For Constance, Raph, and Will
—R. Glenn Hubbard

For Cindy, Matthew, Andrew, and Daniel
—Anthony Patrick O’Brien
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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 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 five 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 15 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 65 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 5 new Solved Problems and 11 heavily revised Solved Problems. This feature helps students break down and answer economic problems step by step. There are additional Interactive Solved Problem 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 added 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, “Market Efficiency and Market Failure,” 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.” Two other Apply the Concepts now incorporate the latest information about government policies toward air pollution and global warming.

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 Snapchat, 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, “Consumer Choice and Elasticity,” opens with an updated discussion of the problems plaguing the J.C. Penney department store chain. A new Apply the Concept discusses why ticket scalpers have made a larger profit from the hit Broadway musical Hamilton than have the show’s producers or stars. New Solved Problem 7.3 analyzes why Tesla doesn’t charge workers to park in the lot at its California factory even though the lot has a severe shortage of spaces.

Chapter 8, “Technology, Production, and Costs,” opens with an updated discussion of the effects of massive open online courses (MOOCs) on the costs of higher education. A new Apply the Concept examines how software company Segment.com rearranged work areas to increase employee output.

Chapter 9, “Firms in Perfectly Competitive Markets,” opens with an updated discussion of the difficulty farmers have making an economic profit selling cage-free eggs. New Solved Problem 9.6 analyzes why a wheat farmer decided to take 170 acres out of production and plant grass, and a new Apply the Concept discusses competition in the Asian restaurant market in New York City.

Chapter 10, “Monopoly and Antitrust Policy,” includes a new Apply the Concept discussing the reasons for the high prices of some generic drugs.


Chapter 12, “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 13, “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 14, “Economic Growth, the Financial System, and Business Cycles,” opens with a new discussion of whether peak oil demand threatens the long-run growth of Chevron Corporation.

Chapter 15, “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 16, “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 17, “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 18, “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 18.4 summarizes how the Congressional Budget Office forecast real GDP growth for 2017–2027.

Chapter 19, “Comparative Advantage, International Trade, and Exchange Rates,” opens with the decision by Mondelez International, Inc., 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.

To make room for the new content described earlier, we have cut approximately 17 Apply the Concepts and 5 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.
Microeconomics
We are convinced that students learn to apply economic principles best if they are taught in a familiar context. Whether they become artists, social workers, engineers, bankers, or government employees, students benefit from understanding economics. We therefore use many diverse real-world business and policy examples to illustrate economic concepts. Here are a few highlights of our approach to microeconomics:

• A strong set of introductory chapters. The introductory chapters provide students with a solid foundation in the basics. We emphasize the key ideas of marginal analysis and economic efficiency. In Chapter 4, “Market Efficiency and Market Failure,” we use the concepts of consumer and producer surplus to measure the economic effects of price ceilings and price floors as they relate to the familiar examples of rental properties and the minimum wage. (We revisit consumer and producer surplus in Chapter 15, “Monopoly and Antitrust Policy,” where we examine the effect of market power on economic efficiency and in Chapter 19, “Comparative Advantage, International Trade, and Exchange Rates,” where we analyze government policies that affect trade.) In Chapter 6, “Firms, the Stock Market, and Corporate Governance,” we provide students with a basic understanding of how firms are organized, raise funds, and provide information to investors. We also illustrate how in a market system entrepreneurs meet consumer wants and efficiently organize production.

• Early coverage of policy issues. To expose students to policy issues early in the course, we discuss trade policy in Chapter 1, “Economics: Foundations and Models”; rent control, the minimum wage; global warming; and government policy toward soda and other sweetened beverages in Chapter 4, “Market Efficiency and Market Failure,”; and health care policy in Chapter 5, “The Economics of Health Care.”

• Complete coverage of trade. We devote a full chapter to international trade and the debate over trade policy in Chapter 19, “Comparative Advantage, International Trade, and Exchange Rates.”

Macroeconomics
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 12, “GDP: Measuring Total Production and Income,” and Chapter 13, “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 14, “Economic Growth, the Financial System, and Business Cycles.” This chapter 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.

- **A dynamic model of aggregate demand and aggregate supply.** In Chapter 15, “Aggregate Demand and Aggregate Supply Analysis,” 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 15 includes a three-layer, full-color acetate for the key introductory dynamic AD–AS graph (Figure 15.8, “A Dynamic Aggregate Demand and Aggregate Supply Model,” on page 524 and reproduced on the left). We created this acetate to help students see how the graph builds step by step and to 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 15 and use it to discuss monetary policy in Chapter 17, “Monetary Policy,” and fiscal policy in Chapter 18, “Fiscal Policy.” The material

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**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.**

---

3. The same factors that cause the LRAS curve to shift during the year also cause the SRAS curve to shift from SRAS1 to SRAS2.

4. During the course of the year, rising population and income, increasing investment, and increasing government purchases cause the AD curve to shift, and the economy reaches a new equilibrium at point B.

5. The economy begins in equilibrium at point A, with SRAS1 and AD1 intersecting at a point on LRAS1.

6. During the course of a year, increases in the labor force and capital stock as well as technological change cause the LRAS curve to shift from LRAS1 to LRAS2.

---

1. The economy begins in equilibrium at point A, with SRAS1 and AD1 intersecting at a point on LRAS1.
on dynamic AD–AS is presented in self-contained sections in Chapters 15, 17, and 18, so instructors may safely omit the sections on that model without any loss in continuity to the discussion of macroeconomic theory and policy.

- **Coverage of both the demand-side and supply-side effects of fiscal policy.** Our discussion of fiscal policy in Chapter 18, “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.

**MyLab Economics**

**OVERVIEW**

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**FEATURES IN THE BOOK AND SUPPORTING RESOURCES ON MYLAB ECONOMICS**

Students and instructors will find the following features in the sixth 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 15 features KB Home founders Donald Kaufman and Eli Broad; and Chapter 17 features Paytm founder Vijay Shekhar Sharma.
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.
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 39 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 65 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 Tallow 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 1930s, 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. But 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 MyLab Economics. 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 508 for examples)

### 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 4 million. 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 $C$.

### Table 3.1

<table>
<thead>
<tr>
<th>Variables That Shift Market Demand Curves</th>
<th>An increase in ...</th>
<th>Shifts the demand curve ... because ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>income (and the good is normal)</td>
<td>Price</td>
<td>consumers spend more of their higher incomes on the good.</td>
</tr>
<tr>
<td>price of a substitute good</td>
<td>Price</td>
<td>consumers buy less of the substitute good and more of this good.</td>
</tr>
<tr>
<td>price of a complementary good</td>
<td>Price</td>
<td>consumers buy less of the complementary good and less of this good.</td>
</tr>
<tr>
<td>taste for the good</td>
<td>Price</td>
<td>consumers are willing to buy a larger quantity of the good at every price.</td>
</tr>
<tr>
<td>population</td>
<td>Price</td>
<td>additional consumers result in a greater quantity demanded at every price.</td>
</tr>
<tr>
<td>the expected price of the good in future</td>
<td>Price</td>
<td>consumers buy more of the good today to avoid the higher price in the future.</td>
</tr>
</tbody>
</table>
Each of the 168 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.

Thirty-one graphs and one table 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 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 🌐, allow students and instructors to use the very latest data from FRED, the Federal Reserve Bank of St. Louis.

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 Concepts, 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.

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.

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>
<tbody>
<tr>
<td><strong>Instructor’s Manual</strong>&lt;br&gt;Authored by Edward Scahill of the University of Scranton</td>
<td>• Chapter-by-chapter summaries organized by learning objectives&lt;br&gt;• Extended examples and class exercises&lt;br&gt;• Teaching outlines incorporating key terms and definitions, teaching tips, topics for class discussion&lt;br&gt;• New Solved Problems&lt;br&gt;• New Apply the Concept features&lt;br&gt;• Solutions to all review questions, problems, and real-time data exercises in the book</td>
</tr>
<tr>
<td><strong>Test Bank</strong>&lt;br&gt;Authored by Randy Methenitis of Richland College</td>
<td>• Over 6,000 multiple-choice, true/false, short-answer, and graphing questions.&lt;br&gt;• Test questions are annotated with the following categories:&lt;br&gt;  <strong>Difficulty</strong>—1 for straight recall; 2 for some analysis; and 3 for complex analysis&lt;br&gt;  <strong>Type</strong>—multiple-choice, true/false, short-answer, essay&lt;br&gt;  <strong>Topic</strong>—the term or concept the question supports&lt;br&gt;  <strong>Learning outcome</strong>&lt;br&gt;  <strong>Page number</strong> in the main book&lt;br&gt;  <strong>Special feature</strong> in the main book&lt;br&gt;  The Association to Advance Collegiate Schools of Business (AACSB) Guidelines</td>
</tr>
<tr>
<td><strong>Computerized TestGen</strong></td>
<td>• Allows instructors to customize, save, and generate classroom tests.&lt;br&gt;• Instructors can edit, add, or delete questions from the Test Banks; analyze test results; and organize a database of tests and student results.&lt;br&gt;• Many options are available for organizing and displaying tests, along with search and sort features.&lt;br&gt;• The software and the Test Banks can be downloaded from <a href="http://www.pearsonhighered.com">www.pearsonhighered.com</a>.</td>
</tr>
<tr>
<td><strong>Three Sets of PowerPoint Lecture Presentations</strong>&lt;br&gt;Authored by Paul Holmes of Ashland University</td>
<td>• 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.&lt;br&gt;• 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.&lt;br&gt;• 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.</td>
</tr>
</tbody>
</table>

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. 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.
Acknowledgements

The guidance and recommendations of the following instructors helped us develop the revision plans for the sixth 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:

Fatma Abdel-Raouf, Goldey-Beacom College
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Anthony Gyapong, Pennsylvania State University–Abington
Randy Methenitis, Richland College
Brian Rosario, University of California–Davis
Edward Scahill, University of Scranton

Reviewers

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:

Mark Abajian, University of San Diego
Anna Antus, North Hennepin Community College
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Leon Battista, Quinnipiac University
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Previous Edition Class Testers, Accuracy Reviewers, and Consultants

The guidance and recommendations of the following instructors helped us shape the previous editions.

Class Testers
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:

- Charles A. Bennett, Gannon University
- Anne E. Bresnock, University of California, Los Angeles, and California State Polytechnic University–Pomona
- Linda Childs-Leatherbury, Lincoln University, Pennsylvania
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- Sharon Ryan, University of Missouri–Columbia
- Bruce G. Webb, Gordon College
- Madelyn Young, Converse College
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Accuracy Review Boards
We are grateful to the following accuracy checkers of the previous editions for their hard work on the book and supplements:

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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. We have worked with Lena for over 15 years and remain astonished at the amount of time, energy, and unfailing good humor she brings to our projects. 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 sixth 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.