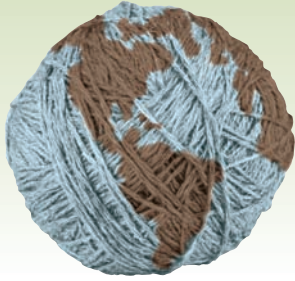


Early Release



MACROECONOMICS

Dean Karlan

Yale University and Innovations for Poverty Action

Jonathan Morduch

New York University

With special contribution by

Meredith L. Startz

Yale University and Innovations for Poverty Action

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about the authors



Dean Karlan

Dean Karlan is Professor of Economics at Yale University and President and Founder of Innovations for Poverty Action (IPA). Dean started IPA in 2002, with two aims: to help learn what works

and what does not in the fight against poverty and other social problems around the world, and then to implement successful ideas at scale. IPA now works in over 45 countries, with 800 employees around the world. Dean's personal research focuses on using field experiments to learn more about how microfinance works and how to make it work better. His research uses ideas from behavioral economics, and also covers fundraising, voting, health, and education. In recent work, for example, he has studied the impact of microcredit on the lives of the poor, and has worked to create better financial products in the United States to help people manage debt. Dean is also President and co-Founder of stickK.com, a start-up that helps people use commitment contracts to achieve personal goals, such as losing weight or completing a problem set on time. Dean is a Sloan Foundation Research Fellow, and in 2007 was awarded a Presidential Early Career Award for Scientists and Engineers. He is co-editor of the *Journal of Development Economics*, and on the editorial boards of *American Economic Journal: Applied Economics*, *Journal of Economic Literature*, *Quantitative Economics*, and *Journal of Globalization and Development*. He holds a B.A. from University of Virginia, an M.P.P. and M.B.A. from University of Chicago, and a Ph.D. in Economics from M.I.T. In 2011, he co-authored *More Than Good Intentions: Improving the Ways the World's Poor Borrow, Save, Farm, Learn, and Stay Healthy*.



Jonathan Morduch

Jonathan Morduch is Professor of Public Policy and Economics at New York University's Wagner Graduate School of Public Service. Jonathan focuses on innovations that expand the

frontiers of finance and how financial markets shape economic growth and inequality. Jonathan has lived and worked in Asia, but his newest study follows families in California, Mississippi, Ohio, Kentucky, and New York as they cope with economic ups and downs over a year. The new study jumps off from ideas in *Portfolios of the Poor: How the World's Poor Live on \$2 a Day* (Princeton University Press, 2009) which he co-authored and which describes how families in Bangladesh, India, and South Africa devise ways to make it through a year living on \$2 a day or less. Jonathan's research on financial markets is collected in *The Economics of Microfinance* and *Banking the World*, both published by MIT Press. At NYU, Jonathan is Executive Director of the Financial Access Initiative, a center that supports research on extending access to finance in low-income communities. Jonathan's ideas have also shaped policy through work with the United Nations, World Bank, and other international organizations. In 2009, the Free University of Brussels awarded Jonathan an honorary doctorate to recognize his work on microfinance. He holds a B.A. from Brown and Ph.D. from Harvard, both in Economics.

Karlan and Morduch first met in 2001 and have been friends and colleagues ever since. Before writing this text, they collaborated on research on financial institutions. Together, they've written about new directions in financial access for the middle class and poor, and in Peru they set up a laboratory to study incentives in financial contracts for loans to women to start small enterprises. In 2006, together with Sendhil Mullainathan, they started the Financial Access Initiative, a center dedicated to expanding knowledge about financial solutions for the half of the world's adults who lack access to banks. This text reflects their shared passion for using economics to help solve problems, both in everyday life and in the broader world.

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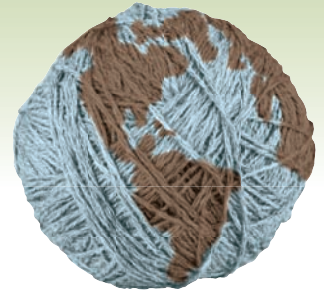
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letter from the authors



Dear Reader,

Thank you for using the Early Release volume of our first edition. One of the best parts of writing this text has been getting to spend time with instructors across the country. We've been inspired by their creativity and passion and have learned from their pedagogical ideas. Through the course of our work, we were excited and flattered by requests to use the product as soon as possible. This Early Release volume provides a way to utilize the content before the *final* product is available. We appreciate you engaging with our content in this way.

One of the questions we often ask instructors we meet is why they originally became interested in economics. A common response, which we share, is an attraction to the logic and power of economics as a social science. We also often hear instructors describe something slightly different: the way that economics appealed to them as a tool for making sense of life's complexities, whether in business, politics, or daily life. We wrote this book to give instructors a way to share both of those ways that economics matters.

We offer this text as a resource for professors who want to *keep their students engaged* and who have been seeking to *deliver core economic concepts* along with an introduction to *important new ideas* in economic thought. We designed the text to help students see economics as a common thread that enables us to understand, analyze, and solve problems in our local communities and around the world.

We achieve these goals through three innovative commitments. We promise to:

- **Show how economics can solve problems.** This text will engage students by approaching economics as a way of explaining real people and decisions, and by providing a set of tools that can serve to solve many different types of problems. We show students that economics can make the world a better place, while challenging them to reach their own conclusions about what "better" really means.
- **Teach principles as analytic tools for dealing with real situations.** The text is centered on concrete examples and issues. Applications come *first*, reinforcing the relevance of the tools that students acquire. Engaging empirical cases are interspersed throughout the content. The applications open up puzzles, anomalies, and possibilities that basic economic principles help explain. The aim is, first and foremost, to ensure that students gain an intuitive grasp of basic ideas.
- **Focus on what matters to students.** Students live in a digital, globalized world. We recognize that they are knowledgeable and care about both local and international issues. The text takes a global perspective, with the United States as a leading example. We remain faithful to the core principles of economics, but we seek to share with students some of the ways that new ideas are expanding the "basics" of economic theory. We recognize and explain the rise of game theory, behavioral economics, and experimental and empirical approaches, in ways that matter to students.

This text draws on our own experiences as academic economists, teachers, and policy advisors. We are based at large research universities, offering advice to NGOs, governments, international agencies, donors, and private firms. Much of our research involves figuring out how to improve the way real markets function. Working with partners in the United States and on six continents, we are involved in testing new economic ideas. This text draws on the spirit of that work, as well as similar research, taking students through the process of engaging with real problems, using analytical tools to devise solutions, and ultimately showing what works and why.

The chapters in this text provide a foundation for considering important issues that students will confront in life. We hope that, in ways small and large, the tools they learn will help them think critically about their surroundings and live better lives.

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