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Introduction

At no time in history has teaching the principles of economics been either more challenging or more important. Your decision to adopt the fourteenth edition of my textbook brings to your task a set of teaching and learning tools that are unmatched in their clarity, relevance, and currency. It is my hope that with the help of these tools, you will enable your students to become as excited about economics as you are.

This Solutions Manual has the complete answers to all the questions and problems from the textbook in one handy source. You can either use these solutions to help you grade problems you have assigned or photocopy them and hand them out directly to the students.

In addition to the answers, this Solutions Manual also has the questions copied directly from the textbook. If you are working through the questions and answers in class you will no longer need to turn from the textbook for the questions to another book for the answers because this one book has *both*.

At the end of each chapter in this book there are extra problems (and answers) which are similar to some of the End of Chapter problems from the textbook. You can use these problems by either handing them out to your class for credit or for practice. Either way your students are sure to benefit.

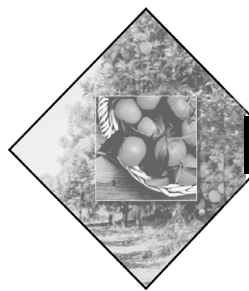
Acknowledgments

Mark Rush of the University of Florida put together the initial draft of the book. His work was checked by Jeannie Gilmore of the University of Western Ontario. Mark reports that based on the errors and extensive comments Jeannie made, he is worried that he might not pass this class.

Even with the quality of all the help, there remains room for improvement in the text and (says Mark) in this manual. Any corrections, suggestions, or comments that you have will be greatly appreciated. Send your comments on this manual to Mark (MarkRush@ufl.edu) and your comments on the text to me (michael.parkin@uwo.ca).

Whether you're teaching the principles course for the first time or are an experienced teacher at this level, I hope you will find this manual helpful. I wish you success and enjoyment in your course!

Michael Parkin
University of Western Ontario



Chapter

1 WHAT IS ECONOMICS?

Answers to the Review Quiz

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1. List some examples of the scarcity that you face.

Examples of scarcity common to students include not enough income to afford both tuition and a nice car, not enough learning capacity to study for both an economics exam and a chemistry exam in one night, and not enough time to allow extensive studying and extensive socializing.

2. Find examples of scarcity in today's headlines.

A headline in *The New York Times* on June 17, 2021 was "What is a Megadrought?" The story defined a megadrought as a "period of extreme dryness that lasts for decades." It then pointed out that the Western United States has suffered from drought conditions since 2000 and because of climate change the drought may continue. The entire story points out the role of scarcity because it is concerned with the scarcity of water, which is a vital resource.

3. During the Covid-19 pandemic, what incentives did you face and how did you respond?

In some locales students and others faced incentives to wear a facemask, because if they did not wear a mask they could not legally enter particular stores and if they did so anyway, they might be fined. Some students and others faced the incentive to work remotely because that was the type of job being offered. Many students faced the incentive to take classes remotely because this was how almost all classes were offered.

4. Find an example of the distinction between microeconomics and macroeconomics in today's headlines.

Microeconomics: On June 17, 2021 a headline in *East Bay Times* was "The Housing Market Is So Hot Buyers Are Paying \$1 Million Over Asking Price." This story covers a microeconomic topic because it discusses how the choices of individuals and the interactions of the choices in the housing market have forced prices higher. Macroeconomics: On June 17, 2021, a headline in *The Wall Street Journal* was "Fed Pencils In Earlier Interest-Rate Increase." This story covers a macroeconomic topic because it concerns interest rates, which affects the national economy.

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1. Describe the broad facts about *what, how, and for whom* goods and services are produced.

What gets produced is significantly different today than in the past. Today the U.S. economy produces more services, such as medical operations, teaching, and hair styling, than goods, such as pizza, automobiles, and computers. How goods and services are produced is by businesses determining how the factors of production, land, labor, capital and entrepreneurship, are combined to make the goods and services we consume. Land includes all natural resources, both renewable natural resources such as wood, and nonrenewable natural resources such as natural gas. Labor's quality depends on people's human capital. In the U.S. economy, human capital obtained through schooling has increased over the years with far more people completing high school and attending college than in past years. Finally, for whom are goods and services to be produced depends on the way income is distributed to U.S. citizens. This distribution is not equal; the 20 percent of people with the lowest income earn about 5 percent of the nation's total income while the 20 percent of people with the highest incomes earn about 50 percent of

total income. On the average, men earn more than women, whites more than non-whites, and college graduates more than high school graduates.

2. Give some examples to illustrate the potential for conflict between self-interest and the social interest during the Covid-19 pandemic.

The decision whether to wear a facemask shows the potential conflict between self-interest and social interest. It was in the self-interest of some people to not wear a mask, possibly because they felt the mask was too constraining, but it was in the social interest to do so because it helped limit the spread of the disease. Similarly, it was in the self-interest of owners and employees of bars and restaurants to remain open at 100 percent capacity, but it was in the social interest to close them and, when they were allowed to reopen, to do so at a reduced capacity. It was in the self-interest of some parents to have their child (or children) attend school, perhaps because attendance helped the child learn or because the parents lacked daycare, but it was in the social interest to have schools closed and use remote classes.

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1. Explain the idea of a tradeoff and think of three tradeoffs that you have made today.

A tradeoff reflects the point that when someone gets one thing, something else must be given up. What is given up is the opportunity cost of whatever is obtained. Three examples of tradeoffs that are common to students include: a) When a student sleeps in rather than going to his or her early morning economics class, the student trades off additional sleep for study time. The opportunity cost of the decision is a lower grade on the exam. b) When a student running late for class parks his or her car illegally, the student trades off saving time for the risk of a ticket. The potential opportunity cost of the decision is the goods and services that cannot be purchased if the student receives an expensive parking ticket. c) A student trades off higher income by spending time during the day working at a part-time job for less time spent at leisure time and study. The opportunity cost for the higher income is less leisure and lower grades in classes.

2. Explain what economists mean by rational choice and think of three choices that you've made today that are rational.

A rational choice is one that compares the costs and benefits of the different actions and then chooses the action that has the greatest benefit over cost for the person making the choice. Three rational choices made by students include: a) The choice to skip breakfast to go to class. In this case the benefit is the higher grade in the class and the cost is the breakfast forgone. b) The choice to stop talking with a friend on the phone and start studying for an impending exam. In this case the benefit is the resulting higher grade in the class and the cost is the conversation forgone. c) The choice to do laundry today rather than watch television. In this case the benefit is the fact the student will have clean clothes to wear and the cost is the loss of the entertainment the television show would have provided.

3. Explain why opportunity cost is the best forgone alternative and provide examples of some opportunity costs that you have faced today.

When a decision to undertake one activity is made, often many alternative activities are no longer possible. Often these activities are mutually exclusive so only the highest valued alternative is actually forgone. For instance, the decision to go to a student's 8:30 AM class eliminates the possibility of sleeping in during the hour and of jogging during the hour. But in this case, it is impossible to *both* sleep in and to jog during the hour, so the opportunity cost cannot be both activities. What is lost is *only* the activity that otherwise would have been chosen—*either* sleeping in *or* jogging—which is whatever activity would have been chosen, that is, the most highly valued of the forgone alternatives. For students, attending class, doing homework, studying for a test are all activities with opportunity costs.

4. Explain what it means to choose at the margin and illustrate with three choices at the margin that you have made today.

Choosing at the margin means choosing to do a little more or a little less of some activity. Three common examples students encounter are: a) When a student faces a chemistry and an economics final exam in one