

# Preface

**T**HE TWO YEARS leading up to this fourth edition of *Survey of Economics* from BVT Publishing have seen the most dramatic events in the global economy in more than half a century. Now, more than ever before, changes in the world economy affect what happens in the United States, and vice versa. Recognizing this changing world, the changes to this edition continue to emphasize economic globalization by providing new examples and illustrations from many parts of the world throughout the text. These changes are reflected in major revisions of several parts of this book. Most notably, the key chapters on macroeconomic policy have been significantly revised. An intended and beneficial consequence of the revisions is that the chapter outline expands the presentation of monetary policy which has been such an important part of government policy in the last few years. As a result this book has been expanded by one chapter to provide better and clearer explanation of both fiscal and monetary policy. We believe that these changes improve the explanation and flow of information throughout the entire book.

As in the past, this textbook begins with two introductory chapters that cover basic economic ideas and supply and demand. These chapters make it possible to use the book in either “macro-first” or “micro-first” course sequencing. Chapters 3, 4, 5, and 6 cover the basic ideas of microeconomics and decision making under different types of markets. The structure of these chapters is unchanged from previous editions. Chapters 7 through 13 are the macroeconomic chapters. These revised chapters have been edited to provide a better understanding of the macroeconomic model and how monetary and fiscal policy can be used by policymakers to help resolve macroeconomic problems. The most important revision to these chapters is a reorganization of the chapters on fiscal and monetary policy and the addition of new charts and cases to reflect current events. Economic data are brought up through 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](http://www.bvtpublishing.com)).

Chapter 9 introduces basic concepts of banking and the banking system. The appendix to Chapter 9 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 sub-prime mortgage lending. The final sections of the chapter cover bank regulation and the problems that led up to the recent financial crisis. Chapter 10 covers the aggregate supply and demand model.

The next three chapters of the book are completely rewritten to provide students with a better perspective on current developments in macroeconomics. Chapter 11 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 12, 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.

Chapter 13 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.

Environmental economics is one of the areas in which change has been most rapid. Accordingly, Chapter 14, 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. Finally, more international issues are discussed in Chapter 15, Global Trade and Policy.

As always, we thank the entire publishing and editorial staff of BVT Publishing for their highly professional support. They are a pleasure to work with, and we hope that all students and instructors who use this book benefit as much as we 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 survey course. Accordingly, topics relating to international economics are not exclusively confined to Chapter 15, 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 transparencies. Beginning with this edition, the transparencies 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](http://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](http://www.bvtstudents.com). This web site 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 web site.
2. **Shopping Cart.** For the student's convenience and pocketbook, the student web site 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 web site. The Self Test questions are designed to help improve students' mastery of the information in the book.

Survey of Economics, NEW 4/e  
Chapter 8  
Please answer all questions, and click the "Check Answers" button at grade your test.

1. The circular flow of income and product flows

a) The stock of goods and services in product markets.  
 b) The flow of goods and services between households and firms.  
 c) The flow of income from households to firms.  
 d) The stock of capital in factor markets.

2. A quantity that exists at a given point in time, measured in terms of units only is known as

a) A product market.  
 b) A factor market.  
 c) A flow.  
 d) A stock.

3. Which of the following is an example of a flow?

a) The current amount in your checking account.  
 b) The amount of water in a pool.  
 c) Income earned each week.  
 d) The total amount of capital in the economy.

4. When the circular flow is in equilibrium,

a) Domestic income must equal domestic output.  
 b) Consumption expenditure must equal savings.  
 c) Investment expenditure must equal factor payments.  
 d) Domestic income must equal savings.

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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.

Survey of Economics, NEW 4/e  
Chapter 8  
There are 22 flashcards for chapter 8.

**Fixed investment**

Show Answer

Survey of Economics, NEW 4/e  
Chapter 8  
There are 22 flashcards for chapter 8.

**Fixed investment**  
Purchases of newly produced capital goods

I was incorrect  
I was correct

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 Authors



**E**DWIN 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.



**K**EVIN C. KLEIN earned an associates degree from Illinois Central College, bachelors degree in Operations, Management and Economics, masters degree in Economics, and a doctorate in Economics Education from Illinois State University. He has taught at Illinois State University, University of Illinois—Springfield, Benedictine University, and has been teaching economics at Illinois College since 1986. While at Illinois College he has helped develop the economics and environmental studies programs and has twice received the college's highest teaching award, the Dunbaugh Award, in 1997 and again in 2004. In 1999, he participated as a Fulbright Scholar in the Fulbright German Studies Seminar to study alternative energies in Germany. This trip led to him sponsoring many Break-Away® trips for students at Illinois College to Germany, Austria, and Ireland. In his spare time he is an amateur photographer specializing in prairie plant photography on his farm in rural Murrayville, Illinois.