

Preface

THE TWO YEARS leading up to this fourth edition of *Economics Combined Version* from BVT Publishing have seen unusually rapid changes in the economy. These changes are incorporated in major revisions of several parts of the book.

As in the past, this book has a special focus on the globalization of economic life. Now, more than ever before, changes in the world economy affect what happens in the United States, and vice versa. In part, this is reflected in the early position given to the discussion of global climate change and international trade (Chapters 6 and 7). Discussions of global issues are not confined to these two chapters, however. New examples and illustrations from many parts of the world are found throughout the text.

Environmental economics is one of the areas in which change has been most rapid. Accordingly, Chapter 6, which covers climate change and environmental policy, is almost completely rewritten to incorporate both the latest scientific findings and the current policy initiatives. A new appendix covers the thorny issue of weighing the costs and benefits of economic decisions, effects of which stretch over a time horizon of hundreds of years.

The topics of income distribution and poverty are also of increasing importance. The early 2000s saw striking new trends in income distribution. The onset of worldwide recession after 2007 has made the issue of poverty, both at home and abroad, even more important than in the past. Extensive new material on these topics is found in Chapter 16.

Users who teach both micro- and macroeconomics sometimes find that it is harder to cover the wide diversity of microeconomic topics in a single semester than the more tightly integrated material of macroeconomics. In an effort to rebalance the micro and macro courses, there are two places where this fourth edition of *Economics Combined Version* combines chapters that were previously separated. The result is a streamlined, twenty-five outline and a book that is significantly shorter than before.

One such change occurs in Chapter 12, where issues of institutional economics and entrepreneurship, previously covered in a separate chapter, are now folded into the discussion of antitrust and regulatory policy. Another similar reorganization occurs in Chapter 13, which covers pricing in resource markets. As in earlier editions, this chapter begins with a general discussion of supply and demand in input markets, but now the number of figures and degree of detail is reduced to simplify the basic model. Following the general introduction, separate sections deal with applications to markets for labor, capital, and natural resources. Two chapters from previous editions are, thereby, combined into one.

Chapters 17, 18, and 19 cover basic ideas of macroeconomics. The structure of these chapters is unchanged from previous editions, although new charts and cases have been added to reflect current events. Economic data are brought up through mid-2009. During the life of the edition, instructors will be able to find tables and charts updated to 2010 and beyond, in PowerPoint slide form, on the BVT Publishing web site (www.bvtpublishing.com).

Chapter 20 is a completely new discussion of the financial system and bank regulation. It explains the evolution of the banking system from the traditional “originate-to-hold” model to the modern “originate-to-distribute” model. In doing so, it explains key concepts of modern finance, including securitization and subprime mortgage lending. The final sections of the chapter cover bank regulation and the problems that led up to the recent financial crisis. Chapter 21 introduces basic concepts of banking and Chapter 22 covers the aggregate supply and demand model. These chapters are subject to only minor revisions.

The final three chapters of the book are completely rewritten to provide students with a better perspective on current developments in macroeconomics.

Chapter 23 looks at strategies for the conduct of monetary policy. It begins by explaining why lags, forecasting errors, and time-inconsistency render policymaking in the real world much more difficult than the aggregate supply and demand model by itself implies. That is followed by a discussion of alternative policy rules, including monetary targeting, inflation targeting, and exchange rate targeting.

Chapter 24, on fiscal policy, is completely rewritten. It pays much more attention than before to lags, forecasting errors, multiplier uncertainty, and other practical problems of policy. Most of the chapter is devoted to short-run fiscal stabilization, but the final section also looks at longer run issues of macroeconomic imbalances and sustainability of the federal debt and deficit.

Finally, Chapter 25 looks at tools for fighting inflation and deflation. Some of the material on inflation, inflationary recession, and hyperinflation was covered in previous editions. The second half of the chapter is devoted to a greatly expanded discussion of deflation. New topics include the liquidity trap, quantitative easing, productivity-driven supply-side deflation, and asset price bubbles.

Users of earlier editions may wonder what has happened to the material previously covered in the two chapters that have been omitted from the new chapter outline. Little substantive material has been lost. Instead, it is reorganized. Productivity, previously covered in Chapter 29, is now discussed in Chapters 17 and 25. The money supply/money demand approach to interest rate determination now appears in an appendix to Chapter 23. That appendix is recommended for courses that have a high percentage of students who plan to major in economics. Otherwise, it can be omitted without loss of continuity.

As always, I thank the entire publishing and editorial staff of BVT Publishing for their highly professional support. They are a pleasure to work with, and I hope that all students and instructors who use this book benefit as much as I have from their unique and innovative approach to textbook publishing.

Features of This Edition

- *State of the art pedagogy*: An abundance of case studies introduce and illustrate the subject matter of every chapter.
- *Integrated international economics*: As the world economy itself comes closer together, international economics must be more closely integrated into the principles course. Accordingly, topics relating to international economics are not exclusively confined to Chapter 7, which outlines the theory of international trade. In addition, numerous examples and cases drawn from international economic experience are included throughout the book.

Supplements for Instructors

1. **Study Guide.** The Study Guide has hands-on applications and self-testing programs. Students can gain an advantage by reinforcing their reading and lecture notes with the following study guide features:
 - *Where You're Going*: The objectives and terms for each chapter are recapped to tie concepts together.
 - *Walking Tour*: The “Walking Tour” section provides a narrative summary of the chapter and incorporates questions on key points. Answers are given in the margin.
 - *Hands On*: Geographical and numerical exercises clarify concepts and better prepare students for tests and quizzes.
 - *Economics in the News*: A news item illustrates how concepts covered in the chapter could appear in the real world. Questions and answers reinforce the concepts.
 - *Questions for Review*: These questions and answers follow the key chapter concepts, preparing students for the self-test.
 - *Self-Test*: Extra test preparation increases a student's understanding and ability to succeed.
 - *Careers in Economics*: Formerly an appendix in the text, this material provides students with an understanding of where the study of economics could lead them.
2. **Instructor's Manual.** The expanded Instructor's Manual contains material that can be easily included in lectures. The manual also includes all of its traditional elements, including instructional objectives, lecture notes, and suggestions.

3. **Test Bank.** The accompanying Test Bank has been expanded to include 150 questions per chapter in a variety of formats, including multiple choice, true/false, and essay questions.
4. **PowerPoints.** This edition is accompanied by a greatly expanded set of PowerPoint slides. Beginning with this edition, the slides for each chapter include coverage of all graphical material in the text, sometimes supplemented by additional material, as well.
5. **Customize This Book.** If you have additional material you'd like to add (handouts, lecture notes, syllabus, etc.) or simply rearrange and delete content, BVT Publishing's custom publishing division can help you modify this book's content, to produce a book that satisfies your specific instructional needs. BVT Publishing has the only custom publishing division that puts your material exactly where you want it to go, easily and seamlessly. Please visit www.bvtpublishing.com or call us at 1-800-646-7782 for more information on BVT Publishing's Custom Publishing Program.

Supplements for Students

BVT Publishing is pleased to provide students with a free, comprehensive online tutorial which can be found at www.bvtstudents.com. This website offers the following:

1. **eBook editions.** Save time, money and paper by purchasing an eBook version of this text directly from our convenient online store, located on our student website.
2. **Shopping Cart.** For the student's convenience and pocketbook, the student website also contains a shopping cart where they have the added option of purchasing the traditional paper textbook directly from the publisher if they prefer.
3. **Self Testing.** Students can test their knowledge of this book's content on our student website. The Self Test questions are designed to help improve students' mastery of the information in the book.

Combined Version Economics, 4e

Chapter 8

Please answer all questions, and click the "Check Answer" button to grade your test.

1. Anything that people need to address is known as a(n):

Choice

Constraint

Opportunity

Theory

2. Acting purposefully to address an objective, given constraints or available opportunities, is known as:

Property rights

Rationality

Ockham's razor

Scarcity

3. The tendency to prefer simpler theories to more complex ones is known as:

Rational rationality

Unbounded rationality

Rationalism

Ockham's razor

4. Economists assume that people behave in a rational way because:

They believe all people in the market are rational.

It is simpler to make this assumption about individual behavior in a general set of circumstances.

They do not believe in Ockham's razor.

They do not believe in scarcity.

Combined Version Economics, 4e

Chapter 8

Please answer all questions, and click the "Check Answer" button to grade your test.

1. Anything that people need to address is known as a(n):

Choice

Constraint

Opportunity

Theory

2. Acting purposefully to address an objective, given constraints or available opportunities, is known as:

Property rights

Rationality

Ockham's razor

Scarcity

3. The tendency to prefer simpler theories to more complex ones is known as:

Rational rationality

Unbounded rationality

Rationalism

Ockham's razor

4. Economists assume that people behave in a rational way because:

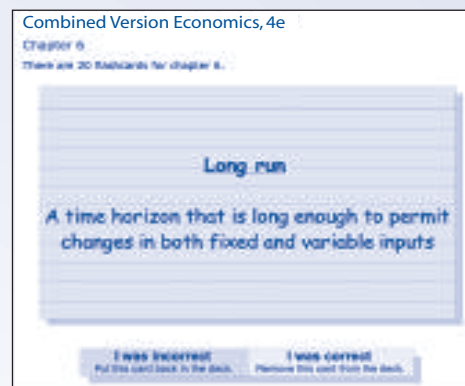
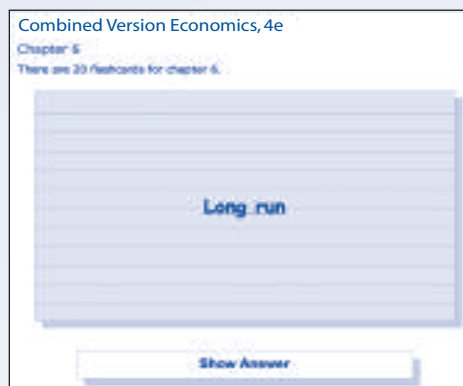
They believe all people in the market are rational.

It is simpler to make this assumption about individual behavior in a general set of circumstances.

They do not believe in Ockham's razor.

They do not believe in scarcity.

4. **Flash Cards.** The Flash Cards are an easy way for students to spot-check their understanding of common and important terms, as well as effectively retain the information.



5. **Chapter Summaries.** The Chapter Summaries are another tool designed to give the students an overview of each chapter's content, further aiding the students in content comprehension and retention.

About the Author



EDWIN G. DOLAN was born in Oklahoma and grew up in a small town in Oregon. He attended Earlham College and Indiana University, where he majored in Russian Studies as an undergraduate and later earned a Masters degree from Indiana University's Russian and East-European Institute. After earning a doctorate in economics from Yale University, he taught at Dartmouth College, the University of Chicago, George Mason University, and Gettysburg College.

In 1971, he published his first book, *TANSTAAFL: The Economic Strategy for Environmental Crisis*, which, although long out of print, continues to be cited as a classic in its field. That slim volume was followed by a number of other textbooks covering principles of economics, money and banking, and problems of microeconomic policy. Combined world-wide sales of these books total more than a million copies.

As economic and political changes accelerated in the Soviet Union during the Gorbachev era, Professor Dolan returned to his early interest in Russia and Eastern Europe. He began teaching in Moscow in 1990. In 1993, he and his wife founded the American Institute of Business and Economics, an independent, not-for-profit MBA program that continues operation to this day. Since leaving Moscow in 2001, he has taught global macroeconomics, managerial economics, money and banking, and other courses in Latvia, Hungary, Croatia, Bulgaria, the Czech Republic, and Estonia. When not lecturing abroad, he makes his home in Washington's San Juan Islands, where he is active in the Community Education program of Skagit Valley College. Hobbies include tennis, horseback riding, woodworking, and bridge.

