
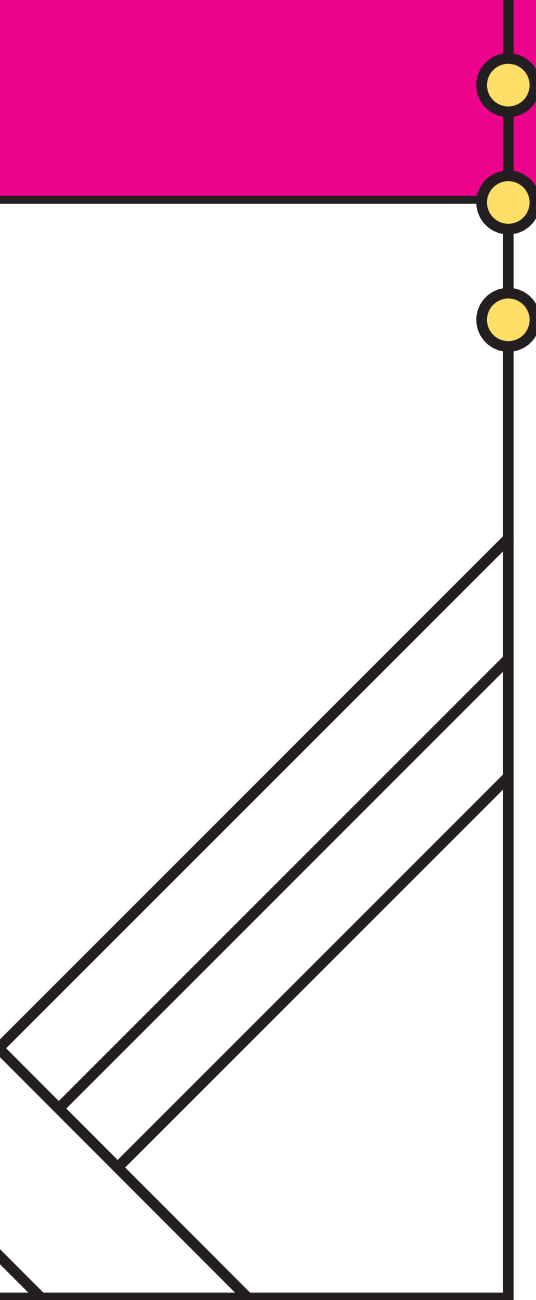


# PREFACE



**A**lthough many millions of dollars are spent each year on introductory economics instruction in colleges and universities around the world, the return on this investment has been disturbingly low. Studies have shown, for example, that several months after having taken a principles of economics course, former students are no better able to answer simple economic questions than others who never even took the course. Most students, it seems, leave our introductory courses without having learned even the most important basic economic principles.

The problem, in our view, is that these courses almost always try to teach students far too much. In the process, really important ideas get little more coverage than minor ones, and everything ends up going by in a blur. Many instructors ask themselves, “How much can I cover today?” when instead they should be asking, “How much can my students absorb?”

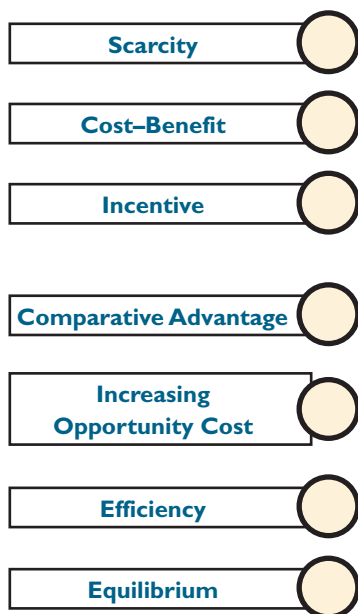
Our textbook grew out of our conviction that students will learn far more if we attempt to cover much less. Our basic premise is that a small number of basic principles do most of the heavy lifting in economics, and that if we focus narrowly and repeatedly on those principles, students can actually master them in just a single semester.

The enthusiastic reactions of users of our first four editions affirm the validity of this premise. Although recent editions of a few other texts now pay lip service to the less-is-more approach, ours is by consensus the most carefully thought-out and well-executed text in this mold. Avoiding excessive reliance on formal mathematical derivations, we present concepts intuitively through examples drawn from familiar contexts. We rely throughout on a well-articulated list of seven core principles, which we reinforce repeatedly by illustrating and applying each principle in numerous contexts. We ask students periodically to apply these principles themselves to answer related questions, exercises, and problems.

This approach has been retained in the Middle East Edition of the text and further strengthened by illustrating those core principles through examples and contexts familiar to students in this region.

Throughout this process, we encourage students to become “economic naturalists,” people who employ basic economic principles to understand and explain what they observe in the world around them. An economic naturalist understands, for example, that infant safety seats are required in cars but not in airplanes because the marginal cost of space to accommodate these seats is typically zero in cars but often hundreds of dollars in airplanes. Scores of such examples are sprinkled throughout the book. Each one, we believe, poses a question that should make any normal, curious person eager to learn the answer. These examples stimulate interest while teaching students to see each feature of their economic landscape as the reflection of one or more of the core principles. Students talk about these examples with their friends and families. Learning economics is like learning a language. In each case, there is no substitute for actually speaking. By inducing students to speak economics, the economic naturalist examples serve this purpose.

## FEATURES



- **An emphasis on seven core principles:** As noted, a few core principles do most of the work in economics. By focusing almost exclusively on these principles, the text assures that students leave the course with a deep mastery of them. In contrast, traditional encyclopedic texts are so overwhelmingly detailed that students often leave the course with little useful working knowledge at all.
  - 1 **The Scarcity Principle:** Having more of one good thing usually means having less of another.
  - 2 **The Cost-Benefit Principle:** Take no action unless its marginal benefit is at least as great as its marginal cost.
  - 3 **The Incentive Principle:** Cost-benefit comparisons are relevant not only for identifying the decisions that rational people should make, but also for predicting the actual decisions they do make.
  - 4 **The Principle of Comparative Advantage:** Everyone does best when each concentrates on the activity for which he or she is relatively most productive.
  - 5 **The Principle of Increasing Opportunity Cost:** Use the resources with the lowest opportunity cost before turning to those with higher opportunity costs.
  - 6 **The Efficiency Principle:** Efficiency is an important social goal because when the economic pie grows larger, everyone can have a larger slice.
  - 7 **The Equilibrium Principle:** A market in equilibrium leaves no unexploited opportunities for individuals but may not exploit all gains achievable through collective action.
- **Economic naturalism:** Our ultimate goal is to produce economic naturalists—people who see each human action as the result of an implicit or explicit cost-benefit calculation. The economic naturalist sees mundane details of ordinary existence in a new light and becomes actively engaged in the attempt to understand them. Some representative examples are:

### In Micro:

- What happened to pearl diving in the Arabian Gulf?
- Would a higher tax on cigarettes curb smoking among Egyptians?
- Why do Istanbul taxi licenses sell for more than \$300,000?

### In Macro:

- Why has female participation in the labor market increased by so much in countries such as Egypt and Morocco?
- What monetary policy responses did GCC member countries undertake following the global financial crisis of 2008?
- Can member countries of the GCC vary interest rates independently as a monetary policy tool in controlling their money supply?
- **Active learning stressed:** The only way to learn to hit an overhead smash in tennis is through repeated practice. The same is true for learning economics. Accordingly, we consistently introduce new ideas in the context of simple examples and then follow them with applications showing how they work in

familiar settings. At frequent intervals, we pose exercises that both test and reinforce the understanding of these ideas. The end-of-chapter questions and problems are carefully crafted to help students internalize and extend core concepts.

- **Modern Microeconomics:** *Economic surplus*, introduced in Chapter 1 and employed repeatedly thereafter, is more fully developed here than in any other text. This concept underlies the argument for economic efficiency as an important social goal. Rather than speak of trade-offs between efficiency and other goals, we stress that maximizing economic surplus facilitates the achievement of *all* goals. *Common decision pitfalls* identified by 2002 Nobel Laureate Daniel Kahneman and others—such as the tendency to ignore implicit costs, the tendency not to ignore sunk costs, and the tendency to confuse average and marginal costs and benefits—are introduced early in Chapter 1 and invoked repeatedly in subsequent chapters.

There is perhaps no more exciting toolkit for the economic naturalist than a few *principles of elementary game theory*. In Chapter 9, we show how these principles enable students to answer a variety of strategic questions that arise in the marketplace and everyday life. We believe that the insights of the Nobel Laureate Ronald Coase are indispensable for understanding a host of familiar laws, customs, and social norms. In Chapter 10, we show how such devices function to minimize misallocations that result from externalities. A few simple principles from the *economics of information* form another exciting addition to the economic naturalist's toolkit. In Chapter 11, we show how the insights that earned the 2001 Nobel Prize in economics for George Akerlof, Joseph Stiglitz, and Michael Spence can be employed to answer a variety of questions from everyday experience.

- **Modern Macroeconomics:** Recent developments have renewed interest in cyclical fluctuations without challenging the importance of such long-run issues as growth, productivity, the evolution of real wages, and capital formation. Our treatment of these issues is organized as follows:
  - A three-chapter treatment of long-run issues, followed by a modern treatment of short-term fluctuations and stabilization policy, emphasizing the important distinction between short- and long-run behavior of the economy.
  - Consistent with both media reporting and recent research on monetary policy rules, we treat the interest rate rather than the money supply as the primary instrument of central bank policy.
  - The analysis of aggregate demand and aggregate supply relates output to inflation, rather than to the price level, sidestepping the necessity of a separate derivation of the link between the output gap and inflation.
  - This book places a heavy emphasis on globalization, starting with an analysis of its effects on real wage inequality and progressing to such issues as the benefits of trade, the causes and effects of protectionism, the role of capital flows in domestic capital formation, and the links between exchange rates and monetary policy.



## IMPROVEMENTS IN THE MIDDLE EAST EDITION

Guided by extensive reviewer feedback and the improvements introduced in the fourth U.S. edition, our main goal in preparing our first Middle East edition has been to reorganize our presentation to accommodate the broadest possible range of student preparation. For example, while continuing to emphasize verbal and graphical approaches in the main text, we offer several appendices that allow for more detailed and challenging algebraic treatments of the same material. Among the hundreds of specific refinements we made, the following merit explicit mention:

- **New structure of microeconomic principles:** In response to reviews and feedback from the region, we have decided to reorganize the presentation of the microeconomics part of the text. We are optimistic that instructors and students alike will appreciate the new structure.
- **Regional illustrations and economic naturalist examples:** In this edition, we have added a number of illustrations and economic naturalist examples covering countries in the Middle East and Africa in addition to many international examples.
- **Two new microeconomic chapters:** In order to accommodate the teaching requirements of the relevant faculty, we have introduced two new chapters on costs of production, Chapter 6, and perfect competition, Chapter 7.
- **Integrated various concepts related to demand and supply:** These concepts are now covered in a single chapter, Chapter 3.
- **Use of regional data:** Whenever possible and data permitting, we replaced U.S. charts and tables with regional data from countries in the Middle East and North Africa, such as the GCC countries, Egypt, Morocco, and Turkey, among others.
- **Introduction of macroeconomic concepts:** Consistent with other economics textbooks, we have added discussions about the GDP deflator in Chapter 14 and fiat money, commodity money, and the money multiplier in Chapter 19.

## THE CHALLENGE

The world is a more competitive place now than it was when we started teaching in the 1970s. In arena after arena, business as usual is no longer good enough. Assistant professors used to work on their houses on weekends, but the current crop can now be found most weekends at the office. The competition for student attention has grown similarly more intense. There are many tempting courses in today's undergraduate curriculum and even more tempting diversions outside the classroom. Students are freer than ever to pick and choose.

Yet many of us seem to operate under the illusion that most first-year students arrive with a burning desire to become economics majors. And many of us do not yet seem to have recognized that students' cognitive abilities and powers of concentration are scarce resources. To hold our ground, we must become not only more selective in what we teach, but also more effective as advocates for our discipline. We must persuade students that we offer something of value.

A well-conceived and well-executed introductory course in economics can teach our students more about society and human behavior in a single term than virtually any other course in the university. This course can and should be an

intellectual adventure of the first order. Not all students who take the kind of course we envisioned when writing this book will go on to become economics majors, of course. But many will, and even those who do not will leave with a sense of admiration for the power of economic ideas.

A salesperson knows that he or she often gets only one chance to make a good first impression on a potential customer. Analogously, the principles course is often our only shot at persuading most students to appreciate the value of economics. By trying to teach them everything we know—rather than teaching them the most important things we know—we too often squander this opportunity.



## SUPPLEMENTS FOR THE INSTRUCTOR

**Instructor's Manual:** Prepared by Dr. George Naufal of the American University of Sharjah, UAE, this expanded manual will be extremely useful for all teachers. In addition to such general topics as Using the Web Site, Economic Education Resources, and Innovative Ideas, there will be for each chapter: An Overview, Core Principles, Important Concepts Covered, Teaching Objectives, Teaching Tips/Student Stumbling Blocks, More Economic Naturalists, In-Class and Web Activities, Annotated Chapter Outline, Answers to Textbook Problems, Sample Homework, and a Sample Reading Quiz.

**Test Banks:** Prepared by Dr. Jay Squalli (micro and macro), each manual contains more than 4,000 questions categorized by chapter learning objectives, AACSB learning categories, and Bloom's Taxonomy objectives. The test banks are available in the latest EZTest test-generating software—micro and macro—ensuring maximum flexibility in test preparation.

**PowerPoints:** Prepared by Dr. George Naufal of the American University of Sharjah, these slides contain a detailed, chapter-by-chapter review of the important ideas presented in the textbook, accompanied by animated graphs and slide notes.

**Solutions Manual:** Prepared by Dr. Jay Squalli, the manual contains detailed answers to all end-of-chapter questions and problems.

**Online Learning Center** [www.mcgraw-hill.co.uk/textbooks/frank\\_mea](http://www.mcgraw-hill.co.uk/textbooks/frank_mea): All of the instructor's supplements are available online at the textbook's website for quick download and convenient access for professors.



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