demand
and aggregate supply model to analyze short-run fluctuations and monetary and fiscal policy. We also avoid the “dueling schools of thought” approach often used to teach macroeconomics at the principles level. We emphasize the many areas of macroeconomics where most economists agree. And we present throughout real business and policy situations to develop students’ intuition. Here are a few highlights of our approach to macroeconomics:

• A careful discussion of macro statistics. Many students pay some attention to the financial news and know that the release of statistics by federal agencies can cause movements in stock and bond prices. A background in macroeconomic statistics helps clarify some of the policy issues encountered in later chapters. In Chapter 8, "GDP: Measuring Total Production and Income," and Chapter 9, "Unemployment and Inflation," we provide students with an understanding of the uses and potential shortcomings of the key macroeconomic statistics, without getting bogged down in the minutiae of how the statistics are constructed. So, for instance, we discuss the important differences between the payroll survey and the household survey for understanding conditions in the labor market. We explain why financial markets react more strongly to news from the payroll survey. We provide a discussion of the employment–population ratio, which is not covered in some other texts but which many economists regard as a key measure of labor market performance.

• Early coverage of long-run topics. We place key macroeconomic issues in their long-run context in Chapter 10, "Economic Growth, the Financial System, and Business Cycles," and Chapter 11, "Long-Run Economic Growth: Sources and Policies." Chapter 10 puts the business cycle in the context of underlying long-run growth and discusses what actually happens during the phases of the business cycle. We believe this material is important if students are to have the understanding of business cycles they will need to interpret economic events; this material is often discussed only briefly or omitted entirely in other books. We know that many instructors prefer to have a short-run orientation to their macro courses, with a strong emphasis on policy. Accordingly, we have structured Chapter 10 so that its discussion of long-run growth is sufficient for instructors who want to move quickly to short-run analysis. Chapter 11 uses a simple neoclassical growth model to explain important growth issues. We apply the model to topics such as the decline of the Soviet economy, the long-run prospects for growth in China, the implications of the slowdown in productivity growth for the U.S. economy, and the failure of many developing countries to sustain high growth rates. And we challenge students with the discussion “Why Isn’t the Whole World Rich?”

• A dynamic model of aggregate demand and aggregate supply. We take a fresh approach to the standard aggregate demand and aggregate supply (AD–AS) model. We realize there is no good, simple alternative to using the AD–AS model when explaining movements in the price level and in real GDP. But we know that more instructors are dissatisfied with the AD–AS model than with any other aspect of the macro principles course. The key problem, of course, is that AD–AS is a static model that attempts to account for dynamic changes in real GDP and the price level. Our approach retains the basics of the AD–AS model but makes it more accurate and useful by making it more dynamic. We emphasize two points: (1) Changes in the position of the short-run (upward-sloping) aggregate supply curve depend mainly on the state of expectations of the inflation rate; and (2) the existence of growth in the economy means that the long-run (vertical) aggregate supply curve shifts to the right every year. This “dynamic” AD–AS model provides students with a more accurate understanding of the causes and consequences of fluctuations in real GDP and the price level. Chapter 13, "Aggregate Demand and Aggregate Supply Analysis," includes a three-layer, full-color acetate for the key introductory dynamic AD–AS graph (Figure 13.8, "A Dynamic Aggregate Demand and Aggregate Supply Model," on page 460 and reproduced on the next page). We created this acetate to help students see how the graph builds step by step and to
The first acetate overlay adds the shifts in the long- and short-run aggregate supply curves.

The second acetate overlay adds the shifts in the aggregate demand curve to complete the dynamic model.

help make the graph easier for instructors to present. The acetate will help instructors who want to use dynamic AD–AS in class but believe the model needs to be developed carefully. We introduce this model in Chapter 13 and use it to discuss monetary policy in Chapter 15, “Monetary Policy,” and fiscal policy in Chapter 16, “Fiscal Policy.” The material on dynamic AD–AS is presented in self-contained sections in Chapters 13, 15, and 16, so instructors may safely omit the sections on the dynamic AD–AS model without any loss in continuity to the discussion of macroeconomic theory and policy.

- **Extensive coverage of monetary policy.** Because of the central role monetary policy plays in the economy and in students’ curiosity about business and financial news, we devote two chapters—Chapter 15, “Monetary Policy,” and Chapter 17, “Inflation, Unemployment, and Federal Reserve Policy”—to the topic. We emphasize the issues involved in the Fed’s choice of monetary policy targets, and we include coverage of the Taylor rule. We also cover the new Fed’s new policy tools and the debate over whether the Fed’s policies during and after the 2007–2009 financial crisis were consistent with its mandate under the Federal Reserve Act.

- **Coverage of both the demand-side and supply-side effects of fiscal policy.** Our discussion of fiscal policy in Chapter 16, “Fiscal Policy,” carefully distinguishes between automatic stabilizers and discretionary fiscal policy. We also provide significant coverage of the supply-side effects of fiscal policy. A new section discusses the requirements for the Trump administration to hit its goal of restoring the long-run annual growth rate of real GDP to 3 percent.

- **A self-contained but thorough discussion of the Keynesian income–expenditure approach.** The Keynesian income–expenditure approach (the “45°-line diagram,” or “Keynesian cross”) is useful for introducing students to the short-run relationship between spending and production. Many instructors, however, prefer to omit this material. Therefore, we use the 45°-line diagram only in Chapter 12, “Aggregate Expenditure and Output in the Short Run.” The discussions of monetary and fiscal policy in Chapter 15, “Monetary Policy,” and Chapter 16, “Fiscal Policy,” respectively, use only the AD–AS model, making it possible to omit Chapter 12.

- **Extensive international coverage.** We include three chapters devoted to international topics: Chapter 7, “Comparative Advantage and the Gains from International Trade,” Chapter 18, “Macroeconomics in an Open Economy,” and Chapter 19, “The International Financial System.” Having a good understanding of the international trading and
financial systems is essential to understanding the macroeconomy and to satisfying students’ curiosity about the economic world around them. In addition to the material in our three international chapters, we weave international comparisons into the narratives of several other chapters, including our discussion of labor market policies in Chapter 17, “Inflation, Unemployment, and Federal Reserve Policy,” and central banking in Chapter 14, “Money, Banks, and the Federal Reserve System.”

- **Flexible chapter organization.** Because we realize that there are a variety of approaches to teaching principles of macroeconomics, we have structured our chapters for maximum flexibility. For example, our discussion of long-run economic growth in Chapter 10, “Economic Growth, the Financial System, and Business Cycles,” makes it possible for instructors to omit the more thorough discussion of these issues in Chapter 11, “Long-Run Economic Growth: Sources and Policies.” Our discussion of the Keynesian 45°-line diagram is confined to Chapter 12, “Aggregate Expenditure and Output in the Short Run,” so that instructors who do not use this approach can proceed directly to aggregate demand and aggregate supply analysis in Chapter 13, “Aggregate Demand and Aggregate Supply Analysis.” While we devote two chapters to monetary policy, the first of these—Chapter 15, “Monetary Policy”—is a self-contained discussion, so instructors may safely omit the material in Chapter 17, “Inflation, Unemployment, and Federal Reserve Policy,” if they choose to. Finally, instructors may choose to omit all three of the international chapters (Chapter 7, “Comparative Advantage and the Gains from International Trade,” Chapter 18, “Macroeconomics in an Open Economy,” and Chapter 19, “The International Financial System”), cover just Chapter 7 on international trade, cover just Chapter 18, or cover Chapters 18 and 19 while omitting Chapter 7. Please refer to the flexibility chart shown earlier on pages xviii–xix to help select the chapters and order best suited to your classroom needs.

**MyLab Economics**

**OVERVIEW**

**Reach every student by pairing this text with MyLab Economics**

MyLab is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and improves results for each student. Learn more about MyLab Economics at www.pearson.com/mylab/economics.

**Deliver trusted content**

You deserve teaching materials that meet your own high standards for your course. That’s why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged.

**Empower each learner**

Each student learns at a different pace. Personalized learning pinpoints the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful.

**Teach your course your way**

Your course is unique. So whether you’d like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create your course to fit your needs.

**Improve student results**

When you teach with MyLab, student performance improves. That’s why instructors have chosen MyLab for over 15 years, touching the lives of over 50 million students.
FEATUES IN THE BOOK AND SUPPORTING RESOURCES ON MYLAB ECONOMICS

Students and instructors will find the following features in the seventh edition and supporting online resources on MyLab Economics.

Business Cases and An Inside Look News Articles

Each chapter-opening case provides a real-world context for learning, sparks students’ interest in economics, and helps unify the chapter. The case describes an actual company facing a real situation. The company is integrated in the narrative, graphs, and pedagogical features of the chapter. Some of the chapter openers focus on the role of entrepreneurs in developing new products and bringing them to market. For example, Chapter 2 features Elon Musk of Tesla Motors; Chapter 13 features KB Home founders Donald Kaufman and Eli Broad; Chapter 14 features Paytm founder Vijay Shekhar Sharma; and Chapter 18 features Jeff Bezos of Amazon.

Students can visit MyLab Economics to watch a brief video we developed and filmed to summarize the key points of each chapter opener.

An Inside Look is a two-page feature that shows students how to apply the concepts from the chapter to the analysis of a news article. The feature appears at the end of Chapters 1–4. An Inside Look presents an excerpt from an article, analysis of the article, a graph(s), and critical thinking questions. Additional articles that are continuously updated are located on MyLab Economics.
Solved Problems

Many students have great difficulty handling applied economics problems. We help students overcome this hurdle by including in each chapter two or three worked-out problems that analyze real-world economic issues they hear and read about in the news. Our goals are to keep students focused on the main ideas of each chapter and give them a model of how to solve an economic problem by breaking it down step by step. We tie additional exercises in the end-of-chapter Problems and Applications section to every Solved Problem. Additional Solved Problems appear in the Instructor’s Manuals. In addition, the Test Banks include problems tied to the Solved Problems in the main book. Each of the 32 Solved Problems in the printed text is accompanied by a similar Interactive Solved Problem on MyLab Economics, so students can have more practice and build their problem-solving skills. These interactive tutorials help students learn to think like economists and apply basic problem-solving skills to homework, quizzes, and exams. Each Solved Problem on MyLab Economics and in the digital eText also includes at least one additional graded practice exercise for students.
Apply the Concept

Each chapter includes two to four Apply the Concept features that provide real-world reinforcement of key concepts and help students learn how to interpret what they read on the Web and in newspapers. Most of the over 60 Apply the Concept features use relevant, stimulating, and provocative news stories focused on businesses and policy issues. One-third of them are new to this edition, and most others have been updated. Several discuss health care and trade, which have been at the forefront of recent policy discussions. Each Apply the Concept has at least one supporting end-of-chapter problem to allow students to test their understanding of the topic discussed. We prepared and filmed a two- or three-minute video to explain the key point of each Apply the Concept. These videos are located on MyLab Economics. We include related assessment with each video, so students can test their understanding. The goal of these videos is to summarize key content and bring the applications to life. In our experience, many students benefit from this type of online learning and assessment.

Apply the Concept

Forecasting the Demand for Premium Bottled Water

It’s important for managers to forecast the demand for their products accurately because doing so helps them determine how much of a good to produce. Firms typically set manufacturing schedules at least a month ahead of time. Premium bottled water is a rapidly growing market, and firms need to carefully plan increases in productive capacity. Firms that fail to produce a large enough quantity to keep pace with increasing demand can lose out to competitors. But will the demand for premium bottled water continue to grow at such a rapid pace?

Richard Tedlow of the Harvard Business School has developed a theory of the “three phases of marketing” that can provide some insight into how the markets for many consumer products develop over time. The first phase often has a very large number of firms, each producing a relatively small volume of goods and charging high prices. This phase corresponds to the carbonated soft drink industry in the late nineteenth century, the automobile industry in the early twentieth century, and the personal computer industry in the late 1970s. In the second phase, the market consolidates, with one or a few brands attaining high market shares by selling a large number of units at lower prices. This phase corresponds to the soft drink industry during the middle of the twentieth century, the automobile industry during the 1920s, and the personal computer industry during the 1980s.

Managers at beverage firms will have to take into account a number of factors when estimating the future demand for premium bottled water. Factors that will tend to lead to higher demand for premium bottled water include the popularity of the product with millennials, the trend toward healthier eating habits that has led to declining consumption of carbonated beverages, the taxes on soda that cities have been imposing to both fight obesity and raise tax revenue, and the possibility of attracting consumers who now prefer energy drinks such as Red Bull and sports drinks such as Gatorade. An obstacle to the rapid growth of demand for premium bottled water comes from doubts raised by some analysts about the benefits from the electrolytes and other ingredients it contains that are not in regular bottled water. If consumers come to believe that these ingredients serve no useful purpose, they may prefer to buy regular bottled water, which typically has a lower price.

As we saw in Chapter 1, economists can use formal models to forecast future values of economic variables. In this case, an economist forecasting the demand for premium bottled water would want to include the factors mentioned in the previous paragraphs as well as other data, including changes over time in demographics and projected income growth.


Your Turn: Test your understanding by doing related problem 1.17 on page 102 at the end of this chapter.
**Don’t Let This Happen to You**

We know from many years of teaching which concepts students find most difficult. We include in each chapter a box feature called Don’t Let This Happen to You that alerts students to the most common pitfalls in that chapter’s material. We follow up with a related question in the end-of-chapter Problems and Applications section. The questions are also available on MyLab Economics, where students can receive instant feedback and tutorial help.

**Concept Checks**

Each section of each learning objective concludes with a Concept Check on MyLab Economics that contains one or two multiple-choice, true/false, or fill-in questions. These checks act as “speed bumps” that encourage students to stop and check their understanding of fundamental terms and concepts before moving on to the next section. The goal of this digital resource is to help students assess their progress on a section-by-section basis so they can be better prepared for homework, quizzes, and exams.

**Graphs and Summary Tables**

Graphs are an indispensable part of a principles of economics course but are a major stumbling block for many students. Every chapter except Chapter 1 includes end-of-chapter problems that require students to draw, read, and interpret graphs. Interactive graphing exercises appear on the book’s supporting Web site. We use four devices to help students read and interpret graphs:

1. Detailed captions
2. Boxed notes
3. Color-coded curves
4. Summary tables with graphs (see pages 80, 85, and 444 for examples)

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**Figure 3.3**

**A Change in Demand versus a Change in Quantity Demanded**

If the price of premium bottled water falls from $2.50 to $2.00, the result will be a movement along the demand curve from point A to point B—an increase in quantity demanded from 3 million bottles to 5 million bottles. If consumers’ incomes increase, or if another factor changes that makes consumers want more of the product at every price, the demand curve will shift to the right—an increase in demand. In this case, the increase in demand from $D_1$ to $D_2$ causes the quantity of premium bottled water demanded at a price of $2.50 to increase from 3 million bottles at point A to 5 million at point C.
Each of the 156 numbered figures in the text has a supporting animated version on MyLab Economics. The goal of this digital resource is to help students understand shifts in curves, movements along curves, and changes in equilibrium values. Having an animated version of a graph helps students who have difficulty interpreting the static version in the printed text. We include graded practice exercises with the animations. In our experience, many students benefit from this type of online learning.

Table 3.1

<table>
<thead>
<tr>
<th>Variables That Shift Market Demand Curves</th>
<th>An increase in...</th>
<th>shifts the demand curve...</th>
<th>because...</th>
</tr>
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<tbody>
<tr>
<td>income (and the good is normal)</td>
<td>Price $D_1$</td>
<td>consumers spend more of their higher incomes on the good.</td>
<td></td>
</tr>
<tr>
<td>income (and the good is inferior)</td>
<td>Price $D_2$</td>
<td>consumers spend less of their higher incomes on the good.</td>
<td></td>
</tr>
<tr>
<td>the price of a substitute good</td>
<td>Price $D_3$</td>
<td>consumers buy less of the substitute good and more of this good.</td>
<td></td>
</tr>
<tr>
<td>the price of a complementary good</td>
<td>Price $D_4$</td>
<td>consumers buy less of the complementary good and less of this good.</td>
<td></td>
</tr>
<tr>
<td>taste for the good</td>
<td>Price $D_5$</td>
<td>consumers are willing to buy a larger quantity of the good at every price.</td>
<td></td>
</tr>
<tr>
<td>population</td>
<td>Price $D_6$</td>
<td>additional consumers result in a greater quantity demanded at every price.</td>
<td></td>
</tr>
<tr>
<td>the expected price of the good in the future</td>
<td>Price $D_7$</td>
<td>consumers buy more of the good today to avoid the higher price in the future.</td>
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</tbody>
</table>
Approximately 35 graphs are continuously updated online with the latest available data from FRED (Federal Reserve Economic Data), which is a comprehensive, up-to-date data set maintained by the Federal Reserve Bank of St. Louis. Students can display a pop-up graph that shows new data. The goal of this digital feature is to help students understand how to work with data and understand how including new data affects graphs.

**Review Questions and Problems and Applications—Grouped by Learning Objective to Improve Assessment**

We group the main end-of-chapter material—Summary, Review Questions, and Problems and Applications—under learning objectives. The goals of this organization are to make it easier for instructors to assign problems based on learning objectives, both in the book and on MyLab Economics, and to help students efficiently review material that they find difficult. If students have difficulty with a particular learning objective, an instructor can easily identify which end-of-chapter questions and problems support that objective and assign them as homework or discuss them in class. Every exercise in a chapter’s Problems and Applications section is available on MyLab Economics. Using MyLab Economics, students can complete these and many other exercises online, get tutorial help, and receive instant feedback and assistance on exercises they answer incorrectly. Also, student learning will be enhanced by having the summary material and problems grouped together by learning objective, which allows them to focus on the parts of the chapter they find most challenging. Each major section of the chapter, paired with a learning objective, has at least two review questions and three problems.

As in the previous editions, we include one or more end-of-chapter problems that test students’ understanding of the content presented in the Solved Problem, Apply the Concept, and Don’t Let This Happen to You special features in the chapter. Instructors can cover a feature in class and assign the corresponding problem(s) for homework. The Test Bank Files also include test questions that pertain to these special features.
**Real-Time Data Exercises**

We end select chapters with at least two *Real-Time Data Exercises* that help students become familiar with a key data source, learn how to locate data, and develop skills in interpreting data. *Real-Time Data Analysis (RTDA) Exercises*, marked with [RTDA], allow students and instructors to use the very latest data from FRED, the Federal Reserve Bank of St. Louis.

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**Developing Career Skills**

Learning key economic terms, concepts, and models are all important. For a course to be successful, students need to develop the skills and confidence to apply what they’ve learned outside the classroom. Chapter 1, “Economics: Foundations and Models,” now includes a new section that describes economics as a career and the key skills students of any major can gain from studying economics. As described earlier, features such as chapter-opening business cases, *Apply the Concept*, *Solved Problems*, and end-of-chapter problems provide a real-world context for learning that exposes students to economics as applied in a variety of large and small businesses, government agencies, and nonprofit organizations. *Critical Thinking Exercises*, a new end-of-chapter category in this edition, help build student skills to analyze and interpret information and apply reasoning and logic to new or unfamiliar ideas and situations.

**Economics in Your Life & Career**

After the chapter-opening real-world business case, we have a feature titled *Economics in Your Life & Career* that adds a personal dimension to the chapter opener by asking students to consider how economics affects their lives and careers. The feature piques the interest of students and emphasizes the connection between the material they are learning and their personal and career decisions.

---

**Economics in Your Life & Career**

**Can You Forecast the Future Demand for Premium Bottled Water?**

Firms face many challenges in responding to changes in consumer demand. Firms selling premium bottled water need to forecast future demand in order to determine how much production capacity they will need. If you were a manager for Coca-Cola, PepsiCo, Nestlé, Bai, or another firm selling premium bottled water, what factors would you take into account in forecasting future demand? As you read this chapter, try to answer this question. You can check your answers against those we provide on page 97 at the end of this chapter.

---

At the end of the chapter, we use the chapter concepts to answer the questions asked at the beginning of the chapter.

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**Economics in Your Life & Career**

**Can You Forecast the Future Demand for Premium Bottled Water?**

At the beginning of this chapter, we asked what variables you would take into account in forecasting future demand if you were a manager for a firm selling premium bottled water. In Section 3.1, we discussed the factors that affect the demand for a product and provided a list of the most important variables. In the *Apply the Concept* on page 81, we discussed how economists often use formal models to forecast future demand for a product.

In forecasting demand for premium bottled water, you should take into account factors such as changing demographics, as millennials become a larger fraction of prime-age consumers, and the likelihood that the demand for competing goods, such as carbonated sodas, will decline as consumers turn toward buying healthier products and as more cities impose soda taxes. You may also need to consider whether increased advertising of premium bottled water by large firms such as Coca-Cola and PepsiCo will raise consumer awareness of the product and increase demand for the premium bottled water being sold by other firms as well.

The factors discussed in this chapter provide you with the basic information needed to forecast demand for premium bottled water, although arriving at numerical forecasts requires using statistical analysis that you can learn in more advanced courses.
Instructor Teaching Resources

The authors and Pearson Education have worked together to integrate the text, print, and media resources to make teaching and learning easier.

<table>
<thead>
<tr>
<th>Supplements Available to Instructors for Download at <a href="http://www.pearsonhighered.com">www.pearsonhighered.com</a></th>
<th>Features of the Supplement</th>
</tr>
</thead>
</table>
| **Instructor’s Manual**  
Authored by Edward Scahill of the University of Scranton | • Chapter-by-chapter summaries organized by learning objectives  
• Extended examples and class exercises  
• Teaching outlines incorporating key terms and definitions, teaching tips, topics for class discussion  
• New Solved Problems  
• New Apply the Concept features  
• Solutions to all review questions, problems, and real-time data exercises in the book |
| **Test Bank**  
Authored by Randy Methenitis of Richland College | • 4,000 multiple-choice, true/false, short-answer, and graphing questions.  
• Test questions are annotated with the following categories:  
  - **Difficulty**—1 for straight recall; 2 for some analysis; and 3 for complex analysis  
  - **Type**—multiple-choice, true/false, short-answer, essay  
  - **Topic**—the term or concept the question supports  
  - **Learning outcome**  
  - **Page number** in the main book  
  - **Special feature** in the main book  
  - **The Association to Advance Collegiate Schools of Business (AACSB) Guidelines** (see description on the next page) |
| **Computerized TestGen** | • Allows instructors to customize, save, and generate classroom tests.  
• Instructors can edit, add, or delete questions from the Test Banks; analyze test results; and organize a database of tests and student results.  
• Many options are available for organizing and displaying tests, along with search and sort features.  
• The software and the Test Banks can be downloaded from www.pearsonhighered.com, |
| **Three Sets of PowerPoint Lecture Presentations**  
Authored by Paul Holmes of Ashland University | • A comprehensive set of PowerPoint slides can be used by instructors for class presentations or by students for lecture preview or review. These slides include all the graphs, tables, and equations in the textbook. Two versions are available—step-by-step mode, in which you can build graphs as you would on a blackboard, and automated mode, in which you use a single click per slide.  
• A comprehensive set of PowerPoint slides have Classroom Response Systems (CRS) questions built in so that instructors can incorporate CRS “clickers” into their classroom lectures.  
• Student versions of the PowerPoint slides are available as .pdf files. This version allows students to print the slides and bring them to class for note taking. |

**What Is the AACSB?**

The Association to Advance Collegiate Schools of Business (AACSB) is a not-for-profit corporation of educational institutions, corporations, and other organizations devoted to the promotion and improvement of higher education in business administration and accounting. A collegiate institution offering degrees in business administration or accounting may volunteer for AACSB accreditation review. The AACSB expects a curriculum to include learning experiences in the following categories of Assurance of Learning Standards: Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork, Diverse and Multicultural Work; Reflective Thinking; and Application of Knowledge. Test Bank questions that test skills relevant to these standards are tagged with the appropriate standard. For example, a question testing the moral questions associated with externalities would receive the Ethical Understanding and Reasoning tag.
Acknowledgements

The guidance and recommendations of the following instructors helped us develop the revision plans for the seventh edition and the supplements package. While we could not incorporate every suggestion from every consultant board member, reviewer, or accuracy checker, we do thank each and every one of you and acknowledge that your feedback was indispensable in developing this text. We greatly appreciate your assistance in making this the best text it could be; you have helped a whole new generation of students learn about the exciting world of economics.

Accuracy Review Board

Our accuracy checkers did a particularly painstaking and thorough job of helping us proof the graphs, equations, and features of the text and supplements. We are grateful for their time and commitment:
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The guidance and thoughtful recommendations of many instructors helped us develop and implement a revision plan that improved the book’s content, enhanced the figures, and strengthened the assessment features. We extend special thanks to Edward Scahill of the University of Scranton for helping us revise the chapter openers and the solutions to the end-of-chapter questions and problems, to Randy Methenitis of Richland College for helping us revise the An Inside Look feature in Chapters 1–4, and to Fernando Quijano for creating all the figures in the book and supplements. We are grateful for the comments and many helpful suggestions received from the following reviewers:
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The guidance and recommendations of the following instructors helped us shape the previous editions.

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We are grateful to both the instructors who class-tested manuscript of the first edition and their students for providing useful recommendations on how to make chapters more interesting, relevant, and accurate:

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We received guidance from a dedicated consultant board during the development of the previous editions at several critical junctures. We relied on the board for input on content, figure treatment, and design:

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A Word of Thanks

Once again, we benefited greatly from the dedication and professionalism of the Pearson Economics team. Portfolio Manager David Alexander’s energy and support were indispensable. David helped mold the presentation and provided words of encouragement whenever our energy flagged. Content Editor Lena Buonanno worked tirelessly to ensure that this text was as good as it could be and to coordinate the many moving parts involved in a project of this magnitude. This new edition posed particular challenges, and we remain astonished at the amount of time, energy, and unfailing good humor she brings to this project. As we worked on the first edition, former Director of Key Markets David Theisen provided invaluable insight into how best to structure a principles text. His advice helped shape nearly every chapter. We extend our thanks to Tricia Murphy, our Product Marketing Manager, and Carlie Marvel, our Field Marketer, for their energy and creativity in presenting our book and digital products to both professors and students.

Christine Donovan managed the entire production process and the extensive supplement package that accompanies the book. Editorial Assistant Nicole Nedwidek assisted the team in completing several tasks, including review surveys and summaries, to help produce both the book and media resources.

We received excellent research assistance on previous editions from Dante DeAntonio, Ed Timmons, Matthew Saboe, David Van Der Goes, and Jason Hockenberry. We thank Elena Zeller, Jennifer Brailsford, Ellen Vandevort Wolf, Emily Webster, Mollie Sweet, Jayme Wagner, and Rebecca Barney for their careful proofreading of first- and second-round page proofs. Over all editions of our books, we received helpful feedback and recommendations from Lehigh University faculty colleagues Frank R. Gunter, Thomas J. Hyclak, and Robert J. Thornton.

As instructors, we recognize how important it is for students to view graphs that are clear and accessible. We are fortunate to have Fernando Quijano render all the figures in our books and also our supplements. Market feedback on the figures continues to be positive. We extend our thanks to Fernando not only for collaborating with us and creating the best figures possible but also for his patience with our demanding schedule.

This seventh edition has several media components, which required skilled and patient creators and developers. We extend special thanks to Andy Taylor of Hodja Media for preparing the video clips and to Paul Graf of the University of Indiana–Bloomington for preparing the graph animations. These videos and animations are an important part of our revision.

A good part of the burden of an undertaking on this scale is borne by our families. We appreciate the patience, support, and encouragement of our wives and children.