

Macroeconomics

Principles, Problems, and Policies

Instructor's Edition

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University of Nebraska

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MACROECONOMICS: PRINCIPLES, PROBLEMS, AND POLICIES

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

About the Authors



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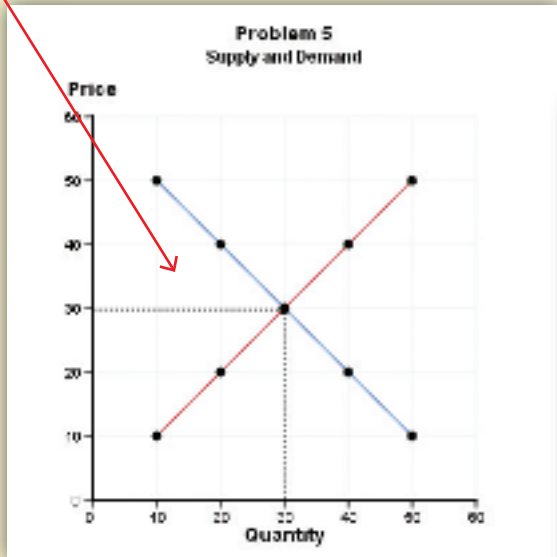
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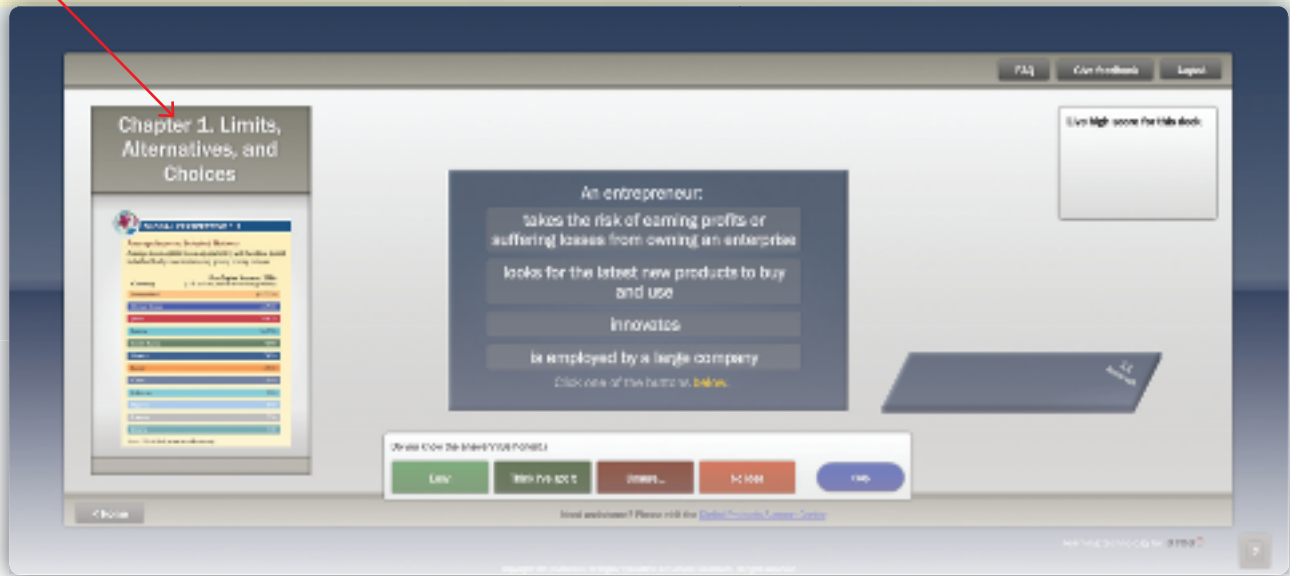
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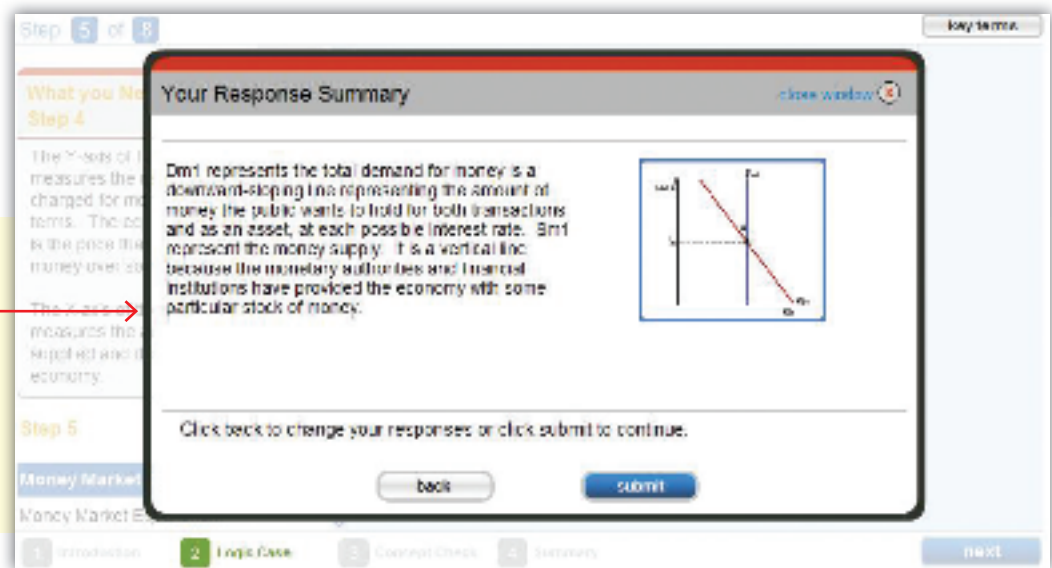
Assignment Title	Type	P of Questions	Number of Questions
Chapter 01 Pre-Built Assignments	homework	12	12
Chapter 01 App Pre-Built Assignments	homework	14	14
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Chapter 02 App Pre-Built Assignments	homework	18	18
Chapter 03 Pre-Built Assignments	homework	9	9
Chapter 03 App Pre-Built Assignments	homework	10	10
Chapter 04 Pre-Built Assignments	homework	10	10
Chapter 04 App Pre-Built Assignments	homework	16	16
Chapter 05 Pre-Built Assignments	homework	20	20

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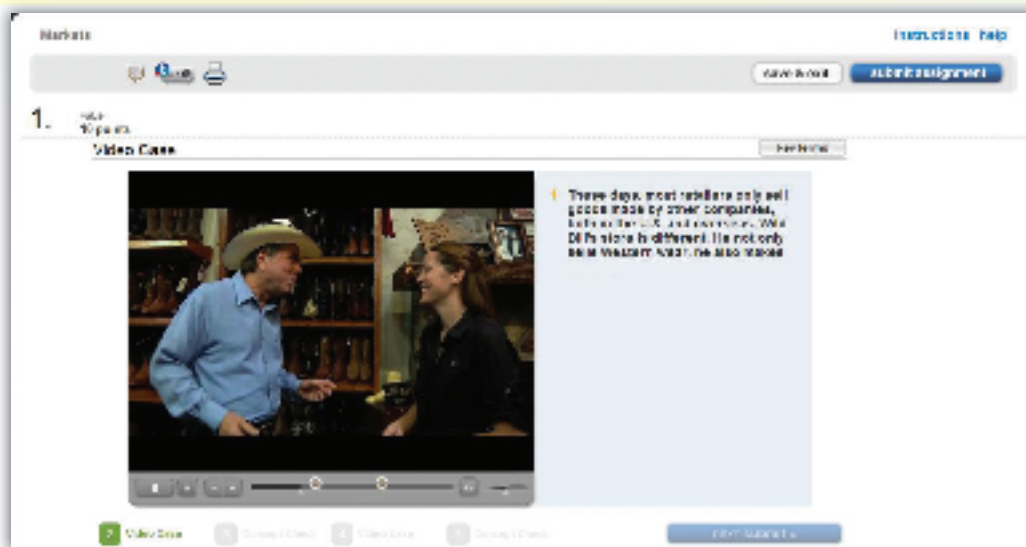
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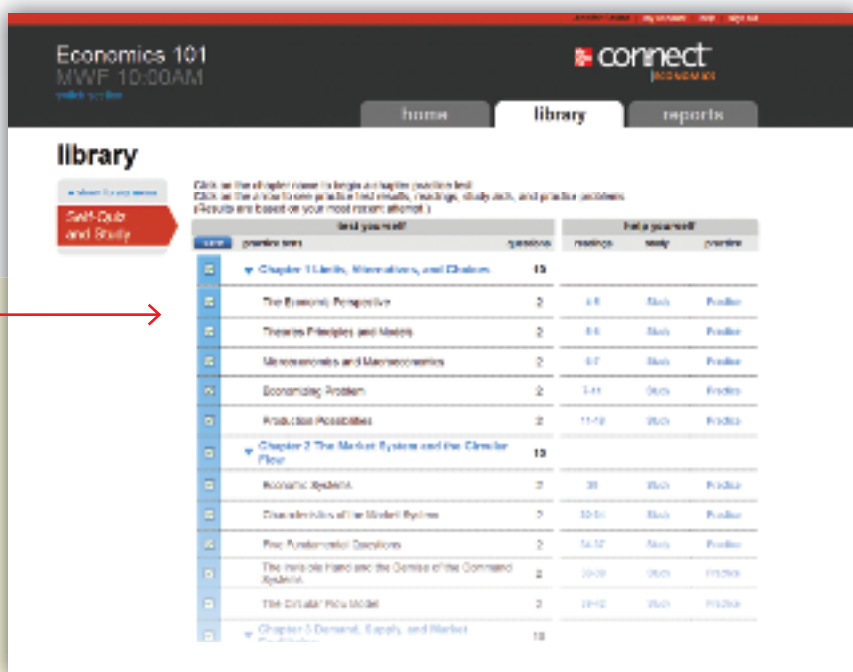
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The screenshot shows the 'library' page for 'Economics 101 MWF 10:00AM'. The 'library' tab is active, and the 'Demand' chapter is selected. The page displays the title 'Chapter 3: Demand, Supply, and Market Equilibrium' and 'Demand'. A table and a graph are visible. A red arrow points from the 'eBook' tab in the left sidebar to the 'Demand' section.

Table 3.1: An individual buyer's demand for corn

Price per Bushel	Quantity Demanded (in bushels)
\$1	10
4	20
7	30
10	40
13	50

The graph shows a downward-sloping demand curve with the following data points: (1, 10), (4, 20), (7, 30), (10, 40), and (13, 50). The y-axis is labeled 'Price per bushel' and the x-axis is labeled 'Quantity demanded (in bushels)'. The caption below the graph states: 'The table reveals the relationship between the various prices of corn and the quantity of corn a hypothetical consumer would buy (yellow oval) and sell (in pink oval) at each of those prices. We see

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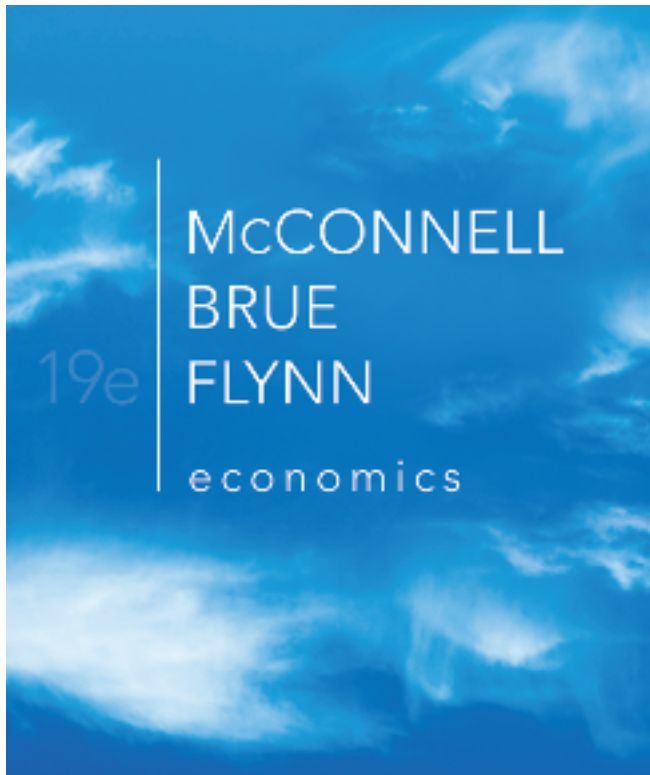


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Do More

List of Key Graphs

1.2	The Production Possibilities Curve	12
2.2	The Circular Flow Diagram	40
3.6	Equilibrium Price and Quantity	57
10.2	(a) Consumption and (b) Saving Schedules	194
10.5	The Investment Demand Curve	200
11.2	Equilibrium GDP in a Private Closed Economy	215
11.7	Recessionary and Inflationary Expenditure Gaps	226
12.7	The Equilibrium Price Level and Equilibrium Real GDP	245
16.1	The Demand for Money, the Supply of Money, and the Equilibrium Interest Rate	316
16.5	Monetary Policy and Equilibrium GDP	328
20.2	Trading Possibilities Lines and the Gains from Trade	405
21.1	The Market for Foreign Currency (Pounds)	430



Welcome to the 19th 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 18th edition.

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 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.

We trust that you will agree that we have used this opportunity wisely and fully. Some of the more significant changes include the following.

Restructured Introductory Chapters

We have divided the five-chapter grouping of introductory chapters common to *Economics*, *Microeconomics*, and *Macroeconomics* into two parts. Part 1 contains Chapter 1 (Limits, Alternatives, and Choices) and Chapter 2 (The Market System and the Circular Flow). The content in Part 2 has changed and now consists of three chapters: Chapter 3 (Demand, Supply, and Market Equilibrium), Chapter 4 (Elasticity), and Chapter 5 (Market Failures: Public Goods and Externalities).

The chapters in Part 2 are much more concept-oriented and analytical and much less general and descriptive than in the previous edition. Our new approach responds to suggestions by reviewers made over the years to:

- Locate the elasticity chapter immediately after the supply and demand chapter.
- Put the elasticity chapter into *Macroeconomics* for those who cover elasticity in their macro course.
- Eliminate the mainly descriptive Chapter 4 on the private and public sectors and move the relevant content to where it fits more closely with related micro and macro materials.
- Provide a single chapter on international trade, rather than two separate chapters that have overlapping coverage (Chapters 5 and 37 in *Economics*, 18th edition).
- Boost the analysis of market failures (public goods and externalities) in the introductory sections to complement and balance the strong but highly stylized introduction to the market system discussed in Chapter 2.

Our new approach embraces these suggestions. For micro instructors, the new ordering provides a clear supply-and-demand path to the subsequent chapters on consumer and producer behavior. For macro instructors, the new ordering provides the option of assigning elasticity or market failures or both. And because this content is both optional and modular, macro instructors can also skip it and move directly to the macroeconomic analysis.

The content on the United States in the global economy that appeared in Chapter 5 of the 18th edition of *Macroeconomics* is now integrated into Chapter 20 (International Trade). Because Chapter 20 draws only on production possibilities analysis and supply and demand analysis, it can be assigned at any point after Chapter 3 (Demand, Supply, and Market Equilibrium). Therefore, instructors who want to introduce international economics early in their courses can assign Chapter 20 within the introductory chapters found in Parts 1 and 2.

For instructors who prefer Chapter 5 of the prior edition to Chapter 20 of the new edition, we have fully updated the previous Chapter 5 content and made it freely available for viewing and printing at both the instructor and student portions of our Web site, www.mcconnell19e.com. Look for it under the new category called Content Options for Instructors (COI). This substitute for Chapter 20 is fully supported by both the instructor supplement package and the student supplement package.

New “Consider This” and “Last Word” Pieces

Our “Consider This” boxes are used to provide analogies, examples, or stories that help drive home central economic

CONSIDER THIS . . .



The Fable of the Bees

Economist Ronald Coase received the Nobel Prize for his so-called **Coase theorem**, which pointed out that under the right conditions, private individuals could nally problems through private bargaining without the need for government interventions like pollution taxes.

This is a very important insight because it means that we shouldn't automatically call for government intervention every time we see a potential externality problem. Consider the positive externalities that bees provide by pollinating farmers' crops. Should we assume that beekeeping will be underprovided unless the government intervenes with, for instance, subsidies to encourage more hives and hence more pollination?

As it turns out, no. Research has shown that farmers and beekeepers long ago used private bargaining to develop customs and payment systems that avoid free riding by farmers and encourage beekeepers to keep the optimal number of hives. Free riding is avoided by the custom that all farmers in an area simultaneously hire beekeepers to provide bees to pollinate their crops. And farmers always pay the beekeepers for their pollination services because if they didn't, then no beekeeper would ever work with them in the future—a situation that would lead to massively reduced crop yields due to a lack of pollination.

The “Fable of the Bees” is a good reminder that it is a fallacy to assume that the government must always get involved to remedy externalities. In many cases, the private sector can solve both positive and negative externality problems on its own.

ideas in a student-oriented, real-world manner. For instance, a “Consider This” box titled “McHits and McMisses” illustrates consumer sovereignty through a listing of successful and unsuccessful products. The difference between stocks and flows is illustrated through a “Consider This” box that contrasts the pool of water above a dam and the flow of water into and out of the reservoir. These brief vignettes, each accompanied by a photo, illustrate key points in a lively, colorful, and easy-to-remember way. We have added 16 new “Consider This” boxes in this edition of *Economics*.

Our “Last Word” pieces are lengthier applications or case studies that are placed near the end of each chapter. For example, the “Last Word” section for Chapter 1 (Limits, Alternatives, and Choices) examines pitfalls to sound economic reasoning, while the “Last Word” section for

LAST

Word Carbon Dioxide Emissions, Cap and Trade, and Carbon Taxes

Cap-and-trade systems and carbon taxes are two approaches to reducing carbon dioxide (CO₂) emissions.

Externality problems are property rights problems. Consider a landfill. Because the owner of the landfill has full rights to his land, people wishing to dump their trash into the landfill have to pay him. This payment implies that there is no externality: He happily accepts their trash in exchange for a dumping fee. By contrast, because nobody owns the atmosphere, all air pollution is an externality, since there is no way for those doing the polluting to work out a payment to compensate those affected by the pollution or for those threatened with pollution to simply refuse to be polluted on.

Conventional property rights therefore cannot fix the externalities associated with air pollution. But that does not mean property rights can't help fight pollution. The trick to making them work is to assign property rights not to the atmosphere itself, but to *polluting* the atmosphere. This is done in “cap-and-trade” systems, under which the government sets an annual limit, or cap, to the number of tons of a pollutant that firms can emit into the atmosphere.

Consider carbon dioxide, or CO₂. It is a colorless, odorless

climate change, specifically global warming. To reduce CO₂ emissions, the U.S. government might set a cap of 5 billion tons of CO₂ emissions per year in the United States (which would be about 10 percent below 2009 emissions levels for that molecule). The government then prints out emissions permits that sum to the limit set in the cap and distributes them to polluting firms. Once they are distributed, the only way a firm can legally emit a ton of CO₂ is if it owns a permit to do so.

Under this policy, the government can obviously adjust the total amount of air pollution by adjusting the cap. This by itself improves efficiency, because the cap imposes scarcity. Because each firm has only a limited number of permits, each firm has a strong incentive to maximize the net benefit that it produces from every ton of pollution that it emits. But the *cap-and-trade* scheme leads to even greater improvements in efficiency, because firms are free to trade (sell) them to each other in what are referred to as *markets for externality rights*.

For instance, suppose Smokestack Toys owns permits for 100 tons of CO₂ emissions and that it could use them to produce toy cars that would generate profits of \$100,000. There is a power plant, however, that could make up to \$1 million of profits by using those 100 tons of emissions permits to generate electricity. Because firms can trade their permits, Smokestack

Chapter 5 (Market Failures: Public Goods and Externalities) examines cap-and-trade versus carbon taxes as policy responses to excessive carbon dioxide emissions. There are 10 new “Last Word” sections in this edition of *Economics*.

If you are unfamiliar with *Economics* or *Macroeconomics*, we encourage you to thumb through the chapters to take a quick look at these highly visible features.

New Discussions of the Financial Crisis and the Recession

Our modernization of the macroeconomics in the previous edition has met with great success, measured by reviews, instructor feedback, and market response. 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 both the price level and wages are not only sticky, but stuck; the *short run* is a period in which product prices are flexible but wages are not; and the *long run* is a period in which both product 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.

In this edition, we have mainly focused on incorporating into our new macroeconomic schema an analysis of the financial crisis, the recession, and the hesitant recovery. We first introduce the recession in Chapter 6 (An Introduction to Macroeconomics) via a new “Consider This” box that ties to the chapter's discussion of Buzzer Auto,

demand shocks, and short-run sticky prices. In Chapter 7 (Measuring Domestic Output and National Income) we point out that the main flows in the National Income and Product Accounts usually expand over time, but not always, as demonstrated by the recession. In Chapter 8 (Economic Growth) we discuss how the recession relates to the growth/production possibilities dynamics of Figure 8.2. In Chapter 9 (Business Cycles, Unemployment, and Inflation) we provide a telling comparison of unemployment rates for various demographic groups for the prerecession year 2007 and the recession year 2009.

In Chapter 10 (Basic Macroeconomic Relationships) we have added two “Consider This” boxes, one on how the paradox of thrift applied to consumer behavior during the recession and the other on the riddle of plunging investment spending at the same time the interest rate dropped to near zero during the recession. In Chapter 11 (The Aggregate Expenditures Model) we use the recession as a timely application of how a decline in aggregate expenditures can produce a recessionary expenditure gap and a highly negative GDP gap. In Chapter 12 (Aggregate Demand and Aggregate Supply) we use the recession as a good application of how negative demand shocks can produce large declines in real output with no or very little deflation. Chapter 13 (Fiscal Policy, Deficits, and Debt) provided a terrific opportunity to bring each of these timely and relevant subjects up-to-date, and we took full advantage of that opportunity.

In Chapter 14 (Money, Banking, and Financial Institutions) we added a major new section on the financial crisis, with emphasis on the mortgage debt crisis, mortgage-backed securities, failures and near-failures of financial firms, the Treasury’s TARP rescue, the Fed’s extraordinary use of lender-of-last-resort facilities, and the Wall Street Reform and Consumer Protection Act of 2010. In Chapter 15 (Money Creation), we stress that the Fed now pays interest on required reserves, and we also use the “Last Word” on the bank panics of 1930–1933 to explain how the Fed handled things very differently during the recent financial crisis.

Chapter 16 (Interest Rates and Monetary Policy) features several new discussions relating to Fed policies during the recession, including a new discussion on the liquidity trap. Along with giving the Fed high marks for dealing with the crisis, we also say that some economists think the Fed contributed to the financial crisis by keeping interest rates too low for too long during the recovery from the 2001 recession. We also replaced a dated “Consider This” piece with a new one on the ballooning Fed balance sheet and the problems it could pose for monetary policy during the eventual postrecession expansion. Chapter 17 (Financial Economics) presented a new opportunity for us to demonstrate how a sharp decline of the “appetite for risk” alters

the slope of the Securities Market Line (SML) and changes investment patterns between stocks and bonds.

Other mentions of the recession are spread throughout the remainder of the macro chapters, including in the discussions of macro debates, trade protectionism, and trade deficits.

Although we found these various ways to work the recession into our macro chapters, we are confident that our basic macroeconomic models will serve equally well in explaining economic recovery and expansion back to the economy’s historical growth path. The new inclusions relating to the recession simply help students see the relevance of the models to what they are seeing in the news and perhaps experiencing in their own lives. The overall tone of the book, including the macro, continues to be optimistic with respect to the long-term growth prospects of market economies.

Reworked End-of-Chapter Questions and Problems

We have extensively reworked the end-of-chapter Study Questions, splitting them into questions and problems and adding many new problems. The questions are analytic and often ask for free responses, whereas the problems are mainly quantitative. We have aligned the questions and problems with the learning objectives presented at the beginning of the chapters. All of the questions and problems are assignable through McGraw-Hill’s *Connect Economics*; all of the problems also contain additional algorithmic variations and can be automatically graded within the system. The new lists of questions and problems were well-received by reviewers, many of them long-time users of the book.

Current Discussions and Examples

The 19th edition of *Macroeconomics* 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; core inflation; China’s continued rapid growth; the severe recession of 2007–2009; the paradox of thrift; the stimulus package of 2008; ballooning Federal budget deficits and public debt; the long-run funding shortfalls in Social Security and Medicare; securitization and the mortgage debt crisis; the Wall Street Reform and Consumer Protection Act of 2010; recent Fed monetary policy; the liquidity trap; the Fed’s new term auction facility; the Fed’s payment of interest on required reserves; the Taylor rule in relation to Fed policy; the jump in the size of the Fed’s balance sheet; U.S. trade deficits; offshoring of American jobs; trade

adjustment assistance; the European Union and the Euro Zone; changes in exchange rates; and many other current topics.

Chapter-by-Chapter Changes

Each chapter of *Macroeconomics*, 19th edition, contains updated data reflecting the current economy, streamlined Learning Objectives, and reorganized end-of-chapter content.

Chapter-specific updates include:

Chapter 1: Limits, Alternatives, and Choices features a new Learning Objective on consumption possibilities and a revised definition of “entrepreneur” that clarifies why risk taking is socially beneficial and, thus, why entrepreneurial ability is a valuable economic resource.

Chapter 2: The Market System and the Circular Flow includes a revised explanation of property rights, a clarified discussion of firms’ motives for choosing the lowest-cost production methods, an updated “McHits and McMisses” “Consider This” box, and a revised discussion of the circular flow model.

Chapter 3: Demand, Supply, and Market Equilibrium contains wording improvements that clarify the main concepts.

Chapter 4: Elasticity is a new chapter that focuses solely on elasticity. This content has been moved forward from Chapter 6 of *Economics*, 18th edition, allowing this topic to be covered directly after supply and demand. This content will be available in both the Macro and Micro splits. The material on consumer and producer surplus from that chapter has been moved to Chapter 5 of *Macroeconomics*, 19th edition.

Chapter 5: Market Failures: Public Goods and Externalities is a new chapter that first examines consumer surplus, producer surplus, efficiency, and efficiency losses (all from Chapter 6, *Economics*, 18th edition). It then devotes the remainder of the chapter to market failures, specifically public goods and externalities (both from Chapter 16, *Economics*, 18th edition.) The chapter also features a new “Last Word” section that discusses the pros and cons of cap-and-trade emissions-control policies and a new “Consider This” box that concisely discusses the Coase Theorem.

Chapter 6: An Introduction to Macroeconomics includes two new “Consider This” boxes. The first contrasts economic investment with financial investment and the second discusses the recession of 2007–2009 in the context of the introductory analysis.

Chapter 7: Measuring Domestic Output and National Income adds new definitions and data for the terms *durable goods*, *nondurable goods*, and *services* in the discussion of personal consumption.

Chapter 8: Economic Growth has substantially revised Learning Objectives that provide a better preview of the chapter; tightened discussions in the “Consider This” boxes on patents in India and on women, the labor force, and economic growth; a new discussion relating the recession to the growth and production possibilities analysis in Figure 8.2; and updates on growth accounting from the *Economic Report of the President*.

Chapter 9: Business Cycles, Unemployment, and Inflation includes a revised discussion on business cycles, new data on unemployment rates during the recent recession, and a new discussion of core inflation.

Chapter 10: Basic Macroeconomic Relationships features new “Consider This” boxes discussing the Great Recession, the paradox of thrift, and the investment riddle, and an improved discussion of investment instability.

Chapter 11: The Aggregate Expenditures Model provides a revised introduction that links to the prior chapters, improved discussions in the “Assumptions and Simplifications” and “International Linkages” sections, and a new application that relates the Great Recession to the AE model.

Chapter 12: Aggregate Demand and Aggregate Supply has a new introduction that provides a current and relevant example for students, and a reorganized and updated “Last Word” on oil prices.

Chapter 13: Fiscal Policy, Deficits, and Debt provides explicit definitions of expansionary and contractionary fiscal policy and political business cycles, an updated discussion of current fiscal policy, detailed coverage of the 2008 and 2009 stimulus packages, and a new “Last Word” on Social Security and Medicare funding shortfalls.

Chapter 14: Money, Banking, and Financial Institutions features a new section on the financial crisis of 2007–2008, with emphasis on the mortgage default crisis, mortgage-backed securitization, failures and near failures of financial firms, the Treasury’s TARP rescue, the Fed’s extraordinary new lender-of-last resort facilities, and the Wall Street Reform and Consumer Protection Act of 2010. Also new is a “Last Word” on electronic banking.

Chapter 15: Money Creation contains a clarified discussion of a bank’s balance sheet and an updated “Last Word” that contrasts the lack of action by the Fed during the early 1930s compared to the Fed’s forceful actions during the financial crisis of 2007–2008.

Chapter 16: Interest Rates and Monetary Policy features a fully updated discussion of recent U.S. monetary policy, a new “Consider This” box on the ballooning balance sheet of the Fed during the recession of 2007–2009, and the

conversion of the AD-AS summary figure from the previous edition to a new “Last Word” section.

Chapter 17: Financial Economics provides a revised introduction to the discussion of present value, a new section on applications of the security market line, and a new “Consider This” piece that discusses Ponzi schemes and Bernie Madoff.

Chapter 18: Extending the Analysis of Aggregate Supply features a crisper discussion of economic growth with ongoing inflation, along with a modified Figure 18.7, and an updated discussion of the Phillips Curve.

Chapter 19: Current Issues in Macro Theory and Policy has a new “Consider This” box on the Fed’s actions prior to the financial crisis and an updated discussion of the Taylor Rule in the “Last Word.”

Chapter 20: International Trade contains relevant content from Chapter 5 of the 18th edition. This chapter features additional explanation that clarifies how comparative advantage differs from absolute advantage, a new “Consider This” box on misunderstanding the gains from trade, and a streamlined discussion of multilateral trade agreements and free-trade zones.

Chapter 21: The Balance of Payments, Exchange Rates, and Trade Deficits features a streamlined explanation of why the balance-of-payments statement always balances, a revised discussion of official reserves and balance-of-payments deficits and surpluses, and updated discussions of exchange rates.

Chapter 22 Web: The Economics of Developing Countries includes a revised discussion of large populations and the standard of living and updated coverage of the role of government in improving the growth prospects of developing countries.

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 re-establish government-controlled, centrally planned economies. Our detailed description of the institutions and operation of the market system in Chapter 2 (The Market System and the Circular Flow) 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.

Extensive Treatment of International Economics

We give the principles and institutions of the global economy extensive treatment. The appendix to Chapter 3 (Demand, Supply, and Market Equilibrium) has an application on exchange rates. Chapter 20 (International Trade) examines key facts of international trade, specialization and comparative advantage, arguments for protectionism, impacts of tariffs and subsidies, and various trade agreements. Chapter 21 (Balance of Payments, Exchange Rates, and Trade Deficits) discusses the balance of payments, fixed and floating exchange rates, and U.S. trade deficits. Web Chapter 22 (The Economics of Developing Countries) takes a look at the special problems faced by developing countries and how the advanced industrial countries try to help them.

As noted previously in this preface, Chapter 20 (International Trade) is constructed such that instructors who want to cover international trade early in the course can assign it immediately after Chapter 3. Chapter 20 requires only a good understanding of production possibilities analysis and supply and demand analysis to comprehend. International competition, trade flows, and financial flows are integrated throughout *Macroeconomics*. “Global Perspective” boxes add to the international flavor of the text.

Early and Extensive Treatment of Government

The public sector is an integral component of modern capitalism. This book introduces the role of government early. Chapter 5 (Market Failures: Public Goods and Externalities) systematically discusses public goods and government policies toward externalities. Government’s role (including the role of the Fed) in promoting price-stability, full employment, and economic growth is central to the macroeconomic policy chapters. Considerable attention is given to the issues related to budget deficits and the Federal debt.

Step-by-Step, Two-Path Macro As in the previous edition, our macro continues to be distinguished by a

systematic step-by-step approach to 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 want to bypass the immediate short-run model (Chapter 11: The Aggregate Expenditures Model) can proceed without loss of continuity directly to the short-run AD-AS model (Chapter 12: Aggregate Demand and Aggregate Supply), fiscal policy, money and banking, monetary policy, and the long-run AD-AS analysis.

Focus on Economic Policy and Issues For many students, 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 analytical tools.

Integrated Text and Web Site *Macroeconomics* 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.mcconnell19e.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

WORKED PROBLEMS

W I.1

Budget lines

procedures used to derive the answers. In essence, they extend the textbook’s explanations of various computations—for example, of real GDP, real GDP per capita, the unemployment rate, the inflation rate, and more. From a student’s perspective, they provide “cookbook” help for solving numerical problems.

Interactive Graphs These pieces (developed under the supervision of Norris Peterson) depict 30 major graphs in *Economics* and instruct students to shift the curves, observe

INTERACTIVE GRAPHS

G I.1

Production possibilities curve

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 *Economics*. They identify the particular economists who developed ideas such as opportunity cost, equilibrium price, the multiplier, comparative advantage, and elasticity.

ORIGIN OF THE IDEA

O I.1

Origin of the term “economics”

Organizational Alternatives

Although instructors generally agree on the content of principles of economics courses, they sometimes differ on how to arrange the material. *Macroeconomics* includes 7 parts, and thus provides considerable organizational flexibility. For example, the two-path macro enables covering the full aggregate expenditures model or advancing directly from the chapter on basic macro relationships to the AD-AS model. Also, the section of Chapter 18 on the intricacies of the relationship between short-run and long-run aggregate supply can easily be appended to Chapter 12 on AD and AS.

Finally, as noted before, Chapter 20 on international trade can easily be moved up to immediately after Chapter 3 on supply and demand for instructors who want an early discussion of international trade.

Pedagogical Aids

Macroeconomics is highly student-oriented. The “To the Student” statement at the beginning of Part 1 details the book’s many pedagogical aids. The 19th 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 *Study Guide*. Many students find either the printed or digital version 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.

Instructor’s Manual Laura Maghoney of Solano Community College revised and updated the *Instructor’s Manual*, and Shawn Knabb of Western Washington University checked and brought the end-of-chapter questions, problems, and solutions to the *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.
- Extra questions and problems.
- Answers to the end-of-chapter questions and problems, plus correlation guides mapping content to the learning objectives.

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

Three Test Banks Test Bank I contains about 6500 multiple-choice and true-false questions, most of which were written by the text authors. Randy Grant revised Test Bank I for the 19th edition. Test Bank II contains around 6000 multiple-choice and true-false questions, updated by Felix Kwan of Maryville University. 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 in *Connect Economics*, through EZ Test Online, and in MS Word. EZ Test Online 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.

PowerPoint Presentations With the assistance of Laura Maghoney, the Web site PowerPoint Presentations

for the 19th edition were updated by a dedicated team of instructors: Jill Beccaris-Pescatore of Montgomery County Community College, Stephanie Campbell of Mineral Area College, Amy Chatagner of Mississippi Gulf Coast Community College, and Dorothy Siden of Salem State College. Each chapter is accompanied by a concise yet thorough tour of the key concepts. Instructors can use these Web site presentations in the classroom, and students can use them on their computers.

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.

McGraw-Hill Connect Economics McGraw-Hill *Connect Economics* is an online assignment and assessment solution that connects students with the tools and resources they’ll need to achieve success.

 McGraw-Hill *Connect Economics* helps prepare students for their future by enabling faster learning, more efficient studying, and higher retention of knowledge.

All of the end-of-chapter questions and problems, the thousands of questions from Test Banks I and II, and additional resources are available in *Connect Economics*. For more information on *Connect Economics* and other technology, please see pages xiv–xxi.

Online Learning Center (www.mcconnell19e.com) The Web site accompanying this book is a central resource for students and instructors alike. The optional Web Chapter (Chapter 22W: The Economics of Developing Countries) plus the two new Content Options for Instructors (The United States in the Global Economy and Previous International Exchange-Rate Systems), are posted as full-color PDF files. The 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 also review PowerPoint presentations and test their knowledge of a chapter’s concepts with a self-graded multiple-choice quiz. The password-protected Instructor Center houses the Instructor’s Manual, all three Test Banks, and links to EZ Test Online, PowerPoint presentations, and the Digital Image Library.

Computerized Test Bank Online A comprehensive bank of test questions is provided within McGraw-Hill’s flexible electronic testing program EZ Test Online (www.eztestonline.com). EZ Test Online allows instructors to simply and quickly create tests or quizzes for their students. Instructors can select questions from multiple McGraw-Hill test banks or author their own, and then

either print the finalized test or quiz for paper distribution or publish it online for access via the Internet.

This user-friendly program allows instructors to sort questions by format; select questions by learning objectives or Bloom's taxonomy tags; edit existing questions or add new ones; and scramble questions for multiple versions of the same test. Instructors can export their tests for use in WebCT, Blackboard, and PageOut, making it easy to share assessment materials with colleagues, adjuncts, and TAs. Instant scoring and feedback is provided, and EZ Test Online's record book is designed to easily export to instructor gradebooks.

Assurance-of-Learning Ready Many educational institutions are focused on the notion of assurance of learning, an important element of some accreditation standards. *Macroeconomics* is designed to support your assurance-of-learning initiatives with a simple yet powerful solution. Each chapter in the book begins with a list of numbered learning objectives to which each end-of-chapter question and problem is then mapped. In this way, student responses to those questions and problems can be used to assess how well students are mastering each particular learning objective. Each test bank question for *Macroeconomics* also maps to a specific learning objective.

You can use our test bank software, EZ Test Online, or *Connect Economics* to easily query for learning outcomes and objectives that directly relate to the learning objectives for your course. You can then use the reporting features to aggregate student results in a similar fashion, making the collection and presentation of assurance-of-learning data simple and easy.

AACSB Statement The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Macroeconomics*, 19th edition, has sought to recognize the curricula guidelines detailed in the AACSB standards for business accreditation by connecting end-of-chapter questions in *Macroeconomics*, 19th edition, and the accompanying test banks to the general knowledge and skill guidelines found in the AACSB standards.

This AACSB Statement for *Macroeconomics*, 19th edition, is provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment within the

purview of individual schools, their respective missions, and their respective faculty. While *Macroeconomics*, 19th edition, and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within *Macroeconomics*, 19th edition, labeled selected questions according to the six general knowledge and skills areas.

Acknowledgments

We give special thanks to Norris Peterson and Randy Grant, 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 Laura Maghoney and the team of instructors who updated the PowerPoint slides for the 19th edition. Shawn Knabb deserves great thanks for accuracy-checking the end-of-chapter questions and problems and their solutions, as well as for creating the variations of all of the problems. Thanks to the dedicated instructors who created and revised our additional study tools, including Steve Price, Shannon Aucoin, Brian Motii, Amy Scott, Emilio Gomez, Amy Stapp, Richard Kramer, and Mark Wilson. Finally, we thank William Walstad and Tom Barbiero (the coauthor of our Canadian edition) for their helpful ideas and insights.

We are greatly indebted to an all-star group of professionals at McGraw-Hill—in particular Douglas Reiner, Noelle Fox Bathurst, Harvey Yep, Lori Koettters, Jen Saxton, Melissa Larmon, and Brent Gordon—for their publishing and marketing expertise.

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The 19th edition has benefited from a number of perceptive formal reviews. The reviewers, 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 *Macroeconomics*.

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Preface	xxiv	12 Aggregate Demand and Aggregate Supply	233
		13 Fiscal Policy, Deficits, and Debt	257
PART ONE			
Introduction to Economics and the Economy			
1 Limits, Alternatives, and Choices	3		
2 The Market System and the Circular Flow	29		
PART TWO			
Price, Quantity, and Efficiency			
3 Demand, Supply, and Market Equilibrium	47		
4 Elasticity	75		
5 Market Failures: Public Goods and Externalities	92		
PART THREE			
GDP, Growth, and Instability			
6 An Introduction to Macroeconomics	116		
7 Measuring Domestic Output and National Income	129		
8 Economic Growth	149		
9 Business Cycles, Unemployment, and Inflation	170		
PART FOUR			
Macroeconomic Models and Fiscal Policy			
10 Basic Macroeconomic Relationships	191		
11 The Aggregate Expenditures Model	211		
		12 Aggregate Demand and Aggregate Supply	233
		13 Fiscal Policy, Deficits, and Debt	257
PART FIVE			
Money, Banking, and Monetary Policy			
14 Money, Banking, and Financial Institutions	280		
15 Money Creation	299		
16 Interest Rates and Monetary Policy	314		
17 Financial Economics	341		
PART SIX			
Extensions and Issues			
18 Extending the Analysis of Aggregate Supply	361		
19 Current Issues in Macro Theory and Policy	381		
PART SEVEN			
International Economics			
20 International Trade	398		
21 The Balance of Payments, Exchange Rates, and Trade Deficits	424		
22w The Economics of Developing Countries (WEB CHAPTER, www.mcconnell19e.com)	445		
		Glossary	G-1
		Index	IND-1

Contents

List of Key Graphs	xxiii
Preface	xxiv
Reviewers	xxxiii

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: Comparing 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

Individual's 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

Chapter 1 Appendix: Graphs and Their Meaning	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: <i>McHits and McMisses</i>	35
The “Invisible Hand”	38
The Demise of the Command Systems	38
The Coordination Problem / The Incentive Problem	
Consider This: <i>The Two Koreas</i>	39
The Circular Flow Model	40
Households / Businesses / Product Market / Resource Market	
Last Word: <i>Shuffling the Deck</i>	42
PART TWO	
Price, Quantity, and Efficiency	46
Chapter 3	
Demand, Supply, and Market Equilibrium	47
Markets	48
Demand	48
Law of Demand / The Demand Curve / Market Demand / Changes in Demand / Changes in Quantity Demanded	
Supply	53
Law of Supply / The Supply Curve / Market Supply / Determinants of Supply / Changes in Supply / Changes in Quantity Supplied	
Market Equilibrium	56
Equilibrium Price and Quantity / Rationing Function of Prices / Efficient Allocation / Changes in Supply, Demand, and Equilibrium	
Consider This: <i>Ticket Scalping: A Bum Rap!</i>	58
Consider This: <i>Salsa and Coffee Beans</i>	61
Application: Government-Set Prices	61
Price Ceilings on Gasoline / Rent Controls / Price Floors on Wheat	
Last Word: <i>A Legal Market for Human Organs?</i>	62
Chapter 3 Appendix: Additional Examples of Supply and Demand	69

Chapter 4	
Elasticity	75
Price Elasticity of Demand	76
The Price-Elasticity Coefficient and Formula / Interpretations of E_d / The Total-Revenue Test / Price Elasticity and the Total-Revenue Curve / Determinants of Price Elasticity of Demand / Applications of Price Elasticity of Demand	
Consider This: <i>A Bit of a Stretch</i>	78
Price Elasticity of Supply	84
Price Elasticity of Supply: The Market Period / Price Elasticity of Supply: The Short Run / Price Elasticity of Supply: The Long Run / Applications of Price Elasticity of Supply	
Cross Elasticity and Income Elasticity of Demand	87
Cross Elasticity of Demand / Income Elasticity of Demand	
Last Word: <i>Elasticity and Pricing Power: Why Different Consumers Pay Different Prices</i>	86

Chapter 5	
Market Failures: Public Goods and Externalities	92
Market Failures in Competitive Markets	93
Demand-Side Market Failures / Supply-Side Market Failures	
Efficiently Functioning Markets	93
Consumer Surplus / Producer Surplus / Efficiency Revisited / Efficiency Losses (or Deadweight Losses)	
Public Goods	99
Private Goods Characteristics / Public Goods Characteristics / Optimal Quantity of a Public Good / Demand for Public Goods / Comparing MB and MC / Cost-Benefit Analysis / Quasi-Public Goods / The Reallocation Process	
Consider This: <i>Street Entertainers</i>	100
Consider This: <i>Art for Art's Sake</i>	101
Externalities	104
Negative Externalities / Positive Externalities / Government Intervention / Society's Optimal Amount of Externality Reduction	
Consider This: <i>The Fable of the Bees</i>	106
Government's Role in the Economy	109
Last Word: <i>Carbon Dioxide Emissions, Cap and Trade, and Carbon Taxes</i>	110

PART THREE

GDP, Growth, and Instability 115

Chapter 6

An Introduction to Macroeconomics 116

Performance and Policy 117

The Miracle of Modern Economic Growth 118

Saving, Investment, and Choosing between Present and Future
Consumption / Banks and Other Financial Institutions**Consider This:** *Economic versus Financial Investment* 120

Uncertainty, Expectations, and Shocks 120

Demand Shocks and Flexible Prices / Demand Shocks and
Sticky Prices**Consider This:** *The Great Recession* 123

How Sticky Are Prices? 124

Last Word: *Inventory Management and the Business Cycle* 124Categorizing Macroeconomic Models Using
Price Stickiness 126

Chapter 7

Measuring Domestic Output and
National Income 129

Assessing the Economy's Performance 130

Gross Domestic Product 130

A Monetary Measure / Avoiding Multiple Counting /
GDP Excludes Nonproduction Transactions / Two Ways of
Looking at GDP: Spending and Income

The Expenditures Approach 132

Personal Consumption Expenditures (C) / Gross Private
Domestic Investment (I_g) / Government Purchases (G) /
Net Exports (X_n) / Putting It All Together: $GDP = C +$
 $I_g + G + X_n$ **Consider This:** *Stocks versus Flows* 135

The Income Approach 136

Compensation of Employees / Rents / Interest /
Proprietors' Income / Corporate Profits / Taxes on
Production and Imports / From National Income to GDP

Other National Accounts 138

Net Domestic Product / National Income / Personal
Income / Disposable Income / The Circular Flow Revisited

Nominal GDP versus Real GDP 141

Adjustment Process in a One-Product Economy / An
Alternative Method / Real-World Considerations and Data

Shortcomings of GDP 143

Nonmarket Activities / Leisure / Improved Product
Quality / The Underground Economy / GDP and the
Environment / Composition and Distribution of Output /
Noneconomic Sources of Well-Being**Last Word:** *Magical Mystery Tour* 145

Chapter 8

Economic Growth 149

Economic Growth 150

Growth as a Goal / Arithmetic of Growth / Growth in the
United States

Modern Economic Growth 152

The Uneven Distribution of Growth / Catching Up Is Possible
Consider This: *Economic Growth Rates Matter!* 154

Institutional Structures That Promote Growth 155

Consider This: *Patents and Innovation* 156

Determinants of Growth 156

Supply Factors / Demand Factor / Efficiency Factor

Production Possibilities Analysis 157

Growth and Production Possibilities /
Labor and Productivity

Accounting for Growth 158

Labor Inputs versus Labor Productivity / Technological
Advance / Quantity of Capital / Education and
Training / Economies of Scale and Resource Allocation
Consider This: *Women, the Labor Force, and
Economic Growth* 160The Rise in the Average Rate of
Productivity Growth 162Reasons for the Rise in the Average Rate of Productivity
Growth / Implications for Economic Growth /
Skepticism about Longevity / What Can We Conclude?

Is Growth Desirable and Sustainable? 165

The Antigrowth View / In Defense of Economic Growth
Last Word: *Economic Growth in China* 166

Chapter 9

Business Cycles, Unemployment, and Inflation 170

The Business Cycle 171

Phases of the Business Cycle / Causation: A First Glance / Cyclical Impact: Durables and Nondurables

Unemployment 173

Measurement of Unemployment / Types of Unemployment / Definition of Full Employment / Economic Cost of Unemployment / Noneconomic Costs / International Comparisons

Inflation 179

Meaning of Inflation / Measurement of Inflation / Facts of Inflation / Types of Inflation / Complexities / Core Inflation
Consider This: *Clipping Coins* 181

Redistribution Effects of Inflation 182

Who Is Hurt by Inflation? / Who Is Unaffected or Helped by Inflation? / Anticipated Inflation / Other Redistribution Issues

Does Inflation Affect Output? 185

Cost-Push Inflation and Real Output / Demand-Pull Inflation and Real Output / Hyperinflation

Last Word: *The Stock Market and the Economy* 186

PART FOUR
Macroeconomic Models and Fiscal Policy 190

Chapter 10

Basic Macroeconomic Relationships 191

The Income-Consumption and Income-Saving Relationships 192

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

Consider This: *The Great Recession and the Paradox of Thrift* 198

The Interest-Rate-Investment Relationship 199

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

Consider This: *The Great Recession and the Investment Riddle* 204

The Multiplier Effect 204

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

Last Word: *Squaring the Economic Circle* 207

Chapter 11

The Aggregate Expenditures Model 211

Assumptions and Simplifications 212

Consumption and Investment Schedules 212

Equilibrium GDP: $C + I_g = \text{GDP}$ 213

Tabular Analysis / Graphical Analysis

Other Features of Equilibrium GDP 216

Saving Equals Planned Investment / No Unplanned Changes in Inventories

Changes in Equilibrium GDP and the Multiplier 217

Adding International Trade 218

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

Adding the Public Sector 222

Government Purchases and Equilibrium GDP / Taxation and Equilibrium GDP

Equilibrium versus Full-Employment GDP 225

Recessionary Expenditure Gap / Inflationary Expenditure Gap / Application: The Recession of 2007–2009

Last Word: *Say's Law, the Great Depression, and Keynes* 228

Chapter 12

Aggregate Demand and Aggregate Supply 233

Aggregate Demand 234

Aggregate Demand Curve

Changes in Aggregate Demand 235

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

Aggregate Supply 238

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 241

Input Prices / Productivity / Legal-Institutional Environment

Equilibrium and Changes in Equilibrium 244
 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 247
Last Word: Has the Impact of Oil Prices Diminished? 249

Chapter 12 Appendix: The Relationship of the
 Aggregate Demand Curve to the Aggregate
 Expenditures Model 254

Chapter 13

Fiscal Policy, Deficits, and Debt 257

Fiscal Policy and the AD-AS Model 258
 Expansionary Fiscal Policy / Contractionary
 Fiscal Policy / Policy Options: G or T?

Built-In Stability 261
 Automatic or Built-In Stabilizers

Evaluating Fiscal Policy 263
 Cyclically Adjusted Budget / Recent U.S. Fiscal Policy /
 Budget Deficits and Projections

Problems, Criticisms, and Complications 267
 Problems of Timing / Political Considerations /
 Future Policy Reversals / Offsetting State and Local
 Finance / Crowding-Out Effect / Current Thinking
 on Fiscal Policy

The U.S. Public Debt 269
 Ownership / Debt and GDP / International
 Comparisons / Interest Charges

False Concerns 271
 Bankruptcy / Burdening Future Generations

Substantive Issues 272
 Income Distribution / Incentives / Foreign-Owned Public
 Debt / Crowding-Out Effect Revisited
Last Word: The Social Security and Medicare
 Shortfalls 274

PART FIVE
Money, Banking, and Monetary
Policy 279

Chapter 14

Money, Banking, and Financial
Institutions 280

The Functions of Money 281

The Components of the Money Supply 281
 Money Definition M1 / Money Definition M2
Consider This: Are Credit Cards Money? 284

What “Backs” the Money Supply? 284
 Money as Debt / Value of Money / Money and
 Prices / Stabilizing Money’s Purchasing Power

The Federal Reserve and the Banking System 287
 Historical Background / Board of Governors /
 The 12 Federal Reserve Banks / FOMC / Commercial Banks
 and Thrifts / Fed Functions and the Money Supply /
 Federal Reserve Independence

The Financial Crisis of 2007 and 2008 290
 The Mortgage Default Crisis / Securitization /
 Failures and Near-Failures of Financial Firms /
 The Treasury Bailout: TARP / The Fed’s Lender-of-Last-
 Resort Activities

The Postcrisis U.S. Financial Services
 Industry 293
Last Word: Electronic Banking 295

Chapter 15

Money Creation	299
The Fractional Reserve System	300
Illustrating the Idea: The Goldsmiths / Significant Characteristics of Fractional Reserve Banking	
A Single Commercial Bank	301
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	
Money-Creating Transactions of a Commercial Bank	304
Transaction 6: Granting a Loan / Transaction 7: Buying Government Securities / Profits, Liquidity, and the Federal Funds Market	
The Banking System: Multiple-Deposit Expansion	307
The Banking System's Lending Potential / The Monetary Multiplier / Reversibility: The Multiple Destruction of Money	
Last Word: <i>The Bank Panics of 1930–1933</i>	310

Chapter 16

Interest Rates and Monetary Policy	314
Interest Rates	315
The Demand for Money / The Equilibrium Interest Rate / Interest Rates and Bond Prices	
The Consolidated Balance Sheet of the Federal Reserve Banks	317
Assets / Liabilities	
Tools of Monetary Policy	319
Open-Market Operations / The Reserve Ratio / The Discount Rate / Term Auction Facility / Relative Importance	
Targeting the Federal Funds Rate	324
Expansionary Monetary Policy / Restrictive Monetary Policy / The Taylor Rule	
Consider This: <i>The Fed as a Sponge</i>	327
Monetary Policy, Real GDP, and the Price Level	328
Cause-Effect Chain / Effects of an Expansionary Monetary Policy / Effects of a Restrictive Monetary Policy	
Monetary Policy: Evaluation and Issues	332
Recent U.S. Monetary Policy / Problems and Complications	
Consider This: <i>Up, Up, and Away</i>	333
The “Big Picture”	336
Last Word: <i>The “Big Picture”</i>	334

Chapter 17

Financial Economics	341
Financial Investment	342
Present Value	342
Compound Interest / The Present Value Model / Applications	
Some Popular Investments	345
Stocks / Bonds / Mutual Funds / Calculating Investment Returns / Asset Prices and Rates of Return	
Arbitrage	347
Risk	348
Diversification / Comparing Risky Investments / Relationship of Risk and Average Expected Rates of Return / The Risk-Free Rate of Return	
The Security Market Line	352
Security Market Line: Applications	
Consider This: <i>Ponzi Schemes</i>	354
Last Word: <i>Index Funds versus Actively Managed Funds</i>	356

PART SIX**Extensions and Issues 360****Chapter 18**

Extending the Analysis of Aggregate Supply	361
From Short Run to Long Run	362
Short-Run Aggregate Supply / Long-Run Aggregate Supply / Long-Run Equilibrium in the AD-AS Model	
Applying the Extended AD-AS Model	364
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 / Economic Growth with Ongoing Inflation	
The Inflation-Unemployment Relationship	368
The Phillips Curve / Aggregate Supply Shocks and the Phillips Curve	

The Long-Run Phillips Curve 372
 Short-Run Phillips Curve / Long-Run Vertical Phillips Curve / Disinflation

Taxation and Aggregate Supply 374
 Taxes and Incentives to Work / Incentives to Save and Invest / The Laffer Curve / Criticisms of the Laffer Curve / Rebuttal and Evaluation
Consider This: *Sherwood Forest* 376
Last Word: *Do Tax Increases Reduce Real GDP?* 377

Chapter 19

Current Issues in Macro Theory and Policy

What Causes Macro Instability? 382
 Mainstream View / Monetarist View / Real-Business-Cycle View / Coordination Failures
Consider This: *Too Much Money?* 385

Does the Economy “Self-Correct”? 386
 New Classical View of Self-Correction / Mainstream View of Self-Correction

Rules or Discretion? 389
 In Support of Policy Rules / In Defense of Discretionary Stabilization Policy / Policy Successes
Consider This: *On the Road Again* 390

Summary of Alternative Views 390
Last Word: *The Taylor Rule: Could a Robot Replace Ben Bernanke?* 393

PART SEVEN
International Economics 397

Chapter 20

International Trade 398

Some Key Trade Facts 399

The Economic Basis for Trade 400

Comparative Advantage 400
 Two Isolated Nations / Specializing Based on Comparative Advantage / Terms of Trade / Gains from Trade / Trade with Increasing Costs / The Case for Free Trade
Consider This: *A CPA and a House Painter* 401
Consider This: *Misunderstanding the Gains from Trade* 406

Supply and Demand Analysis of Exports and Imports 408
 Supply and Demand in the United States / Supply and Demand in Canada / Equilibrium World Price, Exports, and Imports

Trade Barriers and Export Subsidies 411
 Economic Impact of Tariffs / Economic Impact of Quotas / Net Costs of Tariffs and Quotas
Consider This: *Buy American?* 411

The Case for Protection: A Critical Review 414
 Military Self-Sufficiency Argument / Diversification-for-Stability Argument / Infant Industry Argument / Protection-against-Dumping Argument / Increased Domestic Employment Argument / Cheap Foreign Labor Argument

Multilateral Trade Agreements and Free-Trade Zones 416
 General Agreement on Tariffs and Trade / World Trade Organization / The European Union / North American Free Trade Agreement

Trade Adjustment Assistance 418

Offshoring of Jobs 418
Last Word: *Petition of the Candlemakers, 1845* 419

Chapter 21

The Balance of Payments, Exchange Rates, and Trade Deficits

International Financial Transactions 425

The Balance of Payments 425
 Current Account / Capital and Financial Account / Why the Balance? / Official Reserves, Payments Deficits, and Payments Surpluses

Flexible Exchange Rates 429
 Depreciation and Appreciation / Determinants of Exchange Rates / Flexible Rates and the Balance of Payments / Disadvantages of Flexible Exchange Rates

Fixed Exchange Rates 434
 Use of Official Reserves / Trade Policies / Exchange Controls and Rationing / Domestic Macroeconomic Adjustments

The Current Exchange Rate System:
 The Managed Float 436

Recent U.S. Trade Deficits 438
 Causes of the Trade Deficits / Implications of U.S. Trade Deficits
Last Word: *Speculation in Currency Markets* 440

WEB Chapter 22	www.mcconnell19e.com		
The Economics of Developing Countries		22W-1	
The Rich and the Poor		22W-2	
Classifications / Comparisons / Growth, Decline, and Income Gaps / The Human Realities of Poverty			
Obstacles to Economic Development		22W-4	
Natural Resources / Human Resources / Capital Accumulation / Technological Advance / Sociocultural and Institutional Factors			
The Vicious Circle		22W-11	
			The Role of Government 22W-12
			A Positive Role / Public Sector Problems
			The Role of Advanced Nations 22W-14
			Expanding Trade / Admitting Temporary Workers / Discouraging Arms Sales / Foreign Aid: Public Loans and Grants / Flows of Private Capital
			Last Word: <i>Famine in Africa</i> 22W-16
			Glossary G-1
			Credits C-1
			Index IND-1