



# PREFACE

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The 12th edition of *Macroeconomics* is published 34 years after the first. We have been both amazed and flattered by the response our book has received over those years. Besides its use in the classrooms of many U.S. universities, it has been translated into many languages and used in many countries, from Canada to Argentina to Australia; all over Europe; in India, Indonesia, and Japan; and from China and Albania to Russia. Even before the Czech Republic gained independence from communism, an underground translation was secretly used in macroeconomics seminars at Charles University in Prague. There is no greater pleasure for teachers and textbook authors than to see their efforts succeed so concretely around the world.

We believe that the success of our textbook reflects the unique features it brings to the universe of undergraduate macroeconomics. These features can be summarized as follows:

- **“Compassionate Difficulty”** Through the years we have held the conviction that the best textbook is one written with an abiding respect for both student and instructor. What does this mean exactly? In practice it means that we explore more state-of-the-art research than is customary in undergraduate textbooks, allowing students a point of departure for deeper exploration of various topics and teachers the flexibility to emphasize topics in greater detail. At the same time, however, we have reduced the book’s level of difficulty by providing straightforward explanations, emphasizing concepts over technique, and fitting difficult material into a larger framework so students can see its relevance. We also emphasize how empirical data can explain and test macroeconomic theory by providing numerous illustrations using real-world data.
- **Focus on Models** The best economists have a rich toolbox of simple models they can use to analyze various facets of the economy and know when to apply the right model to answer specific questions. We have consistently focused our textbook on the presentation of a series of simple models relevant to particular issues. We strive to help students understand the importance of a model-based approach to macroeconomic analysis as well as how the various models are connected. Our goal is to produce students who have the capacity to analyze current economic issues in the context of an economic frame of reference, namely, a set of macroeconomic models.
- **International Perspective** It has always been important for students living in countries with highly open economies to understand the important links connecting foreign economies to their own. This is also becoming ever more true in the United States as international goods and financial markets become more intertwined. Recognizing this, we provide two detailed chapters discussing international linkages. The first, Chapter 13, provides a discussion of mainstream intermediate macroeconomic topics.

The second, Chapter 23, gives advanced students the opportunity to explore modern theories of balance-of-payments crises, determinants of exchange rates, and the choice of exchange rate regimes. These chapters give instructors the flexibility to range from touching on a few international topics to a thorough discussion lasting several weeks.

- **Focus on Changing Times** We have strived to present updated data throughout the book, demonstrating key trends and thorough discussions of how such trends might be explained by traditional macroeconomic models.

## WHAT'S NEW

The 12th edition of *Macroeconomics* is thoroughly updated to reflect the newest data, and the story of the Great Recession. Graphs, data tables, and empirical homework questions use the latest data available. In addition to many small- and medium-sized changes (detailed on the book website at [www.mhhe.com/dornbusch12e](http://www.mhhe.com/dornbusch12e)), we have made one large substantive addition and three major pedagogical re-arrangements. Chapter 20 is new, focusing directly on the government debt in both the United States and in Europe. The first major pedagogic change is that the old Chapter 6, “The Anatomy of Inflation and Unemployment,” has been split into separate chapters on unemployment and inflation. Similarly, the old Chapter 19, which covered “Big Events,” has been split into separate chapters on the Great Depression and on hyperinflations. Some of the material on the deficit has been moved into the new Chapter 20. We think this will make the material much more accessible to students. The third notable change is that both existing and new “Boxes” have been titled either “History Speaks” or “What More Do We Know?” in order to provide students with a better guide as to what they should expect to learn from the materials. Both of these changes reflect suggestions from faculty teaching from previous editions. We are grateful to them. On final noteworthy change is the inclusion of a small section on dynamic stochastic general equilibrium (DSGE) models in Chapter 24, which instructors can use if they wish to introduce the topic.

## ORGANIZATIONAL ALTERNATIVES

A major goal in writing this textbook is to provide one that is comprehensive yet flexible enough to allow teachers to focus a class on their particular interests and time constraints. Our personal preference is to begin at the beginning and work through the entire book (which is, of course, why we organized the material in the way we did), but a number of approaches can be taken to give a different emphasis or simply to reduce the breadth of material covered. Examples of these approaches include

- **An Overview Course** An overview course should contain what we feel is the core of the textbook: Chapters 1 and 2, which introduce the book and provide details on national income accounting; Chapter 5, which gives an overview of aggregate supply and demand; Chapter 6, which presents the aggregate supply curve in more detail; Chapters 7 and 8, which discuss the headline issues of inflation and unemployment; Chapter 9, which gives a media-level view on stabilization policy; and Chapters 10, 11, and 12, which introduce the goods market, asset market, and some basics of monetary and fiscal policy. One might also decide to include Chapter 20, on the debt,

in an overview course. Beyond these core chapters, the course can be shortened substantially by omitting chapters that focus on the microeconomic detail beneath macroeconomic theory—Chapters 14–17, 19, and 24, for example, which supply such detail for consumption, investment, money markets, and advanced topics, respectively. And Chapters 18, 21, and 22, which detail several current issues in policymaking, can be omitted or done only in part. In the United States, Chapters 4, 13, and 23, which present many basic issues of international interdependence and growth policy, might also be omitted (although probably everyone should do Sections 13-1 and 13-2).

- **A Traditional Aggregate Demand-Oriented Course** For a Keynesian, short-run treatment of the course, the core chapters for the overview course should be emphasized and Chapter 18, which discusses policy, added. Chapters 20, 21, and 22, which discuss big macroeconomic events, can be moved ahead of Chapter 14. Chapters 3 and 4, on growth and policies to promote growth, can be moved to the end of the course. And for advanced students, the sections on New Keynesian economics and DSGE models in Chapter 24 might be included.
- **A Classical “Supply-Side” Course** For a classical treatment of the course, the core chapters for the overview course can be shortened by de-emphasizing the *IS-LM* material in Chapters 10–12. And in the early chapters, greater emphasis might be given to Chapters 3 and 4 on long-run growth. The microeconomics of macroeconomic theory in Chapters 14–16 might also be emphasized, as might the discussion of hyperinflation in Chapter 22. Advanced students may wish to explore the sections on the random walk in GDP and on real business cycles as well as DSGE models in Chapter 24.
- **A Business School Course** In addition to the core chapters for the overview course, a business school course should emphasize Chapters 17 and 19, which deal with the Federal Reserve and financial markets. And Chapters 3 and 4 on growth can be de-emphasized, whereas the advanced topics in Chapter 24 can be omitted. For students with an international perspective, Chapter 13 and parts of Chapter 23, especially the discussion of exchange rate determination, might be emphasized.

Throughout the book, we have labeled some material that is technically difficult as “optional.” Many of the optional sections will be fun for students who enjoy a technical challenge, but the instructor should specify clearly which of these sections are required and which are truly optional.

## COURSESMART

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## SUPPLEMENTARY MATERIAL

There are several learning and teaching aids that accompany the twelfth edition of *Macroeconomics*. These resources can be found on the text website at [www.mhhe.com/dornbusch12e](http://www.mhhe.com/dornbusch12e). Instructor supplements reside under a password-protected section of the text website.

For instructors, an *Instructor's Manual* and *Test Bank* to accompany the text have been prepared by Paul Fisher of Henry Ford Community College. The Instructor's Manual includes chapter summaries, learning objectives, solutions to the end-of-chapter problems, and many additional problems (and their solutions) that can be used for class discussion, homework assignments, or examination questions. The Test Bank contains over 1,000 multiple-choice questions and is available in Word document format.

Also available for instructors are *PowerPoint Presentations*, prepared by Alice Kassens of Roanoke College. The slide presentations contain charts, graphs, examples, and discussion of chapter contents, and can be edited to meet instructor, classroom, and reader needs.

For students, a *Study Guide* and *Multiple-Choice Quizzes* have been prepared by Valerie Bostwick of the University of California, Santa Barbara. The Study Guide contains chapter summaries, key terms, and a wide range of questions and problems, starting from the very easy and progressing in each chapter to material that will challenge the more advanced student. Multiple-Choice Quizzes are available for each chapter, and each quiz contains 10 auto-gradable questions.



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