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Principles, Problems, and Policies

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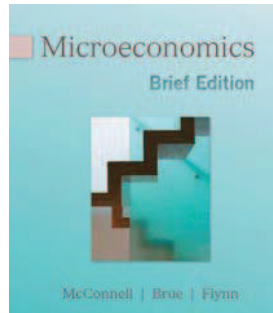
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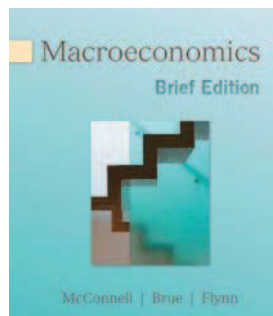
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EIGHTEENTH EDITION

# Economics

Principles, Problems, and Policies

Campbell R. McConnell

*University of Nebraska*

Stanley L. Brue

*Pacific Lutheran University*

Sean M. Flynn

*Vassar College*



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To **Mem** and to **Terri** and **Craig**, and to **past instructors**



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Economics Honorary. He is coauthor of *Economic Scenes*, fifth edition (Prentice-Hall), *Contemporary Labor Economics*, eighth edition, *Essentials of Economics*, second edition (both The McGraw-Hill Companies), and *The Evolution of Economic Thought*, seventh edition (South-Western). For relaxation, he enjoys international travel, attending sporting events, and skiing with family and friends.



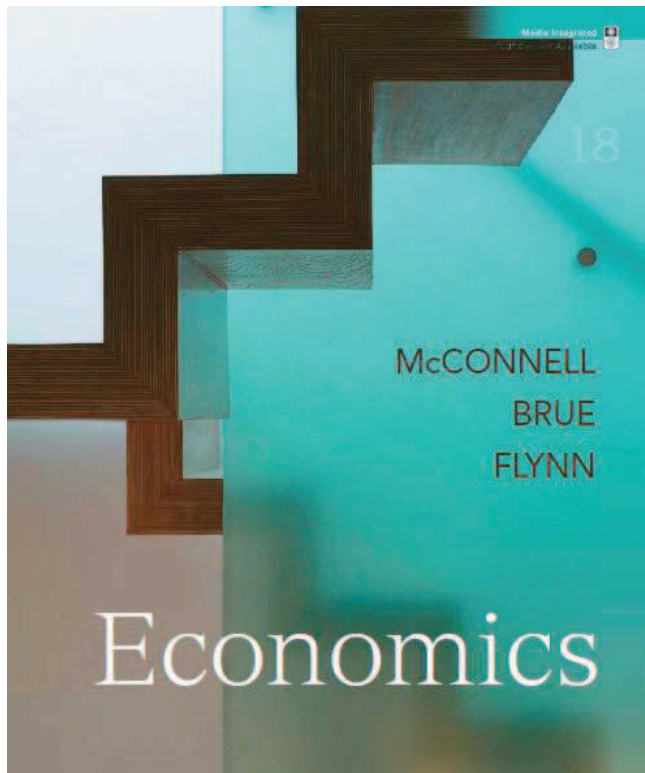
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# List of Key Graphs

1.2	The Production Possibilities Curve	12
2.2	The Circular Flow Diagram	40
3.6	Equilibrium Price and Quantity	55
7.1	Total and Marginal Utility	136
8.2	The Law of Diminishing Returns	160
8.5	The Relationship of the Marginal-Cost Curve to the Average-Total-Cost and Average-Variable-Cost Curves	164
8.8	The Long-Run Average-Total-Cost Curve: Unlimited Number of Plant Sizes	167
9.3	Short-Run Profit Maximization for a Purely Competitive Firm	184
9.6	The $P = MC$ Rule and the Competitive Firm's Short-Run Supply Curve	187
9.12	Long-Run Equilibrium: A Competitive Firm and Market	194
10.4	Profit Maximization by a Pure Monopolist	208
11.1	A Monopolistically Competitive Firm: Short Run and Long Run	226
11.2	The Kinked-Demand Curve	235
13.3	Labor Supply and Labor Demand in (a) a Purely Competitive Labor Market and (b) a Single Competitive Firm	274
27.2	(a) Consumption and (b) Saving Schedules	544
27.5	The Investment Demand Curve	550
28.2	Equilibrium GDP	565
28.7	Recessionary and Inflationary Expenditure Gaps	576
29.7	The Equilibrium Price Level and Equilibrium Real GDP	595
33.1	The Demand for Money, the Supply of Money, and the Equilibrium Interest Rate	662
33.5	Monetary Policy and Equilibrium GDP	674
33.6	The AD-AS Theory of the Price Level, Real Output, and Stabilization Policy	680
37.2	Trading Possibility Lines and the Gains from Trade	748
38.1	The Market for Foreign Currency (Pounds)	770

# Preface



Welcome to the eighteenth edition of *Economics*, the best-selling economics textbook in the world. An estimated 14 million students have used *Economics* or its companion editions, *Macroeconomics* and *Microeconomics*. *Economics* has been adapted into Australian and Canadian editions and translated into Italian, Russian, Chinese, French, Spanish, Portuguese, and other languages. We are pleased that *Economics* continues to meet the market test: nearly one out of four U.S. students in principles courses used the seventeenth edition.

## A Note about the Cover and New Coauthor

In the tradition of the previous two covers, the cover for this edition includes a photograph of steps. The new edition's cover is a metaphor for the step-by-step approach that we use to present basic economic principles. It also represents the simplicity, beauty, and power of basic economic models. We have chosen a highly modern photo to reflect the addition of our new coauthor, Sean M. Flynn, who has helped modernize the content of the book from cover to cover. Sean did his undergraduate work at USC, received his Ph.D. from U.C. Berkeley (in 2002), teaches principles at Vassar, and is the author of *Economics for Dummies*. We

are greatly pleased to have Sean working on the text since he shares our commitment to present economics in a way that is understandable to all.

## Fundamental Objectives

We have three main goals for *Economics*:

- Help the beginning student master the principles essential for understanding the economizing problem, specific economic issues, and the policy alternatives.
- Help the student understand and apply the economic perspective and reason accurately and objectively about economic matters.
- Promote a lasting student interest in economics and the economy.

## What's New and Improved?

One of the benefits of writing a successful text is the opportunity to revise—to delete the outdated and install the new, to rewrite misleading or ambiguous statements, to introduce more relevant illustrations, to improve the organizational structure, and to enhance the learning aids.

This is the most significant revision of *Economics* since the fourteenth edition. It has greatly benefited from the addition of our new coauthor. The more significant changes include the following.

### Micro First Organization

Perhaps most noticeably, we changed the book's organization to micro first in keeping with how contemporary economists view the direction of linkage between the two parts of the subject. All the new principles texts introduced during the past two decades have been organized as micro-first texts and colleges have increasingly changed their course numbering (sequencing) to micro first.

As it relates to the actual principles course, however, this change in ordering is mainly symbolic. Micro and macro courses are still taught separately and independently, with no prerequisite on either. Also, students increasingly use the split micro and macro versions of our main text, even in schools that adopt our book for all sections of both micro and macro principles. We therefore think that most instructors will find it relatively easy to make the transition to the new ordering.

### Fully Updated, Totally Contemporary Macroeconomics

We recast the entire macro analysis in terms of the modern, dominant paradigm of macroeconomics, using economic

growth as the central backdrop and viewing business fluctuations as significant and costly variations in the rate of growth. In this paradigm, business cycles result from demand shocks (or, less often, supply shocks) in conjunction with inflexible short-run product prices and wages. The degree of price and wage stickiness decreases with time. In our models, the *immediate short run* is a period in which the price level and wages are not only sticky, but stuck; the *short run* is a period in which product prices are flexible and wages are not; and the *long run* is a period in which both prices and wages are fully flexible. Each of these three periods—and thus each of the models based on them—is relevant to understanding the actual macro economy and its occasional difficulties.

New Chapter 23 introduces the macro framework in a lively, intuitive way, using an example of a hypothetical single-firm economy. It also makes a clear, critical distinction between the broader concept of financial investment and the narrower subset of investment called economic investment in a way that allows us to use both ideas. A chapter on the measurement of nominal and real GDP follows. With real GDP clearly defined and measured, we present a chapter on economic growth. This early placement of the growth chapter allows students to understand the importance of economic growth and the factors that drive it. This growth chapter is followed by a chapter that introduces business fluctuations along the economy's growth path and the problems of unemployment and inflation that may result.

Following this set of core beginning chapters, we immediately begin to build models of the economy for the immediate short run and the short run. Students are therefore quickly introduced to models in which recessions and inflation can occur. This approach allows us to use the short-run AD-AS model to address fiscal policy and monetary policy relatively earlier in the macro. Students are made fully aware from the start of the macro that the rate of economic growth is fundamentally important for standards of living. Yet, the quick introduction of sticky price models enables students to understand demand shocks, recession, stimulatory fiscal policy, Fed monetary policy actions, and other topics that dominate the news about the macro economy.

Because Chapter 5 provides an early introduction to international trade and international finance, we are able to integrate the global economy from the start of the macro analysis. Then, after eventually developing the long-run AD-AS model, we directly link this long-run analysis back to our earlier discussions of growth. We finish the macro with two chapters that provide further analysis of international trade, balance of payments, exchange rates, and trade imbalances. The macro ends with a bonus Web chapter on

the requisites for, and impediments to, economic growth in developing nations.

Although the framework in which the macro is built is extensively revised, the revisions were made to preserve the main elements of the chapters in the previous edition. We simply have wrapped the macroeconomics analysis into a modern package of growth, expectations, shocks, price stickiness, time horizons, and international linkages.

Our macro content is also fully modern in terms of its coverage of contemporary problems and policies. For example, we cover the mortgage debt crisis, the recent economic slowdown, the Fed's reductions of the Federal funds rate, the Fed's term auction facility, the stimulus tax package of 2008, and more.

## Four New Chapters

Four chapters—two micro and two macro—are new to the print version of *Economics*. Our common purpose for all four chapters is to incorporate contemporary analytical themes and address current economic issues.

**Chapter 15: *Natural Resource and Energy Economics*.** This new micro chapter—brought from our Web site for the seventeenth edition—is now in Part 3 (Microeconomics of Resource Markets). This chapter addresses the question of whether the world is becoming overpopulated and rapidly running out of resources. It covers topics such as declining fertility rates, the optimal rate of resource extraction, resource substitution, resource sustainability, oil prices, and alternative energy sources. An understanding of the basic economic principles of natural resource economics will be critical to future voters and leaders. This micro treatment of natural resource and energy topics is particularly timely since many students are regularly exposed to alarmist views on these subjects.

**Chapter 22: *Immigration*.** This new micro chapter covers the economics of immigration—both legal and illegal—in an analytical and balanced way. Students are highly interested in this subject, yet often lack the economic knowledge and tools to grasp the issues and debates. This chapter provides that basic economic understanding. The chapter also serves as a timely application of the economic principles developed in the prior chapters on resource markets.

**Chapter 23: *An Introduction to Macroeconomics*.** As previously noted, this new chapter introduces the revised macroeconomic content in an interesting, concise way. It motivates the study of macroeconomics and establishes the analytical framework to the subject that we use throughout the macro portion of the book.

**Chapter 34: Financial Economics.** This new macro chapter examines ideas such as compound interest, present value, arbitrage, risk, diversification, and the risk-return relationship. Students need a better grounding in such ideas to truly understand the modern economy. In view of the problems in the financial markets over the recent past, we think that integrating financial economics more directly in the macro principles course makes good sense. For many students, this course will be their only (classroom!) opportunity to learn that promises of high, unguaranteed returns reflect high, uninsured risk. Even if instructors cannot find time to assign and cover the entire chapter, they may want to discuss the beginning portion, which addresses the time value of money and provides easy-to-understand real-world examples of present value.

To make room for our four new chapters, we had to make certain accommodations. Specifically, we moved our micro chapter “Technology, R & D, and Efficiency” to the book’s Web site, where it joins the chapter “The Economics of Developing Countries.” Both chapters are available free to students for full-color viewing and can be printed for off-computer study. Furthermore, these chapters are fully supported by all the supplementary materials such as the *Study Guide* and Test Banks. Instructors who wish to cover the R&D chapter, rather than, for example, the new resource chapter, can easily make the substitution.

We also deleted the chapter “Labor Market Issues and Institutions: Unions, Discrimination, and Immigration.” The core of the union content is now in an appendix to the wage determination chapter; the discrimination material is consolidated and placed in the chapter “Income Inequality, Poverty, and Discrimination,” and the immigration content now is part of the full new chapter on this subject.

Also, we deleted the mainly macro chapter on the balance of payments, exchange rates, and trade deficits from the *micro* split version of *Economics*. It continues to be in *Economics* and the macro split.

Our explicit discussion of Keynesian versus Classical macroeconomics in the chapter on macro theories and issues has been deleted since we integrated the graphical analysis into earlier chapters. Finally, we have deleted the lengthy historical discussions of the gold standard and the Bretton Woods System from the chapter on exchange rates and placed it as supplemental material for the chapter at our Web site. Other, lesser deletions or abridgements have occurred throughout the book.

## Three New Appendixes

Three additional chapter appendixes are available for optional assignment in this edition. All are supported by

the supplementary materials. The concise new appendixes are:

### **Chapter 3: Additional Examples of Supply and Demand.**

At the end of Chapter 3 we provide several additional examples of supply and demand, including concrete examples of simultaneous shifts in supply and demand curves. Products covered include lettuce, corn and ethanol, pink salmon, gasoline, and sushi. We also use the Olympic Games to illustrate examples of preset prices, shortages, and surpluses.

### **Chapter 11: Additional Game Theory Applications.**

We placed several applications of game theory in a new appendix at the end of the micro chapter on monopolistic competition and oligopoly. Instructors who like to stress game theory in dealing with oligopoly now have strong backup support from the textbook for their efforts. The appendix discusses concepts such as dominant strategies, Nash equilibrium, repeated games, and first-mover advantages.

### **Chapter 13: Labor Unions and Their Impacts.**


This compact appendix covers union membership, the decline of unions, collective bargaining, and the economic effects of unions.

## New (or Relocated) “Consider This” and “Last Word” Boxes

Our “Consider This” boxes are used to provide analogies, examples, or stories that help drive home central economic ideas in a student-oriented, real-world manner. For instance, the idea of trade secrets is described with the legend of “cat gut” and violin strings, while McDonald’s “McHits” and “McMisses” demonstrate the idea of consumer sovereignty. These brief vignettes, each accompanied by a photo, illustrate key points in a lively, colorful, and easy-to-remember way.

New or relocated “Consider This” boxes include such disparate topics as an economic comparison of the two Koreas (Chapter 2), “buying American” (Chapter 5), the prisoner’s dilemma (Chapter 11), government policies and birth rates (Chapter 15), turning

**CONSIDER THIS . . .**



**Did Gates, Winfrey, and Rodriguez Make Bad Choices?**

Opportunity costs come into play in decisions well beyond simple buying decisions. Consider the different choices people make with respect to college. College graduates usually earn about 50 percent more during their lifetimes than persons with just high school diplomas. For most capable students, “Go to college, stay in college, and earn a degree” is very sound advice.

Yet Microsoft cofounder Bill Gates and talk show host Oprah Winfrey\* both dropped out of college, and baseball star Alex Rodriguez (“A-Rod”) never even bothered to start classes. What were they thinking? Unlike most students, Gates faced enormous opportunity costs for staying in college. He had a vision for his company, and his starting work young helped ensure Microsoft’s success. Similarly, Winfrey landed a spot in local television news when she was a teenager, eventually producing and starring in the *Oprah Winfrey Show* when she was 32 years old. Getting a degree in her twenties might have interrupted the string of successes that made her famous talk show possible. And Rodriguez knew that professional athletes have short careers. Therefore, going to college directly after high school would have taken away four years of his peak earning potential.

So Gates, Winfrey, and Rodriguez understood opportunity costs and made their choices accordingly. The size of opportunity costs greatly matters in making individual decisions.

\*Winfrey eventually went back to school and earned a degree from Tennessee State University when she was in her thirties.



**LAST Word** — Pitfalls to Sound Economic Reasoning

**Because They Affect Us So Personally, We Often Have Difficulty Thinking Accurately and Objectively About Economic Issues.**

Here are some common pitfalls to avoid in successfully applying the economic perspective.

**Biases** Most people bring a bundle of biases and preconceptions to the field of economics. For example, some might think that corporate profits are excessive or that lending money is always superior to borrowing money. Others might believe that government is necessarily less efficient than businesses or that more government regulation is always better than less. Biases cloud thinking and interfere with objective analysis. All of us must be willing to shed biases and preconceptions that are not supported by facts.

**Loaded Terminology** The media is sometimes emotionally biased, or loaded. The writer or spokesperson may have a cause to promote or an axe to grind and may slant comments accordingly. High profits may be labeled "obscene," low wages may be called "exploitive," or self-interested behavior may be "greed." Government workers may be referred to as "mindless bureaucrats" and those favoring stronger government regulations may be called "socialists." To objectively analyze economic issues, you must be prepared to reject or discount such terminology.

**Fallacy of Composition** Another fallacy in economic thinking is the assumption that what is true for one individual or part of a group of individuals or the whole. This is a logical fallacy called the *fallacy of composition*; the assumption is not correct. A statement that is valid for an individual or part is not necessarily valid for the larger group or whole. You may see the action *hurry if you leap to your feet to*



entrails into oil (Chapter 15), putting corn in our gas tanks (Chapter 19), consumption inequality (Chapter 20), the cancer fight that is going nuclear (Chapter 21), the contributions of past immigrants to the U.S. economy (Chapter 22), patent reform in India (Chapter 25), and the relative returns on standard versus ethical investing (Chapter 34).

Our “Last Word” pieces are lengthier applications and case studies located toward the end of chapters. New or relocated Last Words include those on fair trade products (Chapter 5); insights from behavioral economics (Chapter 7); the link between economic growth and environmental protection (Chapter 15); past and current, and proposed U.S. immigration laws (Chapter 22); the role of inventory management in moderating recessions (Chapter 23); the Fed’s response to the mortgage debt crisis (Chapter 33); the relative performance of index funds versus actively managed funds (Chapter 34); and Bastiat’s “Petition of the Candlemakers” (Chapter 37).

## Contemporary Discussions and Examples

The eighteenth edition refers to and discusses many current topics. Examples include the cost of the war in Iraq; surpluses and shortages of tickets at the Olympics; the myriad impacts of ethanol subsidies; offshoring of American jobs; trade adjustment assistance; the additions of countries to the European Union and to the euro zone; normal trade relations status; aspects of behavioral economics; game theory; the most rapidly expanding and disappearing U.S. jobs; oil and gasoline prices; climate change; The Food, Conservation, and Energy Act of 2008; consumption versus income inequality; prescription drug coverage under Medicare; Health Savings Accounts (HSAs); comprehensive immigration reform; China’s rapid growth rate; the business downturn of late

2007 and early 2008; the stimulus package of 2008; Federal budget deficits; the mortgage debt crisis; recent Fed monetary policy; the Fed’s new term auction facility; the Taylor rule; U.S. trade deficits; and many more.

## Distinguishing Features

**Comprehensive Explanations at an Appropriate Level** *Economics* is comprehensive, analytical, and challenging yet fully accessible to a wide range of students. The thoroughness and accessibility enable instructors to select topics for special classroom emphasis with confidence that students can read and comprehend other independently assigned material in the book. Where needed, an extra sentence of explanation is provided. Brevity at the expense of clarity is false economy.

**Fundamentals of the Market System** Many economies throughout the world are still making difficult transitions from planning to markets while a handful of other countries such as Venezuela seem to be trying to reestablish government-controlled, centrally planned economies. Our detailed description of the institutions and operation of the market system in Chapter 2 is therefore even more relevant than before. We pay particular attention to property rights, entrepreneurship, freedom of enterprise and choice, competition, and the role of profits because these concepts are often misunderstood by beginning students worldwide.

**Early and Full Integration of International Economics** We give the principles and institutions of the global economy early treatment. Chapter 5 examines the growth of world trade and its major participants, specialization and comparative advantage, the foreign exchange market, tariffs and subsidies, and various trade agreements. This strong introduction to international economics permits “globalization” of later discussions in both the micro and the macro chapters. Then, we delve into the more difficult, graphical analysis of international trade and finance in Chapters 37 and 38.

**Early and Extensive Treatment of Government** Government is an integral component of modern capitalism. This book introduces the economic functions of government early and accords them systematic treatment in Chapter 4. Chapter 16 examines public goods and externalities in further detail, and Chapter 17 looks at salient facets of public choice theory and taxation. Both the micro and the macro sections of the text include issue- and policy-oriented chapters.

**Stress on the Theory of the Firm** We have given much attention to microeconomics in general and to the theory of the firm in particular, for two reasons. First, the concepts of microeconomics are difficult for most beginning students; abbreviated expositions usually compound these difficulties by raising more questions than they answer. Second, we wanted to couple analysis of the various market structures with a discussion of the impact of each market arrangement on price, output levels, resource allocation, and the rate of technological advance.

**Step-by-Step, Two-Path Macro** As in the previous edition, our macro continues to be distinguished by a systematic step-by-step approach in developing ideas and building models. Explicit assumptions about price and wage stickiness are posited and then systematically peeled away, yielding new models and extensions, all in the broader context of growth, expectations, shocks, and degrees of price and wage stickiness over time.

In crafting this step-by-step macro approach, we took care to preserve the “two-path macro” that many instructors appreciated. Instructors who so choose can bypass the immediate short-run model (Chapter 28) and can proceed without loss of continuity directly to the short-run AD-AS model (Chapter 29), fiscal policy, money and banking, monetary policy, and the long-run analysis.

**Emphasis on Technological Change and Economic Growth** This edition continues to emphasize economic growth. Chapter 1 uses the production possibilities curve to show the basic ingredients of growth. Chapter 25 explains how growth is measured and presents the facts of growth. It also discusses the causes of growth, looks at productivity growth, and addresses some controversies surrounding economic growth. Chapter 25’s Last Word examines the rapid economic growth in China. Chapter 39Web focuses on developing countries and the growth obstacles they confront. Chapter 11Web provides an explicit and cohesive discussion of the microeconomics of technological advance, including topics such as invention, innovation, and diffusion; start-up firms; R&D decision making; market structure and R&D effort; and creative destruction.

**Focus on Economic Policy and Issues** For many students, the micro chapters on antitrust, agriculture, income inequality, health care, and immigration, along with the macro chapters on fiscal policy and monetary policy, are where the action is centered. We guide that action along logical lines through the application of appropriate analyti-

cal tools. In the micro, we favor inclusiveness; instructors can effectively choose two or three chapters from Part 5.

**Integrated Text and Web Site** *Economics* and its Web site are highly integrated through in-text Web buttons, Web-based end-of-chapter questions, bonus Web chapters, multiple-choice self-tests at the Web site, math notes, and other features. Our Web site is part and parcel of our student learning package, customized to the book.

The in-text Web buttons (or indicators) merit special mention. Three differing colors of rectangular indicators appear throughout the book, informing readers that complementary content on a subject can be found at our Web site, [www.mcconnell18e.com](http://www.mcconnell18e.com). The indicator types are:

**Worked Problems** Written by Norris Peterson of Pacific Lutheran University (WA), these pieces consist of side-by-side computational questions and computational procedures used to derive the answers. In essence, they extend the textbook’s explanation involving computations—for example, of real GDP, real GDP per capita, the unemployment rate, the inflation rate, per-unit production costs, economic profit, and more. From a student’s perspective, they provide “cookbook” help for problem solving.

**Interactive Graphs** These pieces (developed under the supervision of Norris Peterson) depict 30 major graphs and instruct students to shift the curves, observe the outcomes, and derive relevant generalizations. This hands-on graph work will greatly reinforce the graphs and their meaning.

**Origin of the Ideas** These pieces, written by Randy Grant of Linfield College (OR), are brief histories of 70 major ideas identified in the book. They identify the particular economists who developed ideas such as opportunity costs, equilibrium price, the multiplier, comparative advantage, and elasticity.

## Organizational Alternatives

Although instructors generally agree on the content of principles of economics courses, they sometimes differ on how to arrange the material. *Economics* includes 10 parts, and thus provides considerable organizational flexibility.

### WORKED PROBLEMS

W I. I

Budget Lines

### INTERACTIVE GRAPHS

G I. I

Production Possibilities Curve

### ORIGIN OF THE IDEA

O I. I

Origin of the term “Economics”



We chose to move from microeconomics to macroeconomics because this is consistent with how contemporary economists view the direction of linkage between the two components. The introductory material of Part 1, however, can be followed immediately by the macroanalysis of Parts 6 and 7. Similarly, the two-path macro enables covering the full aggregate expenditures model or advancing directly from the basic macro relationships chapter to the AD-AS model.

Some instructors will prefer to intersperse the microeconomics of Parts 3 and 4 with the problems chapters of Part 5. Chapter 19 on agriculture may follow Chapter 9 on pure competition; Chapter 18 on antitrust and regulation may follow Chapters 10, 11, and 11Web on imperfect competition models and technological advance. Chapter 22 on immigration may follow Chapter 13 on wages; and Chapter 20 on income inequality may follow Chapters 13 and 14 on distributive shares of national income.

Instructors who teach the typical two-semester course and feel comfortable with the book's organization will find that, by putting Parts 1 to 5 in the first semester and Parts 6 to 10 in the second, the material is divided logically between the two semesters.

## Pedagogical Aids

*Economics* is highly student-oriented. The “To the Student” statement at the beginning of Part 1 details the book's many pedagogical aids. The eighteenth edition is also accompanied by a variety of high-quality supplements that help students master the subject and help instructors implement customized courses.

## Supplements for Students and Instructors

**Study Guide** One of the world's leading experts on economic education, William Walstad of the University of Nebraska–Lincoln, prepared the eighteenth edition of the *Study Guide*. Many students find the *Study Guide* indispensable. Each chapter contains an introductory statement, a checklist of behavioral objectives, an outline, a list of important terms, fill-in questions, problems and projects, objective questions, and discussion questions.

The *Guide* comprises a superb “portable tutor” for the principles student. Separate *Study Guides* are available for the macro and micro paperback editions of the text.

**Premium Content** The Premium Content, available at the Online Learning Center, offers a range of dynamic study aids to the student. Narrated PowerPoint presenta-



tions enable students to see key concepts and hear the explanation simultaneously. The Solman Videos, a set of more than 250 minutes of video created by Paul Solman of *The News Hour with Jim Lehrer*,

cover core economic concepts such as elasticity, deregulation, and perfect competition. These study aids plus pre- and post-tests and chapter quizzes can be purchased and downloaded to an iPod, MP3 player, or desktop computer. Premium Content enables the student to study and self-test on his or her computer or on the go.

**McGraw-Hill Connect Economics** Connect Economics is a complete, online supplement system that duplicates and expands upon the textbook's end-of chapter material and test banks. Nearly all the questions from the text, including the numerous graphing exercises, are presented in an autogradable format and tied to the text's learning objectives. Instructors



may edit existing questions and author entirely new problems. Connect Economics can be used for student practice, homework, quizzes, and formal examinations. Detailed grade reports enable instructors to see how each student performs on a particular problem, a full assignment, and in the context of the overall class. The Connect Economics grade reports can be easily integrated with WebCT and Blackboard. Connect Economics is also available with an integrated online version of the textbook. With a single access code, students can read the eBook, work through practice problems, do homework, and take exams.

**CourseSmart eTextbook** For roughly half the cost of a print book, you can reduce your impact on the environment by buying McConnell, Brue, and Flynn's *Economics*, 18e eText. CourseSmart eTextbooks, available in a standard online reader, retain the exact



content and look of the print text, plus offer the advantage of digital navigation to which students are accustomed. Students can search the text, highlight, take notes, and use e-mail tools to share notes with their classmates. CourseSmart also includes tech support in case

help is ever needed. To buy *Economics*, 18e as an eText, or to learn more about this digital solution, visit [www.CourseSmart.com](http://www.CourseSmart.com) and search by title, author, or ISBN.

**Instructor's Manual** Shawn D. Knabb of Western Washington University revised and updated the *Instructor's Manual*.

The revised *Instructor's Manual* includes:

- Chapter summaries.
- Listings of “what’s new” in each chapter.
- Teaching tips and suggestions.
- Learning objectives.
- Chapter outlines.
- Data and visual aid sources with suggestions for classroom use.
- Extra questions and problems.
- End-of-chapter correlation guides mapping content to the learning objectives and important AACSB and Bloom’s Taxonomy standards.

The *Instructor's Manual* is available on the instructor’s side of the Online Learning Center.

**Three Test Banks** Test Bank I contains about 6650 multiple-choice and true-false questions, most of which were written by the text authors. Randy Grant revised Test Bank I for the eighteenth edition. Test Bank II contains around 6300 multiple-choice and true-false questions, updated by Michael Youngblood of Rock Valley College. All Test Bank I and II questions are organized by learning objective, topic, AACSB Assurance of Learning, and Bloom’s Taxonomy guidelines. Test Bank III, written by William Walstad, contains more than 600 pages of short-answer questions and problems created in the style of the book’s end-of-chapter questions. Test Bank III can be used to construct student assignments or design essay and problem exams. Suggested answers to the essay and problem questions are included. In all, more than 14,000 questions give instructors maximum testing flexibility while ensuring the fullest possible text correlation.

Test Banks I and II are available through EZ Test Online as well as in MS Word. EZ Test allows professors to create customized tests that contain both questions that they select from the test banks as well as questions that they craft themselves. Test Bank III is available in MS Word on the password-protected instructor’s side of the Online Learning Center, and on the Instructor Resource CD, both of which we will describe shortly.

**PowerPoint Presentations** Nora Underwood of the University of Central Florida updated the *PowerPoint*

*Presentations* for the eighteenth edition. Each chapter, including the Web chapters, is accompanied by a concise yet thorough tour of the key concepts. Instructors can use the slides in the classroom while students can use the slides to study. Students can view a second, distinct set of slides—the *Narrated PowerPoint Presentations*—on the site or download the material to their video iPod. The content is correlated to the Learning Objectives. This exceptional study aid, updated by Darlene DeVera of Deanza College, is a part of the Premium Content package.

**Digital Image Library** Every graph and table in the text is available on the instructor’s side of the Web site and on the Instructor’s Resource CD-ROM.

**Online Learning Center ([www.mconnell18e.com](http://www.mconnell18e.com))** The Web site accompanying this book is a central resource for students and instructors alike. The optional Web Chapters: “Technology, R&D, and Efficiency,” “The Economics of Developing Countries,” and Chapter 38 Web supplement: “Previous International Exchange-Rate Systems” are posted as full-color PDF files. As previously mentioned, the three in-text Web buttons alert the students to points in the book where they can springboard to the Web site to get more information. Students can test their knowledge of a chapter’s concepts with the self-graded multiple choice quiz and review PowerPoint presentations.

The password-protected Instructor Center houses the Instructor’s Manual, all three Test Banks, and links to EZ Test Online, PowerPoint Presentations, and Digital Image Library.

**Instructor’s Resource CD-ROM** This CD contains all three test banks, PowerPoint presentations, and the Digital Image Library featuring all of the tables and figures from the text.

**Classroom Performance Systems by eInstruction** This is a revolutionary system that brings

ultimate interactivity to the classroom. CPS is a wireless response system that gives you immediate feedback from every student in the class. CPS units include easy-to-use software for creating and delivering questions and assessments to your class. With CPS you can ask subjective and objective questions. Then every student responds with an individual, wireless response pad, providing instant results. CPS is the perfect



tool for engaging students while gathering important assessment data.

Instructors can access eInstruction questions in two formats—CPS and PowerPoint. Motivate student preparation, interactivity, and active learning with these lecture formatted questions.

**Assurance of Learning Ready** Assurance of learning is an important element of many accreditation standards. *Economics*, 18e is designed specifically to support your assurance of learning initiatives. Each chapter in the book begins with a list of numbered learning objectives which appear throughout the chapter, as well as in the end-of-chapter problems and exercises. Every test bank question is also linked to one of these objectives, in addition to level of difficulty, topic area, Bloom’s Taxonomy level, and AACSB skill area. EZ Test, McGraw-Hill’s easy-to-use test bank software, can search the test bank by these and other categories, providing an engine for targeted Assurance of Learning analysis and assessment.

**AACSB Statement** The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Economics*, 18e has sought to recognize the curricula guidelines detailed in the AACSB standards for business accreditation by connecting end-of-chapter questions in *Economics*, 18e and the accompanying test banks to the general knowledge and skill guidelines found in the AACSB standards.

The statements contained in *Economics*, 18e are provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Economics*, 18e and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within *Economics*, 18e labeled selected questions according to the six general knowledge and skills areas.

## Acknowledgments

We give special thanks to Norris Peterson of Pacific Lutheran University and Randy Grant of Linfield College, who created the “button” content on our Web site. We again thank James Reese of the University of South Carolina at Spartanburg, who wrote the original Internet exercises. Although many of those questions were replaced or modified in the typical course of revision, several remain virtually unchanged. We also thank Nora Underwood at the University of Central Florida for updating the PowerPoint slides for the eighteenth edition and Darlene DeVera of Deanza College for the Narrated PowerPoint presentations. Shawn Knabb of Western Washington University deserves a great thanks for updating the *Instructor’s Manual* as well as for accuracy checking the many parts making up 18e and the ancillies. Thanks to Mohammad Bajwa of Northampton Community College, who accuracy checked both Test Banks I and II, and to Benjamin Pappas, who updated the art in both Test banks. Finally, we thank William Walstad and Tom Barbiero (the coauthor of our Canadian edition) for their helpful ideas and insights.

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The eighteenth edition has benefited from a number of perceptive formal reviews. The contributors, listed at the end of the Preface, were a rich source of suggestions for this revision. To each of you, and others we may have inadvertently overlooked, thank you for your considerable help in improving *Economics*.

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# Brief Contents

## PART ONE

### Introduction to Economics and the Economy 1

- 1 Limits, Alternatives, and Choices 3
- 2 The Market System and the Circular Flow 29
- 3 Demand, Supply, and Market Equilibrium 45
- 4 The U.S. Economy: Private and Public Sectors 72
- 5 The United States in the Global Economy 91

## PART TWO

### Microeconomics of Product Markets 112

- 6 Elasticity, Consumer Surplus, and Producer Surplus 113
- 7 Consumer Behavior 134
- 8 The Costs of Production 154
- 9 Pure Competition 176
- 10 Pure Monopoly 201
- 11 Monopolistic Competition and Oligopoly 222
- 11w Technology, R&D, and Efficiency (**WEB CHAPTER**, [www.mcconnell18e.com](http://www.mcconnell18e.com)) 251

## PART THREE

### Microeconomics of Resource Markets 252

- 12 The Demand for Resources 253
- 13 Wage Determination 270
- 14 Rent, Interest, and Profit 296
- 15 Natural Resource and Energy Economics 312

## PART FOUR

### Microeconomics of Government 334

- 16 Public Goods, Externalities, and Information Asymmetries 335
- 17 Public Choice Theory and the Economics of Taxation 356

## PART FIVE

### Microeconomic Issues and Policies 374

- 18 Antitrust Policy and Regulation 375
- 19 Agriculture: Economics and Policy 391
- 20 Income Inequality, Poverty, and Discrimination 409
- 21 Health Care 431
- 22 Immigration 449

## PART SIX

### GDP, Growth, and Instability 465

- 23 An Introduction to Macroeconomics 466
- 24 Measuring Domestic Output and National Income 479
- 25 Economic Growth 498
- 26 Business Cycles, Unemployment, and Inflation 520

## PART SEVEN

### Macroeconomic Models and Fiscal Policy 540

- 27 Basic Macroeconomic Relationships 541
- 28 The Aggregate Expenditures Model 561
- 29 Aggregate Demand and Aggregate Supply 583
- 30 Fiscal Policy, Deficits, and Debt 607

## PART EIGHT

### Money, Banking, and Monetary Policy 628

- 31 Money and Banking 629
- 32 Money Creation 645
- 33 Interest Rates and Monetary Policy 660
- 34 Financial Economics 687

## PART NINE

### Extensions and Issues 706

- 35 Extending the Analysis of Aggregate Supply 707
- 36 Current Issues in Macro Theory and Policy 726

## PART TEN

### International Economics 742

- 37 International Trade 743
- 38 The Balance of Payments, Exchange Rates, and Trade Deficits 764
- 38w Previous International Exchange-Rate Systems (**WEB SUPPLEMENT**, [www.mcconnell18e.com](http://www.mcconnell18e.com)) 785
- 39w The Economics of Developing Countries (**WEB CHAPTER**, [www.mcconnell18e.com](http://www.mcconnell18e.com)) 786

- Glossary G-1
- Index IND-1



# Contents

List of Key Graphs	ix
Preface	x
Contributors	xviii

## PART ONE

### Introduction to Economics and the Economy 1

To the Student	2
----------------	---

#### Chapter 1

### Limits, Alternatives, and Choices 3

The Economic Perspective	4
--------------------------	---

Scarcity and Choice / Purposeful Behavior / Marginal Analysis:  
Benefits and Costs

**Consider This:** *Free for All?* 4

**Consider This:** *Fast-Food Lines* 5

Theories, Principles, and Models	5
----------------------------------	---

Microeconomics and Macroeconomics	6
-----------------------------------	---

Microeconomics / Macroeconomics / Positive and  
Normative Economics

Individuals' Economizing Problem	7
----------------------------------	---

Limited Income / Unlimited Wants / A Budget Line

**Consider This:** *Did Gates, Winfrey, and Rodriguez*

*Make Bad Choices?* 9

Society's Economizing Problem	10
-------------------------------	----

Scarce Resources / Resource Categories

Production Possibilities Model	11
--------------------------------	----

Production Possibilities Table / Production Possibilities

Curve / Law of Increasing Opportunity Costs / Optimal  
Allocation

**Consider This:** *The Economics of War* 14

Unemployment, Growth, and the Future	14
--------------------------------------	----

A Growing Economy / Present Choices and Future

Possibilities / A Qualification: International Trade

**Last Word:** *Pitfalls to Sound Economic Reasoning* 16

<b>Chapter 1 Appendix: Graphs and Their Meaning</b>	22
---	----

#### Chapter 2

### The Market System and the Circular Flow 29

Economic Systems	30
------------------	----

The Command System / The Market System

Characteristics of the Market System	30
--------------------------------------	----

Private Property / Freedom of Enterprise and Choice /

Self-Interest / Competition / Markets and Prices /

Technology and Capital Goods / Specialization / Use of

Money / Active, but Limited Government

Five Fundamental Questions	34
----------------------------	----

What Will Be Produced? / How Will the Goods and Services Be

Produced? / Who Will Get the Output? / How Will the System

Accommodate Change? / How Will the System Promote Progress?

**Consider This:** *McHits and McMisses* 35



Consumer and Producer Surplus	126	Profit Maximization in the Short Run: Total-Revenue-Total-Cost Approach	179
Consumer Surplus / Producer Surplus / Efficiency Revisited / Efficiency Losses (or Deadweight Losses) <b>Last Word:</b> <i>Elasticity and Pricing Power: Why Different   Consumers Pay Different Prices</i> 130		Profit Maximization in the Short Run: Marginal-Revenue-Marginal-Cost Approach	181
<b>Chapter 7</b>		Profit-Maximizing Case / Loss-Minimizing Case / Shutdown Case <b>Consider This:</b> <i>The Still There Motel</i> 185	
<b>Consumer Behavior</b>	134	Marginal Cost and Short-Run Supply	186
Law of Diminishing Marginal Utility	135	Generalized Depiction / Diminishing Returns, Production Costs, and Product Supply / Changes in Supply / Firm and Industry: Equilibrium Price	
Terminology / Total Utility and Marginal Utility / Marginal Utility and Demand <b>Consider This:</b> <i>Vending Machines and Marginal Utility</i> 135		Profit Maximization in the Long Run	189
Theory of Consumer Behavior	137	Assumptions / Goal of Our Analysis / Long-Run Equilibrium / Long-Run Supply for a Constant-Cost Industry / Long-Run Supply for an Increasing-Cost Industry / Long-Run Supply for a Decreasing-Cost Industry	
Consumer Choice and Budget Constraint / Utility- Maximizing Rule / Numerical Example / Algebraic Generalization		Pure Competition and Efficiency	193
Utility Maximization and the Demand Curve	140	Productive Efficiency: $P = \text{Minimum ATC}$ / Allocative Efficiency: $P = MC$ / Maximum Consumer and Producer Surplus / Dynamic Adjustments / "Invisible Hand" Revisited <b>Last Word:</b> <i>Efficiency Gains from Entry: The Case of   Generic Drugs</i> 196	
Deriving the Demand Schedule and Curve / Income and Substitution Effects		<b>Chapter 10</b>	
Applications and Extensions	141	<b>Pure Monopoly</b>	201
iPods / The Diamond-Water Paradox / The Value of Time / Medical Care Purchases / Cash and Noncash Gifts <b>Last Word:</b> <i>M&amp;M's, Final Exams, and Retirement Savings:   Insights from Behavioral Economics</i> 142		An Introduction to Pure Monopoly	202
<b>Chapter 7 Appendix: Indifference Curve Analysis</b>	147	Examples of Monopoly / Dual Objectives of the Study of Monopoly	
<b>Chapter 8</b>		Barriers to Entry	202
<b>The Costs of Production</b>	154	Economies of Scale / Legal Barriers to Entry: Patents and Licenses / Ownership or Control of Essential Resources / Pricing and Other Strategic Barriers to Entry	
Economic Costs	155	Monopoly Demand	204
Explicit and Implicit Costs / Normal Profit as a Cost / Economic Profit (or Pure Profit) / Short Run and Long Run		Marginal Revenue Is Less Than Price / The Monopolist Is a Price Maker / The Monopolist Sets Prices in the Elastic Region of Demand	
Short-Run Production Relationships	157	Output and Price Determination	207
Law of Diminishing Returns <b>Consider This:</b> <i>Diminishing Returns from Study</i> 157		Cost Data / $MR = MC$ Rule / No Monopoly Supply Curve / Misconceptions Concerning Monopoly Pricing / Possibility of Losses by Monopolist	
Short-Run Production Costs	159	Economic Effects of Monopoly	210
Fixed, Variable, and Total Costs / Per-Unit, or Average, Costs / Marginal Cost / Shifts of the Cost Curves		Price, Output, and Efficiency / Income Transfer / Cost Complications / Assessment and Policy Options	
Long-Run Production Costs	166	Price Discrimination	214
Firm Size and Costs / The Long-Run Cost Curve / Economies and Diseconomies of Scale / Minimum Efficient Scale and Industry Structure		Conditions / Examples of Price Discrimination / Graphical Analysis <b>Consider This:</b> <i>Price Discrimination at the Ballpark</i> 215	
Applications and Illustrations	170	Regulated Monopoly	216
The Doubling of the Price of Corn / Successful Start- Up Firms / The Verson Stamping Machine / The Daily Newspaper / Aircraft and Concrete Plants <b>Last Word:</b> <i>Don't Cry over Sunk Costs</i> 172		Socially Optimal Price: $P = MC$ / Fair-Return Price: $P = ATC$ / Dilemma of Regulation <b>Last Word:</b> <i>De Beers' Diamonds: Are Monopolies Forever?</i> 218	
<b>Chapter 9</b>			
<b>Pure Competition</b>	176		
Four Market Models	177		
Pure Competition: Characteristics and Occurrence	177		
Demand as Seen by a Purely Competitive Seller	178		
Perfectly Elastic Demand / Average, Total, and Marginal Revenue			

## Chapter 11

**Monopolistic Competition and Oligopoly** 222

## Monopolistic Competition 223

Relatively Large Number of Sellers / Differentiated Products / Easy Entry and Exit / Advertising / Monopolistically Competitive Industries

## Price and Output in Monopolistic Competition 225

The Firm's Demand Curve / The Short Run: Profit or Loss / The Long Run: Only a Normal Profit

## Monopolistic Competition and Efficiency 227

Neither Productive nor Allocative Efficiency / Excess Capacity

## Product Variety 228

Benefits of Product Variety / Further Complexity

## Oligopoly 229

A Few Large Producers / Homogeneous or Differentiated Products / Control over Price, but Mutual Interdependence / Entry Barriers / Mergers / Oligopolistic Industries

## Oligopoly Behavior: A Game-Theory Overview 232

Mutual Interdependence Revisited / Collusion / Incentive to Cheat

**Consider This:** *Creative Strategic Behavior* 233

## Three Oligopoly Models 233

Kinked-Demand Theory: Noncollusive Oligopoly / Cartels and Other Collusion / Price Leadership Model

**Consider This:** *The Prisoner's Dilemma* 234

## Oligopoly and Advertising 240

Positive Effects of Advertising / Potential Negative Effects of Advertising

## Oligopoly and Efficiency 241

Productive and Allocative Efficiency / Qualifications

**Last Word:** *Oligopoly in the Beer Industry* 242

**Chapter 11 Appendix: Additional Game Theory Applications** 246**WEB Chapter 11**[www.mcconnell18e.com](http://www.mcconnell18e.com)**Technology, R&D, and Efficiency** 251

## Invention, Innovation, and Diffusion 11W-2

Invention / Innovation / Diffusion / R&D Expenditures / Modern View of Technological Advance

## Role of Entrepreneurs and Other Innovators 11W-4

Forming Start-Ups / Innovating within Existing Firms / Anticipating the Future / Exploiting University and Government Scientific Research

## A Firm's Optimal Amount of R&amp;D 11W-5

Interest-Rate Cost of Funds / Expected Rate of Return / Optimal R&D Expenditures

## Increased Profit via Innovation 11W-8

Increased Revenue via Product Innovation / Reduced Cost via Process Innovation

## Imitation and R&amp;D Incentives 11W-10

Benefits of Being First

**Consider This:** *Trade Secrets* 11W-12

## Role of Market Structure 11W-13

Market Structure and Technological Advance / Inverted-U Theory of R&D / Market Structure and Technological Advance: The Evidence

## Technological Advance and Efficiency 11W-15

Productive Efficiency / Allocative Efficiency / Creative Destruction

**Last Word:** *On the Path to the Personal Computer and Internet* 11W-16

**PART THREE****Microeconomics of Resource Markets** 252

## Chapter 12

**The Demand for Resources** 253

## Significance of Resource Pricing 254

## Marginal Productivity Theory of Resource Demand 254

Resource Demand as a Derived Demand / Marginal Revenue Product / Rule for Employing Resources:  $MRP = MRC$  /  $MRP$  as Resource Demand Schedule / Resource Demand under Imperfect Product Market Competition / Market Demand for a Resource

**Consider This:** *Superstars* 258

## Determinants of Resource Demand 258

Changes in Product Demand / Changes in Productivity / Changes in the Prices of Other Resources / Occupational Employment Trends

## Elasticity of Resource Demand 261

## Optimal Combination of Resources 263

The Least-Cost Rule / The Profit-Maximizing Rule / Numerical Illustration

## Marginal Productivity Theory of Income Distribution 265

**Last Word:** *Input Substitution: The Case of ATMs* 266

## Chapter 13

**Wage Determination** 270

## Labor, Wages, and Earnings 271

## General Level of Wages 271

Role of Productivity / Real Wages and Productivity / Long-Run Trend of Real Wages

## A Purely Competitive Labor Market 273

Market Demand for Labor / Market Supply of Labor / Labor Market Equilibrium

## Monopsony Model 275

Upward-Sloping Labor Supply to Firm /  $MRC$  Higher Than the Wage Rate / Equilibrium Wage and Employment / Examples of Monopsony Power

## Three Union Models 277

Demand-Enhancement Model / Exclusive or Craft Union Model / Inclusive or Industrial Union Model / Wage Increases and Unemployment

## Bilateral Monopoly Model 279

Indeterminate Outcome of Bilateral Monopoly / Desirability of Bilateral Monopoly

The Minimum-Wage Controversy	280
Case against the Minimum Wage / Case for the Minimum Wage / Evidence and Conclusions	
Wage Differentials	281
Marginal Revenue Productivity / Noncompeting Groups / Compensating Differences / Market Imperfections	
<b>Consider This:</b> <i>My Entire Life</i> 284	
Pay for Performance	285
The Principal-Agent Problem Revisited / Addenda: Negative Side Effects of Pay for Performance	
<b>Last Word:</b> <i>Are Chief Executive Officers (CEOs) Overpaid?</i> 287	
<b>Chapter 13 Appendix: Labor Unions and Their Impacts</b>	290
<b>Chapter 14</b>	
<b>Rent, Interest, and Profit</b>	296
Economic Rent	297
Perfectly Inelastic Supply / Equilibrium Rent and Changes in Demand / Land Rent: A Surplus Payment / Application: A Single Tax on Land / Productivity Differences and Rent Differences / Alternative Uses of Land	
Interest	299
Loanable Funds Theory of Interest / Extending the Model / Time-Value of Money / Range of Interest Rates / Pure Rate of Interest / Role of the Interest Rate / Application: Usury Laws	
<b>Consider This:</b> <i>That Is Interest</i> 303	
Economic Profit	306
Role of the Entrepreneur / Sources of Economic Profit / Functions of Profit	
<b>Last Word:</b> <i>Determining the Price of Credit</i> 308	
Income Shares	309
<b>Chapter 15</b>	
<b>Natural Resource and Energy Economics</b>	312
Resource Supplies: Doom or Boom?	313
Population Growth / Resource Consumption per Person	
<b>Consider This:</b> <i>Can Governments Raise Birthrates?</i> 314	
Energy Economics	317
Efficient Energy Use / Running Out of Energy?	
<b>Consider This:</b> <i>Turning Entrails (and Nearly Anything Else) into Oil</i> 320	
Natural Resource Economics	321
Using Present Values to Evaluate Future Possibilities	321
Nonrenewable Resources	322
Present Use versus Future Use / Incomplete Property Rights Lead to Excessive Present Use / Applications	
Renewable Resources	325
Forest Management / Optimal Forest Harvesting / Optimal Fisheries Management / Policies to Limit Catch Sizes	
<b>Last Word:</b> <i>Is Economic Growth Bad for the Environment?</i> 330	

## PART FOUR

### Microeconomics of Government 334

#### Chapter 16

### Public Goods, Externalities, and Information Asymmetries 335

Public Goods	336
Private Goods Characteristics / Public Goods Characteristics / Optimal Quantity of a Public Good / Demand for Public Goods / Comparing MB and MC / Cost-Benefit Analysis	
<b>Consider This:</b> <i>Art for Art's Sake</i> 337	
Externalities	340
Negative Externalities / Positive Externalities / Individual Bargaining: Coase Theorem / Liability Rules and Lawsuits / Government Intervention / A Market-Based Approach to Negative Externalities / Society's Optimal Amount of Externality Reduction / Climate Change	
Information Failures	348
Inadequate Buyer Information about Sellers / Inadequate Seller Information about Buyers / Qualification	
<b>Consider This:</b> <i>"Lemons"</i> 351	
<b>Last Word:</b> <i>Lojack: A Case of Positive Externalities</i> 352	

#### Chapter 17

### Public Choice Theory and the Economics of Taxation 356

Revealing Preferences through Majority Voting	357
Inefficient Voting Outcomes / Paradox of Voting / Median-Voter Model	
Government Failure	360
Special Interests and Rent Seeking / Clear Benefits, Hidden Costs / Limited and Bundled Choice / Bureaucracy and Inefficiency / Imperfect Institutions	
Apportioning the Tax Burden	363
Benefits Received versus Ability to Pay / Progressive, Proportional, and Regressive Taxes	
Tax Incidence and Efficiency Loss	365
Elasticity and Tax Incidence / Efficiency Loss of a Tax / Probable Incidence of U.S. Taxes / The U.S. Tax Structure	
<b>Last Word:</b> <i>"Government Failure" in the News</i> 370	

## PART FIVE

### Microeconomic Issues and Policies 374

#### Chapter 18

### Antitrust Policy and Regulation 375

The Antitrust Laws	376
Historical Background / Sherman Act of 1890 / Clayton Act of 1914 / Federal Trade Commission Act of 1914 / Celler-Kefauver Act of 1950	

Antitrust Policy: Issues and Impacts	377	The Economics of Poverty	418
Issues of Interpretation / Issues of Enforcement / Effectiveness of Antitrust Laws		Definition of Poverty / Incidence of Poverty / Poverty Trends / Measurement Issues	
<b>Consider This:</b> <i>Of Catfish and Art (and Other Things in Common)</i> 381		The U.S. Income-Maintenance System	420
Industrial Regulation	382	Social Insurance Programs / Public Assistance Programs	
Natural Monopoly / Problems with Industrial Regulation / Legal Cartel Theory		Discrimination	423
Deregulation	384	Economic Analysis of Discrimination	423
Social Regulation	385	Taste-for-Discrimination Model / Statistical Discrimination / Occupational Segregation: The Crowding Model / Cost to Society as Well as to Individual	
Distinguishing Features / The Optimal Level of Social Regulation / Two Reminders		<b>Last Word:</b> <i>U.S. Family Wealth and Its Distribution</i> 427	
<b>Last Word:</b> <i>United States v. Microsoft</i> 386			
<b>Chapter 19</b>		<b>Chapter 21</b>	
<b>Agriculture: Economics and Policy 391</b>		<b>Health Care 431</b>	
Economics of Agriculture	392	The Health Care Industry	432
The Short Run: Price and Income Instability / The Long Run: A Declining Industry / Farm-Household Income		Twin Problems: Costs and Access	432
<b>Consider This:</b> <i>Risky Business</i> 396		High and Rising Health Care Costs	432
Economics of Farm Policy	398	Health Care Spending / Quality of Care: Are We Healthier? / Economic Implications of Rising Costs / Too Much Spending?	
Rationale for Farm Subsidies / Background: The Parity Concept / Economics of Price Supports / Reduction of Surpluses		Limited Access	435
<b>Consider This:</b> <i>Putting Corn in Your Gas Tank</i> 401		Why the Rapid Rise in Costs?	436
Criticisms and Politics	402	Peculiarities of the Health Care Market / The Increasing Demand for Health Care / Role of Health Insurance / Supply Factors in Rising Health Care Prices / Relative Importance	
Criticisms of the Parity Concept / Criticisms of the Price-Support System / The Politics of Farm Policy		<b>Consider This:</b> <i>Cancer Fight Goes Nuclear</i> 441	
<b>Last Word:</b> <i>The Sugar Program: A Sweet Deal</i> 404		Reform of the Health Care System	442
Recent Farm Policies	405	Universal Access / Cost Containment: Altering Incentives / Recent Laws and Proposals	
Freedom to Farm Act of 1996 / The Food, Conservation, and Energy Act of 2008		<b>Last Word:</b> <i>Mandatory Health Insurance: Play to Stay</i> 446	
<b>Chapter 20</b>		<b>Chapter 22</b>	
<b>Income Inequality, Poverty, and Discrimination 409</b>		<b>Immigration 449</b>	
Facts about Income Inequality	410	Number of Immigrants	450
Distribution by Income Category / Distribution by Quintiles (Fifths) / The Lorenz Curve and Gini Ratio / Income Mobility: The Time Dimension / Effect of Government Redistribution		Legal Immigrants / Illegal Immigrants	
Causes of Income Inequality	413	The Decision to Migrate	451
Ability / Education and Training / Discrimination / Preferences and Risks / Unequal Distribution of Wealth / Market Power / Luck, Connections, and Misfortune		Earnings Opportunities / Moving Costs / Factors Affecting Costs and Benefits	
Income Inequality over Time	415	Economic Effects of Immigration	453
Rising Income Inequality since 1970 / Causes of Growing Inequality		Personal Gains / Impacts on Wage Rates, Efficiency and Output / Income Shares / Complications and Modifications / Fiscal Impacts / Research Findings	
<b>Consider This:</b> <i>Laughing at Shrek</i> 416		<b>Consider This:</b> <i>Stars and Stripes</i> 454	
Equality versus Efficiency	416	The Illegal Immigration Debate	459
The Case for Equality: Maximizing Total Utility / The Case for Inequality: Incentives and Efficiency / The Equality-Efficiency Trade-off		Employment Effects / Wage Effects / Price Effects / Fiscal Impacts on Local and State Governments / Other Concerns	
<b>Consider This:</b> <i>Slicing the Pizza</i> 418		<b>Last Word:</b> <i>Immigration Reform: The Beaten Path to the Current Stalemate</i> 461	
 		Optimal Immigration	462



## PART SIX GDP, Growth, and Instability 465

### Chapter 23

<b>An Introduction to Macroeconomics</b>	<b>466</b>
Performance and Policy	467
The Miracle of Modern Economic Growth	468
Savings, Investment, and Choosing between Present and Future Consumption / Banks and Other Financial Institutions	
Uncertainty, Expectations, and Shocks	470
Demand Shocks and Flexible Prices / Demand Shocks and Sticky Prices	
How Sticky Are Prices?	473
<b>Last Word:</b> <i>Will Better Inventory Management Mean Fewer Recessions?</i> 474	
Categorizing Macroeconomic Models Using Price Stickiness	475

### Chapter 24

<b>Measuring Domestic Output and National Income</b>	<b>479</b>
Assessing the Economy's Performance	480
Gross Domestic Product	480
A Monetary Measure / Avoiding Multiple Counting / GDP Excludes Nonproduction Transactions / Two Ways of Looking at GDP: Spending and Income	
The Expenditures Approach	482
Personal Consumption Expenditures ( $C$ ) / Gross Private Domestic Investment ( $I_g$ ) / Government Purchases ( $G$ ) / Net Exports ( $X_n$ ) / Putting It All Together: $GDP = C + I_g + G + X_n$	
<b>Consider This:</b> <i>Stock Answers about Flows</i> 484	
The Income Approach	485
Compensation of Employees / Rents / Interest / Proprietors' Income / Corporate Profits / Taxes on Production and Imports / From National Income to GDP	
Other National Accounts	487
Net Domestic Product / National Income / Personal Income / Disposable Income / The Circular Flow Revisited	
Nominal GDP versus Real GDP	490
Adjustment Process in a One-Product Economy / An Alternative Method / Real-World Considerations and Data	
Shortcomings of GDP	493
Nonmarket Activities / Leisure / Improved Product Quality / The Underground Economy / GDP and the Environment / Composition and Distribution of Output / Noneconomic Sources of Well-Being	
<b>Last Word:</b> <i>Magical Mystery Tour</i> 494	

### Chapter 25

<b>Economic Growth</b>	<b>498</b>
Economic Growth	499
Growth as a Goal / Arithmetic of Growth / Growth in the United States	
Modern Economic Growth	500
The Uneven Distribution of Growth / Catching Up Is Possible	
<b>Consider This:</b> <i>Economic Growth Rates Matter!</i> 503	
Institutional Structures That Promote Growth	504
<b>Consider This:</b> <i>Patents and Innovation</i> 505	
Ingredients of Growth	505
Supply Factors / Demand Factor / Efficiency Factor	
Production Possibilities Analysis	506
Growth and Production Possibilities / Labor and Productivity	
Accounting for Growth	507
Labor Inputs versus Labor Productivity / Technological Advance / Quantity of Capital / Education and Training / Economies of Scale and Resource Allocation	
<b>Consider This:</b> <i>Women, the Labor Force, and Economic Growth</i> 509	
The Recent Productivity Acceleration	511
Reasons for the Productivity Acceleration / Implication: More Rapid Economic Growth / Skepticism about Permanence / What Can We Conclude?	
Is Growth Desirable and Sustainable?	515
The Antigrowth View / In Defense of Economic Growth	
<b>Last Word:</b> <i>Economic Growth in China</i> 516	

### Chapter 26

<b>Business Cycles, Unemployment, and Inflation</b>	<b>520</b>
The Business Cycle	521
Phases of the Business Cycle / Causation: A First Glance / Cyclical Impact: Durables and Nondurables	
Unemployment	523
Measurement of Unemployment / Types of Unemployment / Definition of Full Employment / Economic Cost of Unemployment / Noneconomic Costs / International Comparisons	
<b>Consider This:</b> <i>Why Is the Unemployment Rate in Europe So High?</i> 529	
Inflation	529
Meaning of Inflation / Measurement of Inflation / Facts of Inflation / Types of Inflation / Complexities	
<b>Consider This:</b> <i>Clipping Coins</i> 531	
Redistribution Effects of Inflation	532
Who Is Hurt by Inflation? / Who Is Unaffected or Helped by Inflation? / Anticipated Inflation / Other Redistribution Issues	
Does Inflation Affect Output?	535
Cost-Push Inflation and Real Output / Demand-Pull Inflation and Real Output / Hyperinflation	
<b>Last Word:</b> <i>The Stock Market and the Economy</i> 536	



## PART SEVEN

## Macroeconomic Models and Fiscal Policy 540

## Chapter 27

## Basic Macroeconomic Relationships 541

## The Income–Consumption and Income–Saving Relationships 542

The Consumption Schedule / The Saving Schedule / Average and Marginal Propensities / Nonincome Determinants of Consumption and Saving / Other Important Considerations

**Consider This:** *What Wealth Effect?* 548

## The Interest–Rate–Investment Relationship 548

Expected Rate of Return / The Real Interest Rate / Investment Demand Curve / Shifts of the Investment Demand Curve / Instability of Investment

## The Multiplier Effect 554

Rationale / The Multiplier and the Marginal Propensities / How Large Is the Actual Multiplier Effect?

**Last Word:** *Squaring the Economic Circle* 557

## Chapter 28

## The Aggregate Expenditures Model 561

## Assumptions and Simplifications 562

## Consumption and Investment Schedules 562

Equilibrium GDP:  $C + I_g = \text{GDP}$  563

Tabular Analysis / Graphical Analysis

## Other Features of Equilibrium GDP 566

Saving Equals Planned Investment / No Unplanned Changes in Inventories

## Changes in Equilibrium GDP and the Multiplier 567

## Adding International Trade 568

Net Exports and Aggregate Expenditures / The Net Export Schedule / Net Exports and Equilibrium GDP / International Economic Linkages

## Adding the Public Sector 571

Government Purchases and Equilibrium GDP / Taxation and Equilibrium GDP

## Equilibrium versus Full-Employment GDP 574

Recessionary Expenditure Gap / Inflationary Expenditure Gap / Application: The U.S. Recession of 2001 / Application: Full-Employment Output, with Large Negative Net Exports

**Last Word:** *Say's Law, the Great Depression, and Keynes* 578

## Chapter 29

## Aggregate Demand and Aggregate Supply 583

## Aggregate Demand 584

Aggregate Demand Curve

## Changes in Aggregate Demand 585

Consumer Spending / Investment Spending / Government Spending / Net Export Spending

## Aggregate Supply 588

Aggregate Supply in the Immediate Short Run / Aggregate Supply in the Short Run / Aggregate Supply in the Long Run / Focusing on the Short Run

## Changes in Aggregate Supply 591

Input Prices / Productivity / Legal-Institutional Environment

## Equilibrium and Changes in Equilibrium 594

Increases in AD: Demand-Pull Inflation / Decreases in AD: Recession and Cyclical Unemployment / Decreases in AS: Cost-Push Inflation / Increases in AS: Full Employment with Price-Level Stability

**Consider This:** *Ratchet Effect* 598

**Last Word:** *Has the Impact of Oil Prices Diminished?* 599

## Chapter 29 Appendix: The Relationship of the Aggregate Demand Curve to the Aggregate Expenditures Model 604

## Chapter 30

## Fiscal Policy, Deficits, and Debt 607

## Fiscal Policy and the AD-AS Model 608

Expansionary Fiscal Policy / Contractionary Fiscal Policy / Policy Options:  $G$  or  $T$ ?

## Built-In Stability 611

Automatic or Built-In Stabilizers

## Evaluating Fiscal Policy 613

Standardized Budget / Recent U.S. Fiscal Policy / Budget Deficits and Projections / Social Security Considerations

## Problems, Criticisms, and Complications 616

Problems of Timing / Political Considerations / Future Policy Reversals / Offsetting State and Local Finance / Crowding-Out Effect / Current Thinking on Fiscal Policy

## The Public Debt 619

Ownership / Debt and GDP / International Comparisons / Interest Charges

## False Concerns 620

Bankruptcy / Burdening Future Generations

## Substantive Issues 621

Income Distribution / Incentives / Foreign-Owned Public Debt / Crowding-Out Effect Revisited

**Last Word:** *The Leading Indicators* 623

## PART EIGHT

## Money, Banking, and Monetary Policy 628

## Chapter 31

## Money and Banking 629

## The Functions of Money 630

## The Components of the Money Supply 630

Money Definition  $M1$  / Money Definition  $M2$

**Consider This:** *Are Credit Cards Money?* 633

What “Backs” the Money Supply	633	Monetary Policy: Evaluation and Issues	678
Money as Debt / Value of Money / Money and Prices / Stabilizing Money’s Purchasing Power		Recent U.S. Monetary Policy / Problems and Complications	
The Federal Reserve and the Banking System	636	<b>Consider This:</b> <i>Pushing on a String</i> 678	
Historical Background / Board of Governors / The 12 Federal Reserve Banks / FOMC / Commercial Banks and Thrifts / Fed Functions and the Money Supply / Federal Reserve Independence		<b>Last Word:</b> <i>The Mortgage Debt Crisis: The Fed Responds</i> 682	
Recent Developments in Money and Banking	639	The “Big Picture”	683
The Relative Decline of Banks and Thrifts / Consolidation among Banks and Thrifts / Convergence of Services Provided by Financial Institutions / Globalization of Financial Markets / Electronic Payments			
<b>Last Word:</b> <i>The Global Greenback</i> 642			
<b>Chapter 32</b>		<b>Chapter 34</b>	
<b>Money Creation</b>	<b>645</b>	<b>Financial Economics</b>	<b>687</b>
The Fractional Reserve System	646	Financial Investment	688
Illustrating the Idea: The Goldsmiths / Significant Characteristics of Fractional Reserve Banking		Present Value	688
A Single Commercial Bank	647	Compound Interest / The Present Value Model / Applications	
Transaction 1: Creating a Bank / Transaction 2: Acquiring Property and Equipment / Transaction 3: Accepting Deposits / Transaction 4: Depositing Reserves in a Federal Reserve Bank / Transaction 5: Clearing a Check Drawn against the Bank		Some Popular Investments	691
Money-Creating Transactions of a Commercial Bank	650	Stocks / Bonds / Mutual Funds / Calculating Investment Returns / Asset Prices and Rates of Return	
Transaction 6: Granting a Loan / Transaction 7: Buying Government Securities / Profits, Liquidity, and the Federal Funds Market		Arbitrage	693
The Banking System: Multiple-Deposit Expansion	653	Risk	694
The Banking System’s Lending Potential / The Monetary Multiplier / Reversibility: The Multiple Destruction of Money		Diversification / Comparing Risky Investments / Relationship of Risk and Average Expected Rates of Return / The Risk-Free Rate of Return	
<b>Last Word:</b> <i>The Bank Panics of 1930 to 1933</i> 656		The Security Market Line	697
		<b>Consider This:</b> <i>Does Ethical Investing Increase Returns?</i> 700	
		An Increase in the Risk-Free Rate	700
		<b>Last Word:</b> <i>Why Do Index Funds Beat Actively Managed Funds?</i> 701	
		<b>PART NINE</b>	
		<b>Extensions and Issues</b>	<b>706</b>
<b>Chapter 33</b>		<b>Chapter 35</b>	
<b>Interest Rates and Monetary Policy</b>	<b>660</b>	<b>Extending the Analysis of Aggregate Supply</b>	<b>707</b>
Interest Rates	661	From Short Run to Long Run	708
The Demand for Money / The Equilibrium Interest Rate / Interest Rates and Bond Prices		Short-Run Aggregate Supply / Long-Run Aggregate Supply / Long-Run Equilibrium in the AD-AS Model	
The Consolidated Balance Sheet of the Federal Reserve Banks	663	Applying the Extended AD-AS Model	710
Assets / Liabilities		Demand-Pull Inflation in the Extended AD-AS Model / Cost-Push Inflation in the Extended AD-AS Model / Recession and the Extended AD-AS Model / Ongoing Inflation in the Extended AD-AS Model	
Tools of Monetary Policy	665	The Inflation-Unemployment Relationship	714
Open-Market Operations / The Reserve Ratio / The Discount Rate / Term Auction Facility / Relative Importance		The Phillips Curve / Aggregate Supply Shocks and the Phillips Curve	
Targeting the Federal Funds Rate	670	The Long-Run Phillips Curve	718
Expansionary Monetary Policy / Restrictive Monetary Policy / The Taylor Rule		Short-Run Phillips Curve / Long-Run Vertical Phillips Curve / Disinflation	
<b>Consider This:</b> <i>The Fed as a Sponge</i> 673		Taxation and Aggregate Supply	720
Monetary Policy, Real GDP, and the Price Level	673	Taxes and Incentives to Work / Incentives to Save and Invest / The Laffer Curve / Criticisms of the Laffer Curve / Rebuttal and Evaluation	
Cause-Effect Chain / Effects of an Expansionary Monetary Policy / Effects of a Restrictive Monetary Policy		<b>Consider This:</b> <i>Sherwood Forest</i> 721	
		<b>Last Word:</b> <i>Do Tax Increases Reduce Real GDP?</i> 722	

## Chapter 36

**Current Issues in Macro Theory and Policy** 726

What Causes Macro Instability?	727
Mainstream View / Monetarist View / Real-Business-Cycle View / Coordination Failures	
Does the Economy “Self-Correct”?	730
New Classical View of Self-Correction / Mainstream View of Self-Correction	
Rules or Discretion?	734
In Support of Policy Rules / In Defense of Discretionary Stabilization Policy / Increased Macro Stability	
<b>Consider This:</b> <i>On the Road Again</i> 734	
Summary of Alternative Views	737
<b>Last Word:</b> <i>The Taylor Rule: Could a Robot Replace Ben Bernanke?</i> 738	

**PART TEN****International Economics** 742

## Chapter 37

**International Trade** 743

Some Key Facts	744
The Economic Basis for Trade	744
Comparative Advantage: Graphical Analysis	745
Two Isolated Nations / Specializing Based on Comparative Advantage / Terms of Trade / Gains from Trade / Trade with Increasing Costs / The Case for Free Trade	
Supply and Demand Analysis of Exports and Imports	750
Supply and Demand in the United States / Supply and Demand in Canada / Equilibrium World Price, Exports, and Imports	
Trade Barriers	754
Economic Impact of Tariffs / Economic Impact of Quotas / Net Costs of Tariffs and Quotas	
The Case for Protection: A Critical Review	756
Military Self-Sufficiency Argument / Diversification-for-Stability Argument / Infant Industry Argument / Protection-against-Dumping Argument / Increased Domestic Employment Argument / Cheap Foreign Labor Argument	
<b>Consider This:</b> <i>Shooting Yourself in the Foot</i> 756	
The World Trade Organization	759
<b>Last Word:</b> <i>Petition of the Candlemakers, 1845</i> 760	

## Chapter 38

**The Balance of Payments, Exchange Rates, and Trade Deficits** 764

International Financial Transactions	765
The Balance of Payments	765

Current Account / Capital and Financial Account / Why the Balance of Payments Balances / Payments, Deficits, and Surpluses

Flexible Exchange Rates	769
Depreciation and Appreciation / Determinants of Exchange Rates / Flexible Rates and the Balance of Payments / Disadvantages of Flexible Exchange Rates	
<b>Consider This:</b> <i>The Big Mac Index</i> 772	
Fixed Exchange Rates	775
Use of Reserves / Trade Policies / Exchange Controls and Rationing / Domestic Macroeconomic Adjustments	
The Current Exchange Rate System: The Managed Float	777
Recent U.S. Trade Deficits	778
Causes of the Trade Deficits / Implications of U.S. Trade Deficits	
<b>Last Word:</b> <i>Speculation in Currency Markets</i> 780	

**WEB Supplement 38** [www.mcconnell18e.com](http://www.mcconnell18e.com)**Previous International Exchange-Rate Systems** 785

The Gold Standard: Fixed Exchange Rates	38S-2
Gold Flows / Domestic Macroeconomic Adjustments / Collapse of the Gold Standard	
The Bretton Woods System	38S-3
IMF and Pegged Exchange Rates / Fundamental Imbalances: Adjusting the Peg / Demise of the Bretton Woods System	

**WEB Chapter 39** [www.mcconnell18e.com](http://www.mcconnell18e.com)**The Economics of Developing Countries** 786

The Rich and the Poor	39W-2
Classifications / Comparisons / Growth, Decline, and Income Gaps / The Human Realities of Poverty	
Obstacles to Economic Development	39W-4
Natural Resources / Human Resources / Capital Accumulation / Technological Advance / Sociocultural and Institutional Factors	
The Vicious Circle	39W-10
The Role of Government	39W-11
A Positive Role / Public Sector Problems	
The Role of Advanced Nations	39W-12
Expanding Trade / Foreign Aid: Public Loans and Grants / Flows of Private Capital	
Where from Here?	39W-115
DVC Policies for Promoting Growth / IAC Policies for Fostering DVC Growth	
<b>Last Word:</b> <i>Famine in Africa</i> 39W-16	

**Glossary** G-1

**Index** IND-1

**Credits** C-1