

CONTENTS

Preface (<i>To the Instructor</i>)	xvii
Introduction (<i>For the Student</i>)	xxi
Acknowledgments	xxv
<u>Module 1</u> The Economic Problem	1
Chapter 1 The Meaning of Economics	3
Goods and Services	4
Resources	4
Scarcity	5
Choices	6
Alternative Uses	7
Opportunity Cost	8
Present and Future Consumption	9
Social Science	9
Summary	9
Chapter 2 Methods	13
Why Models Are Used	13
Elements of a Model	16
Model Classifications	17
Summary	19
Chapter 3 Production Possibilities	22
A Model of Scarcity	22
Scarcity, Choice, and Opportunity Cost	26
Increasing Costs	27
Increasing Costs Explored	29

	Changing the Assumptions — Employment	31
	Changing the Assumptions — Resources and Technology	34
	Summary	36
Chapter 4	Economic Systems	40
	Allocation of Resources	40
	Alternatives and Goals	42
	Economic Systems	43
	The Circular Flow Model	46
	Summary	48
Module 2	Price Determination	51
	Chaos and Markets	51
	Price	52
	Overview	53
Chapter 5	Demand	54
	Demand	55
	The Law of Demand	58
	Change in Demand	61
	Demand and Quantity Demanded	66
	Summary	68
Chapter 6	Supply	72
	Supply	72
	The Law of Supply	74
	Change in Supply	75
	Summary	79
Chapter 7	Market Equilibrium	83
	Market Demand and Supply	83
	Surplus	86
	Shortage	88
	Equilibrium	90
	An Increase in Market Demand	92
	Shifts in Market Demand and Supply	94
	Summary	97

Chapter 8 Price Elasticity	101
Price Elasticity of Demand	102
Vertical and Horizontal Demand	104
Determinants of Price Elasticity of Demand	106
Price, Elasticity, and Total Revenue	108
Bananas and Oil	110
Summary	111
<u>Module 3</u> Behind the Supply Curve	115
Chapter 9 Diminishing Returns	118
The Short Run and Variable Inputs	119
Total and Marginal Product	119
The Law of Diminishing Returns	122
Diminishing Returns Explored	124
Summary	126
Chapter 10 Cost	130
Total Cost	130
The Economic Concept of Cost	135
Average Cost	137
Marginal Cost	140
The Average-Marginal Relation	144
Summary	146
Chapter 11 Revenue	150
Revenue and Market Structure	150
Perfect Competition	153
Total and Marginal Revenue	154
Monopoly	157
Summary	161
Chapter 12 Profit	165
The Economic Meaning of Profit	165
Profit Maximization	166
Profit Maximization in Perfect Competition	168
Profit Maximization in Monopoly	169

Perfect Competition in the Short Run	172
Summary	176
Chapter 13 Perfectly Competitive Supply	180
The Shutdown Decision	180
Supply	182
Long-Run Equilibrium	184
An Evaluation of Perfect Competition	186
Summary	190
Chapter 14 Monopoly	194
Barriers to Entry	194
Short- and Long-Run Monopoly	197
Higher Price and Lower Output	197
Misallocation of Resources	200
Summary	202
Chapter 15 Imperfect Competition	206
Monopolistic Competition	206
Oligopoly	209
Oligopoly — Kinked Demand	211
Oligopoly — Cooperative Behavior	213
Antitrust	214
Market Failures	215
Summary	217
Chapter 16 Demand for Inputs	221
Marginal Revenue Product and Marginal Input Cost	222
Profit Maximization	223
Input Demand	225
How Wages Are Determined	228
Summary	229
Module 4 Measuring the Economy	233
Chapter 17 Unemployment and Inflation	234
Unemployment	235
Causes of Unemployment	237

Full Employment	238
Inflation	240
Causes of Inflation	241
Summary	244
Chapter 18 Gross Domestic Product	249
Micro- and Macroeconomics	250
Income, Output, and Employment	251
Gross Domestic Product	253
Expenditure Approach to GDP	255
Shortcomings of GDP	257
Summary	259
Chapter 19 Price Indexes	263
When Prices Change	263
Constructing a Price Index	264
Consumer Price Index	266
Limitations of the CPI	268
Real GDP	269
Understanding Real GDP	271
Summary	272
Chapter 20 Business Cycles	276
Business Cycles	276
Theories of Business Cycles	278
Classical Economics	279
The Great Depression	282
Lord Keynes	283
The Keynesian Revolution	285
Summary	286
<u>Module 5</u> The Level of Income	289
Chapter 21 Consumption and Investment	291
Consumption	292
The Marginal Propensity to Consume	292
Saving	294

Investment	297
Summary	299
Chapter 22 Macro Equilibrium	302
Equilibrium Identified in the Macro Model	302
Why Equilibrium Occurs Where It Does	303
Another View of Equilibrium	306
Aggregate Demand and Aggregate Supply	310
Summary	312
Chapter 23 Government	316
Taxes	317
Government Spending	318
Equilibrium Again	319
The Income Multiplier	322
The Multiplier Process	324
Automatic Stabilizers	326
Summary	327
Chapter 24 The Keynesian Cross	332
The Consumption Function and Investment Function	333
The Equilibrium Level of Income	335
Government Expenditure and Taxes	341
Equilibrium Again	343
The Income Multiplier	347
Equilibrium Using Saving and Investment	348
Total Spending and Saving and Investment	353
Summary	353
Chapter 25 Fiscal Policy	357
What Fiscal Policy Is	357
How Fiscal Policy Works	358
The Federal Budget	360
Evaluation of Fiscal Policy	361
Perspectives on Fiscal Policy	362
The National Debt	364
Costs and Burdens of the Debt	367

Summary	370
Module 6 Money	373
Chapter 26 Money	375
What Is Money?	375
What Counts As Money?	377
Fractional Reserves	378
The Creation of Money	379
The Money Multiplier	381
Summary	384
Chapter 27 Monetary Tools	388
The Federal Reserve System	388
Changing the Reserve Requirement	391
Discount Rate Policy	392
Open Market Operations	393
Bond Prices and Interest Rates	394
Summary	396
Chapter 28 Money and the Level of Income	399
The Money Market	400
Money and Income	404
The Link from Money to Income	404
Monetary Policy	405
Evaluation of Monetary Policy	408
Summary	409
Chapter 29 Economic Policy	413
Economic Goals	414
Phillips Curve	415
Stagflation	416
Policy Failure	418
Classical, Keynesian, and Monetarist	419
Supply Side and Rational Expectations	421
Goal Trade-Offs	424
Summary	425

<u>Module 7</u> Trade	429
Chapter 30 Trade without Money	431
Absolute Advantage	431
Comparative Advantage	433
Potential for Trade	435
Production Possibilities	436
Summary	439
Chapter 31 Trade with Money	442
Foreign Exchange Rate	442
Foreign Exchange Market	443
Balance of Payments	445
Barriers to Trade	448
Free Trade versus Protectionism	449
Summary	453
<u>Module 8</u> Conclusion	457
Glossary	461
Index	479