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Blue-Collar America  
 Immigration Programs  
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Sugar Regulation  
 Buy American  
 Thumbs Up or Down?  
 Promoting Trade

**CHAPTER 11**

Virtual Firms  
 Economic vs. Accounting  
 Costs  
 What's Fixed? What's  
 Variable?  
 Short-Run Cost Curves  
 Marginal Costs in the  
 Information Economy

**CHAPTER 12**

Cheap Labor  
 Economies of Scale  
 Entrepreneurship  
 Increasing the Scope  
 Moore's Law

**CHAPTER 13**

Barriers to Entry  
 Shutdown and Exit  
 Is It Perfect Competition or  
 Not?

**CHAPTER 14**

Divide and Conquer  
 Diamonds are Forever  
 The Best Monopoly in  
 America  
 Product Differentiation  
 Brand Names

**CHAPTER 15**

Price Fixing  
 Porter's Five Forces

**CHAPTER 16**

Executive Compensation  
 Creative Destruction  
 Regulating Natural  
 Monopolies  
 Networked Economies

**CHAPTER 17**

Who Works?  
 Leaving Home  
 Crowdsourcing  
 Faculty Hiring Bias  
 Laws or Contracts?

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 Distribution Data  
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**CHAPTER 19**

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 Veblen Goods  
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 Online Auctions  
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 Models in Movies

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# Microeconomics

NINTH EDITION

David C. Colander

Middlebury College

 McGraw-Hill  
Irwin



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# About the Author



# Preface for the Instructor

“Imagine . . . a textbook that students enjoy!”

That comment, from an instructor who taught at Purdue, was e-mailed to me as I was struggling to write the preface to an earlier edition. That comment still captures what I believe to be the most distinctive feature of the core of this edition. It speaks to students.

## An Entire Learning Platform

That comment continues to guide this edition. But because students today learn differently than they did twenty years ago, it does so in new ways. Students today grew up with the Internet and social media that provide them with access to a broad range of digital resources and instant feedback. That changes the way they learn, and if we are to reach them, we have to present material to them in ways that fit their learning style. They want to be able to bring their course with them—to access it anywhere, anytime—at a coffee shop in the afternoon, in their dorm room late at night, or at lunch hour at work. They still want material that speaks to them, but it has to speak to them in their language at the time they want to listen. Modern learning is blended learning in which online presentations, review and testing of material, and feedback are seamlessly blended with the narrative of the text.

The strengths of previous editions translate well in this new environment. Students don't want an automaton. They want a person who speaks to them, even if it is online. They don't differentiate a “virtual” world from a “real” world. Both are real and students seek the same thing in both—the presentation of material that engages them. And that's what I do. I tell stories. I use colloquial language, and I offer material that they read about in the newspaper—today's economic issues. The material speaks to them in ways that they can hear and enjoy.

A guiding principle of this edition has been to reach out to students in the digital language of online communication. To teach modern students effectively, we've got to get their attention and hold it, and digital tools give us that opportunity. That's why I've worked hard in this revision to provide the material that students can engage in a single, seamless, and fully digital product.

Embracing the digital environment has led to some significant pedagogical improvements. All of the content, including end-of-chapter questions, lines up directly with learning objectives. These learning objectives serve as the

organizational structure for the material. As a result, within McGraw Hill's online Connect Plus platform, students can learn the core building blocks online with instant feedback; instructors can assess student learning data and know what their students understand, and what they don't. With that information, they can devote class time to those issues with which students are having problems.

The end-of-chapter material has been revised for optimal online delivery: All of the standard questions and problems are auto-gradable and integrated with the eBook experience. Such integration allows students to move seamlessly between homework problems and portions of the narrative to get the information they need, when they need it. This is a significant advance in pedagogy. Now, even professors in large lecture classes can assign questions and exercises at the end of chapters and provide feedback to students at the point of need.

In addition to the standard questions and exercises at the end of every chapter I also provide a set of Issues of Ponder and Alternative Perspective Questions that have no “correct” answer, but instead are designed to get the students to think. In a blended learning environment, these are the questions that can form the basis for rich classroom discussions that engage the students with broad issues as much as the online material engages them with the building blocks. Classes become discussion and thinking time, not regurgitation and repetition time.

I am confident that the combination of the digital tools via Connect Plus, the modern material presented, and the colloquial style I have worked so hard to perfect will engage students in the ninth edition like never before. (Additional information about Connect is presented on p. xv.)

## Modern, Not Outdated 1950s Economics

You can have the best online platform and presentation in the world, but if the content isn't relevant or engaging, it serves little purpose. My goal is to present students with the best economics I can. That means that I want to teach *modern economics*, not neoclassical economics (or whatever else the collection of models that developed in the 1950s is called). That doesn't mean that I don't teach the traditional models; it just means that I integrate modern interpretations and insights with them. That approach makes the tone and format somewhat different

from the 1950s' tone and format of many competitors that make it seem as if economics hasn't changed in 60 years.

Why haven't competitors changed? Because it is really, really hard to deviate from the standard template developed in the 1950s. I fully recognize the difficulty. (After all I'm the one who coined the "15 percent rule" for revising textbooks.) I know and accept that if we are going to teach modern economics, it has to involve an evolutionary, not revolutionary, template. But recognizing the importance of the existing template is not a call for laziness and complacency in what we teach; it is a call for creativity. Economics has changed from what it was, and that means the content of the texts has to change as well. Texts that don't embrace that change are becoming more and more out-of-date.

If we are to consider ourselves serious teachers of economics, we can and should be doing whatever we can to teach students modern economics, not some vestige from the past. Over the past decade I have been working on ways to introduce modern economics into the principles course—trying different ideas on my students and colleagues and discovering what works and what doesn't. In the last edition I started to integrate modern economics into the standard principles template, and I continue that integration in this edition after getting useful comments from many of my users about the best way to do it.

One of the biggest problems that many people have pointed out with presenting students with the subtleties of modern economics is that many of their students are, shall we say, less-than-perfect students. I am not unaware of the nature of students—in fact I was one of those far-less-than-perfect students. I am no utopian; I am a realist who recognizes that many, perhaps most, students could care less about how economists think. They are taking the course because it is required, because their parents told them they had to, or because it was what fit in their schedule. That is the reality, and they are the students I'm writing for.

Why do I take this approach? Because I figure that if I can excite these marginal students about economics, I will likely also excite those more perfect, self-motivated students who professors dream of having in class. So my target student is a non-economics major who doesn't especially care about the content they are learning; he or she is much more likely to be concerned with what is going to be on the exam (and sometimes they don't even care about that). I regard this fact as liberating, not confining. It makes it even more important that we teach them modern economics, not a set of models from an outdated template. I want students to know TANSTAAFL, to know the strengths of markets, the weaknesses of markets, the importance of incentives, and why economic policy is so complicated and messy.

How does a teacher excite students who are less than excited about economics? My answer to that question is that

you challenge them, you talk to them, you speak a language that they can understand, and you recognize their pain. That's what I try to do. I will fail with many of them, but if I don't try, then I don't deserve to be called a teacher, which in my view is the highest calling an economist can have.

## A Student-Friendly Colloquial Style

To reach these less-than-perfect students, I convey ideas in a highly colloquial manner; I don't lecture students, or talk to them in textbookese; I talk to them in conversational English. I strongly believe that most students have the ability to understand economic concepts even though on exams it often appears as if they have serious problems. In my opinion, many of their problems in exams are not conceptual; rather, they are problems of motivation, reading, and math. The economics found in principles courses is not the student's highest priority; it certainly wasn't mine when I was 18. I'm continuously amazed at how many supposedly not-so-good students are conceptually bright. The reality is that most principles books bore this Internet generation. To teach them effectively, we've got to get their attention and hold it.

My colloquial style helps get their attention. It makes them feel that they are getting an additional tutor to back up the professor. This secondary tutor, while a bit of a pain in the ass at times, is at least human. That colloquial style helps with one of the biggest problems in the course—getting students involved with the material.

I get lots of e-mails from students—some ask me if I have sons who share my perverse sense of humor because they'd like to marry them; others tell me that I goofed somewhere in the book. Others complain about their professor—to which I answer the professor is always right. My point is not the content of the e-mails; my point is that students feel comfortable e-mailing and even phoning me. Students hear my voice in the book. It is the only economics textbook that establishes a connection with the student. To toot my own horn (what else are prefaces for?), let me share an e-mail that the publisher received from a friend of theirs (an insider to the publishing business) and that they forwarded to me. It said:

Dear X, My son is a freshman at The University of X. Like many kids he has grown to be less-and-less a reader until fairly recently. He is in the business school at college and he is wandering in search of an eventual major, like so many. He took the Principles Micro in the Fall and "hated" economics. On Monday he told me that his favorite course is Macro. His instructor is "not so helpful" but he is reading the

book and making straight A's because the book is "so much fun to read" and he is "learning a ton of stuff." He has registered for the WSJ online and reads it every day. He is thinking of pursuing Econ as a major. It is actually the most positive review by an "end user" of a text-book that I've heard in a long time and, although it took me three days to find out the author and publisher (he didn't know; he just liked reading the book), the book is the latest edition of Colander. So: Thanks!

One of the reasons I keep working on this book is that I get a number of letters and e-mails like this one, and it boosts my admittedly already big ego, but what is life if not a big ego trip? (Yes, I recognize that that last statement is not standard textbookese, but I include it here to give you a sense of what I mean by my colloquial style, and to explain to you how I keep the students' attention as I am pounding into them the need to equate marginal cost and marginal benefits.)

Numerous students tell me that they actually break a smile when they read my book, and a few tell me they crack up. Just about everyone tells me that they recognize that the person writing this book is very human—all too human in some people's view. My colloquial style allows me greater flexibility in the material I present to students than most textbook authors have. Because I'm having a conversation with the students, I can explain to them what material is new and is to be read casually rather than to be memorized. Then, elsewhere where I am presenting material that will likely be on their exam, I can tell them that it is time to buckle down and memorize. So my colloquial style allows me to vary the presentation and I take full advantage of it in explaining to students what modern economics is.

## Modern Critical Thinking Economics

Modern economics can mean different things to different people, and my interpretation of it centers around critical thinking. Modern economics is economics that is based on the traditional models, but that subjects them to critical thinking, and does not apply the models where they don't fit empirically. It focuses on the real world, rather than on abstract models.

To maintain that critical thinking approach, two principles stand out: (1) institutions and history are important in policy discussions and (2) good economics is open to dealing with all ideas. The mantra of modern critical thinking economics is, "Tell me something I don't already know, using whatever method works." Let me discuss each of these principles briefly.

## Institutions and History Are Important to Understand Policy

If one opens up Adam Smith's *Wealth of Nations*, John Stuart Mill's *Principles of Political Economy*, or Alfred Marshall's *Principles of Economics*, one will see economic analysis placed in historical and institutional context. The modern textbook template moved away from that, and in previous editions, I tried to return the principles of economics toward that broader template, presenting models in a historical and institutional context. This edition continues that emphasis on institutions and history. Modern work in game theory and strategic decision making is making it clear that the implications of economic reasoning depend on the institutional setting. To understand economics requires an understanding of existing institutions and the historical development of those institutions. In a principles course we don't have time to present much about history and institutions, but that does not preclude us from letting students know that we know that these issues are important. And that's what I try to do.

When I say that institutions and history are important, I am talking about economic policy. As I stated above, this text and accompanying package is *not* designed for future economics majors. Most principles students aren't going to go on in economics. I write for students who will probably take only one or two economics courses in their lifetime. These students are interested in policy, and what I try to present to them are the basics of modern economic reasoning as they relate to policy questions.

Because I think policy is so important in explaining how to apply economic reasoning, I utilize a distinction made by J.N. Keynes (John Maynard Keynes' father) and Classical economists generally. That distinction is between *theorems*—the deductive conclusions of models—and *precepts*—the considered judgments of economists about the policy implications of the models. I make it clear to students that models do not tell us what to do about policy—they give us theorems. Only when we combine the model's results with our understanding of institutions, our understanding of the social context, and the normative goals one wants to achieve, can we arrive at policy conclusions, which are embodied in precepts.

## Openness to Various Views

While I present modern economics, I present it in such a way that it is open to many different points of view. I don't present the material as "the truth" but simply as the conventional wisdom, the learning of which is a useful hurdle for all students to jump over. To encourage students to question conventional wisdom, the end of each chapter includes a set of questions—Questions



from *Alternative Perspectives*—written by economists from a variety of different perspectives. These include Post-Keynesian, feminist, Austrian, Radical, Institutional, and religious questions. The Radical questions come from the Dollars and Sense Collective, a group with whom I’ve worked to coordinate their readers ([www.dollarsandsense.org/bookstore.html](http://www.dollarsandsense.org/bookstore.html)) with this text. I also often integrate Austrian ideas into my class; I find that *The Free Market* ([www.mises.org](http://www.mises.org)) is a provocative resource.

I often pair an article in *The Free Market* with one in *Dollars and Sense* in my assignments to students for supplementary reading. Having students read both radical and Austrian views, and then integrate those views into their own, generally middle-of-the-road, views is, for me, a perfect way of teaching the principles course. (If I have radicals and libertarians in the class, I argue in favor of middle-of-the-road views.) If you like to teach the course emphasizing alternative views, you might want to assign the brief survey of different approaches to economics in the “Preface for the Student” close to the beginning of the course, and then have the students discuss the alternative perspective questions at the end of each chapter.

There are many other ways to teach this open view approach, and for shorter classes, I have students read the various chapters on their own, and then do a presentation or have a discussion in class of how they really feel about various policies. The idea is to engage students about policy and policy debates as part of the course.

## Teaching both Models and Critical Thinking

The goal in most principles courses is to teach students economic insights by presenting them a collection of models. Models are central to modern economics. Robert Solow nicely captured its importance when he said that, for better or worse, economics is a modeling science. This means that an important aspect of teaching students modern economics involves introducing them to the modeling approach to understanding the world. But teaching models, in my view, should be along the lines of Alfred Marshall, not Mas-Colell, Whinston, and Green. Marshall emphasized that economics was an approach to problems, not a body of confirmed truths.

In my view, *the modeling method, not the models*, is the most important to an economics class. In my presentation of models, I carefully try to guide students in the modeling method, rather than having them memorize truths from models. I carefully emphasize the limitations of the models and the assumptions that underlie them, and am constantly urging students to think beyond the models. This approach pushes the students a bit harder than the alternative, but it is, in my view, the

best pedagogical approach; it is the critical thinking approach.

## Changes in This Edition

I strongly believe that content has to be both up to date and relevant. Economic understanding and the economy in which we live are continually evolving. This means that course materials have to continually evolve as well so that they are teaching modern economics. For that reason, you will see many more changes in the text’s organization and presentation than you will see in other long-standing principles texts. This is not a “change a few words here and there” revision. This is a substantial revision. They are changes that will keep your teaching fresh and engaging. The first change is obvious: All data, institutional detail and policy discussion had to be brought up to date. But that was only the beginning.

The biggest change in the micro section is how it is organized. The guiding principles were to simplify the presentations so that the text is more accessible, and to get policy discussion up front so that students see the relevance of economics early on. That meant moving the discussions of choice theory, game theory, and behavioral economics to later sections in the text, and moving the discussion of trade policy, market failure, and government failure up earlier in the text.

In revising, I use my students as sounding boards, and one of them reported back to me that “these chapters were a sudden jolt of reality; they were addictive; I couldn’t put them down until I had finished them.” He had multiple questions, as I suspect most readers will. So, if you want to teach students about the problems currently facing the economy—problems that students read on the Internet and in the newspapers—then this text is for you.

## In-Depth Chapter-by-Chapter Discussion of Changes

Major changes include:

### Chapter 1, Economics and Economic Reasoning

Deleted the discussion of induction, deduction, and abduction to simplify the presentation.

### Chapter 2, The Production Possibility Model, Trade, and Globalization

The discussion of opportunity costs and its relationship to tradeoffs has been clarified. The “combined PPC with trade” diagram has been removed to simplify the discussion. The presentation now includes two simple graphs, each showing the production possibility curve for one country. The discussion allows the identification of a new level of possible consumption based on trade for each country separately.



I changed the discussion of outsourcing so it fits better with the broader term, “globalization.” The issues go beyond U.S. companies moving production abroad and include the impact of global competition for U.S. firms, including shutting down U.S. production as well as retooling into more competitive sectors. This sets the stage for an expanded discussion of globalization throughout the text.

### Chapter 3, Economic Institutions

I simplified the discussion of evolving economic systems by cutting the discussion of feudalism, mercantilism, and the Industrial Revolution. These topics are covered in the chapter’s appendix. I added a discussion of for-profit corporations, a rising form of business that includes social goods along with profit in their charters. I added a new box, “Who Are the 1 Percent” to include recent conversations in the Occupy Movement.

### Chapter 4, Supply and Demand

I focused the discussion of the shift factors of supply on technology, while continuing to list the same four from the eighth edition.

### Chapter 5, Using Supply and Demand

I replaced the example of the effect of Cyclone Larry with the more recent example of Hurricane Irene. I moved the discussion of the determination of exchange rates to Chapter 9, “Comparative Advantage, Exchange Rates, and Globalization.”

### Chapter 6, Describing Supply and Demand: Elasticities

This is Chapter 7 from the eighth edition. I deleted the box, “Calculating Elasticity at a Point,” so that students can focus on the calculation using the average between two points. I cut the section “Substitution and Supply” and cut the detailed tables listing estimates of elasticities and provided a few examples. Finally, I eliminated the specific calculations illustrating the advanced topic: effect of shifting supply and demand based on relative elasticities of supply and demand.

### Chapter 7, Taxation and Government Intervention

This is eighth edition Chapter 8. It has been updated, but otherwise is similar.

### Chapter 8, Market Failure versus Government Failure

This is eighth edition Chapter 21. It has been moved up so policy can be discussed earlier. I added short discussions about the moral hazard problem and screening in the section about informational problems.

### Chapter 9, Comparative Advantage, Exchange Rates, and Globalization

This chapter is based on the first part of Chapter 9 in the eighth edition and now incorporates material about exchange rates. Much of the institutional and data discussion about government policy is moved to Chapter 10. I added a number of new concepts to the chapter, including exchange rate determination and the distributional effects of international trade. It discusses how international adjustment are “supposed” to work in theory, but it also discusses how reality often does not quickly adjust, causing complications for economies when trade flows are unequal. It introduces the concept of import-led stagnation as the mirror image of export-led growth.

### Chapter 10, International Trade Policy

This chapter looks more closely at trade and trade policy, and is based on portions of the eighth edition Chapter 9.

### Chapter 11, Production and Cost Analysis I

This is eighth edition Chapter 12. It has been updated, but otherwise is similar. Some of the graphs have been simplified.

### Chapter 12, Production and Cost Analysis II

This is eighth edition Chapter 13 updated. I added a short discussion of for-profit corporations.

### Chapter 13, Perfect Competition

This is eighth edition Chapter 14. I shortened the discussion of the condition for perfect competition, and streamlined the presentation so that the discussion of marginal revenue facing the perfect competitive firm follows immediately from the conditions for perfect competition.

### Chapter 14, Monopoly and Monopolistic Competition

This chapter now presents both monopoly and monopolistic competition, drawing material from eighth edition Chapters 15 and 16. This allows for a significantly shortened presentation of antitrust policy that is integrated with the oligopoly chapter. I also added a graphical presentation of how price-discriminating monopolists eliminate welfare loss.

### Chapter 15, Oligopoly and Antitrust Policy

This chapter combines the eighth edition Chapter 16 presentation of oligopoly and the Chapter 18 discussion of antitrust policy. I significantly simplified the antitrust portion of the chapter.

### Chapter 16, Real-World Competition and Technology

This is eighth edition Chapter 17 updated, but otherwise largely unchanged.

### Chapter 17, Work and the Labor Market

This is eighth edition Chapter 19 updated, but otherwise largely unchanged.

### Chapter 18, Who Gets What? The Distribution of Income

This is eighth edition Chapter 20 updated, but otherwise largely unchanged. I added a discussion of the effect of globalization on the distribution of income across industries and classes of workers.

### Chapter 19, The Logic of Individual Choice: The Foundation of Supply and Demand

This is eighth edition Chapter 10, which is updated.

### Chapter 20, Game Theory, Strategic Decision Making, and Behavioral Economics

This is eighth edition Chapter 11 repositioned later in the text.

### Chapter 21, Thinking Like a Modern Economist

This is eighth edition Chapter 6, which is updated, but other than being repositioned, it is largely unchanged.

### Chapter 22, Behavioral Economics and Modern Economic Policy

This is the same chapter as the eighth edition. It is updated but is largely unchanged.

### Chapter 23, Microeconomic Policy, Economic Reasoning, and Beyond

This is the same chapter as the eighth edition. It is updated, but largely unchanged.

## Key Pedagogical Features

### Learning Objectives

Four or five learning objectives are presented at the beginning of each chapter and are referenced again in the summary and end-of-chapter review questions and exercises to which they relate. The learning objectives (LO) serve as a quick introduction to the material and concepts to be mastered before moving to the next chapter. All of the assignable content within Connect is also organized around learning objectives to make it easier to plan, track, and analyze student performance across learning outcomes.

### Margin Comments

Located throughout the text in the margin, these key takeaways underscore and summarize the importance of the material, at the same time helping students focus on the most relevant topics critical to their understanding.

### Margin Questions

These self-test questions are presented in the margin of the chapter to enable students to determine whether the preceding material has been understood and to reinforce understanding before students read further. Answers to Margin Questions are found at the end of each chapter.

WWW Web Note

### Web Notes

Jenifer Gamber has updated the Web Notes; this feature extends the text discussion onto the web. Web Notes are denoted in the margin and are housed on the Online Learning Center at [www.mhhe.com/colander9e](http://www.mhhe.com/colander9e) and within Connect Plus.



### Podcasts

Written and recorded by Robert Guell of Indiana State University, more than 50 three- to five-minute audio clips delve deeper into the concepts. The audio clips (and summaries) occur throughout the text wherever you see the iPod icon in the margin. The podcasts are also housed on the Online Learning Center at [www.mhhe.com/colander9e](http://www.mhhe.com/colander9e) and within Connect Plus.

## Supplements

McGraw-Hill has established a strong history of top-rate supplements to accompany this text, and this ninth edition strives to carry on the tradition of excellence.

### For the Instructor

The following ancillaries are available for quick download and convenient access via the Online Learning Center at [www.mhhe.com/colander9e](http://www.mhhe.com/colander9e) and within Connect Plus. Both are password protected for security.

#### Instructor's Manual

This text boasts one of the strongest Instructor's Manuals on the market. Paul Fisher of Henry Ford Community College worked incredibly hard to maintain the high standard set in previous editions. Elements include:

- *Learning Objectives*: Lists the learning objectives for each chapter for a quick review.

- *Teaching Objectives:* Alerts new professors to common student difficulties with the material and provides help for addressing them.
- *For Professors New to Colander:* Notes some of the names, notations, definitions, and symbols that Colander uses as compared to other products to help professors transition into this product.
- *Problem Sets with Solutions:* Additional questions for each chapter are included here. They are designed to be photocopied and distributed for student use.

### Solutions Manual

Prepared by Jenifer Gamber and me, this manual provides answers to all end-of-chapter questions—the Questions and Exercises, Questions from Alternative Perspectives, and Issues to Ponder.

### Test Banks

The test bank contains thousands of unique quality questions for instructors to draw from in their classrooms. Brian Lynch of Lakeland Community College and Timothy Terrell of Wofford College worked diligently to make sure that this revised version is clear and useful. Each question is categorized by learning objective, level of difficulty, economic concept, AACSB learning categories, and Bloom’s Taxonomy objectives. Questions were reviewed by professors and students alike to ensure that each one was effective for classroom use. All of the test bank content is available for assigning within Connect.

### Computerized Test Banks

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### PowerPoint Presentations

Shannon Aucoin of the University of Louisiana at Lafayette and Edward Gullason of Dowling College worked tirelessly to revise the PowerPoint slide program, animating graphs and emphasizing important concepts. Each chapter has

been scrutinized to ensure an accurate, direct connection to the text.

## For the Student

### Online Learning Center

**[www.mhhe.com/colander9e](http://www.mhhe.com/colander9e)**

This Online Learning Center provides a number of useful study tools including practice quizzes, a set of study PowerPoints, Web Notes, and web chapters. Premium content is also available for purchase. The premium content contains podcasts and Paul Solman videos, which are downloadable to MP3 devices.

### Study Guide

The study guide—written by Jenifer Gamber and me—provides a review of the concepts from each chapter. It gives students options to match a variety of learning styles: short-answer questions, matching terms with definitions, problems and applications, multiple-choice questions, and potential essay questions. To make the guide a true study tool, each answer includes an explanation of why it is correct.

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- Enables you to assess which concepts students have efficiently learned on their own, thus freeing class time for more applications and discussion.

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## People to Thank

Let me conclude this preface by thanking the hundreds of people who have offered suggestions, comments, kudos, and criticism on this project since its inception. This book would not be what it is without their input. So many people have contributed to this text in so many ways that I cannot thank everyone. So, to all the people who helped—many, many thanks. I specifically want to thank the ninth edition reviewers, whose insightful comments kept me on track. Reviewers include:

John Abell <i>Randolph College</i>	Joan Buccino <i>Florida Southern College</i>	Diana Denison <i>Red Rocks Community College</i>	Jannett Highfill <i>Bradley University</i>
Rose-Marie Avin <i>University of Wisconsin, Eau Claire</i>	Douglas Bunn <i>Blackburn College</i>	Liang Ding <i>Macalester College</i>	Reza Hossain <i>Mount Saint Mary College</i>
John Beck <i>Gonzaga University</i>	Eric Burns <i>Herbert W. Armstrong College</i>	Justin Dubas <i>Texas Lutheran University</i>	Jack Hou <i>California State University—Long Beach</i>
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Susan Bell <i>Seminole State College of Florida</i>	Kaycea Campbell <i>West Los Angeles Community College</i>	Doug Fain <i>Regis University</i>	Miren Ivankovic <i>Anderson University</i>
Randall Bennett <i>Gonzaga University</i>	Regina Cassady <i>Valencia County College</i>	Christine Farrell <i>University of the Ozarks</i>	Donna Rue Jenkins <i>National University</i>
Tami Bertelsen <i>Arapahoe Community College</i>	Suparna Chakraborty <i>Baruch College</i>	Lucia Farriss <i>Saint Leo University Center for Online Learning</i>	Paul Jones <i>National University</i>
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John Blair <i>Wright State University</i>	Lisa Citron <i>Cascadia Community College</i>	Shelby Frost <i>Georgia State University</i>	Jonathan Kaplan <i>California State Sacramento</i>
John Boschen <i>College of William &amp; Mary</i>	Jennifer Clark <i>Roosevelt University</i>	Julie Galloway <i>Missouri State University</i>	Michele Kegley <i>Southern State Community College</i>
Taggart Brooks <i>University of Wisconsin—La Crosse</i>	George Darko <i>Tusculum College</i>	Karen Gebhardt <i>Colorado State University</i>	Logan Kelly <i>Bryant University</i>
Keith Brouhle <i>Grinnell College</i>	Dennis Edwards <i>Coastal Carolina University</i>	Scott Gilbert <i>Southern Illinois University—Carbondale</i>	Farida Khan <i>University of Wisconsin, Parkside</i>
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		Mehdi Haririan <i>Bloomsburg University</i>	Paul Kubik <i>DePaul University</i>
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I have hired numerous students to check aspects of the book, to read over my questions and answers to questions, and to help proofread. These include Kelly Liss, Anne Sexton Powers, Taran Jondaro, Alexander Veerman, Andrew Vollmer, Elena Zhang, Emily Duh, Olivia Lau, William Gamber, and Samatha Gluck. I thank them all.

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# Preface for the Student: Alternative Perspectives

This text is written for you, the student. It's meant to give you a sense of what economics is, how economists think, and how they approach policy problems. There's only so much that an introductory course can cover, which means that much is left out. That includes much of the subtlety of economic thinking. So if you have a problem swallowing some of the ideas, and you believe that there's more to the issue than is presented here, rest assured; generally you're right. Hard choices have to be made for pedagogical purposes—issues have to be simplified and presentations curtailed. Otherwise this would be a 1,600-page book and much too heavy to carry around in a backpack.

## Economics as a Method of Reasoning, Not the Truth

The approach I use is what would be called mainstream (it presents the conventional wisdom of economists) both because I'm mainstream and because most economists are as well. But pedagogically, I also believe that students learn by questioning—to say, no, that's not right, that's not the way I see things, and then to compare their way of thinking with the conventional way. Despite my being mainstream, I'm by nature also a skeptic, and in terms of pedagogy often find myself in sympathy with Joan Robinson, a famous economist, who argued that “the purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.” So, to encourage questioning everything, I don't present models and insights of economists as the truth (the field of economics is far too complicated to have arrived at a single truth) but as a set of technical hurdles, reasoning processes, and arguments that students should know, and that will help prepare them to deal with economic issues. Economics primarily teaches you how to approach problems; it does not provide definitive answers about what is right and what is wrong. It is a method, not a set of truths.

## Alternative Perspectives in Economics

One of the pedagogical choices I made was to concentrate almost exclusively on the mainstream

view. I strongly believe that focusing on that view is the best way to teach the course. However, I also believe that students should be aware of the diversity in economics and know that the mainstream view is not the only view out there. In fact, there are probably as many views out there as there are economists. Still, for a majority of economists, the concepts presented are an acceptable pedagogical simplification of the myriad views held by economists.

Some economists, however, might see this presentation as misleading, or as diverting the discussion away from other, more relevant, issues. These economists are generally called nonmainstream or heterodox economists. A heterodox economist is *one who doesn't accept the basic underlying model used by a majority of economists as the most useful model for analyzing the economy*.

In this preface, I will briefly introduce six heterodox economic approaches to give you a sense of how their analyses differ from the mainstream analyses presented. The six heterodox approaches are Austrian, Post-Keynesian, Institutionalist, Radical, feminist, and religious. Below are brief descriptions of each group, written with the help of the team of alternative-perspective economists.

### Austrian Economists

Austrian economists believe in methodological individualism, by which they mean that social goals are best met through voluntary, mutually beneficial interactions. Lack of information and unsolvable incentive problems undermine the ability of government to plan, making the market the best method for coordinating economic activity. Austrian economists oppose state intrusion into private property and private activities. They are not economists from Austria; rather, they are economists from anywhere who follow the ideas of Ludwig von Mises and Friedrich Hayek, two economists who were from Austria.

Austrian economists are sometimes classified as conservative, but they are more appropriately classified as libertarians, who believe in liberty of individuals first and in other social goals second. Consistent with their views, they are often willing to support what are sometimes considered radical ideas, such as legalizing addictive drugs or eliminating our current monetary system—ideas that

most mainstream economists would oppose. Austrian economists emphasize the uncertainty in the economy and the inability of a government controlled by self-interested politicians to undertake socially beneficial policy.

One proposal of Austrian economists will give you a flavor of their approach. That proposal is to eliminate the Federal Reserve System and to establish a free market in money—a policy that would leave people free to use any money they want and that would significantly reduce banking regulation. In a sense, their proposal carries the Classical argument in favor of *laissez-faire* to its logical conclusions. Why should the government have a monopoly of the money supply? Why shouldn't people be free to use whatever money they desire, denominated in whatever unit they want? Why don't we rely upon competition to prevent inflation? Why don't we have a free market in money? Well-known Austrian economists include Peter Boettke, Veronique de Rugy, Mario Rizzo, David Gordon, Israel Kirzner, Peter Leeson, Chris Coyne, Steve Horwitz, Roger Garrison, and Roger Koppl.

### Institutionalist Economists

Institutionalist economists argue that any economic analysis must involve specific considerations of institutions. The lineage of Institutionalist economics begins with the pioneering work of Thorstein Veblen, John R. Commons, and Wesley C. Mitchell. Veblen employed evolutionary analysis to explore the role of institutions in directing and retarding the economic process. He saw human behavior driven by cultural norms and conveyed the way in which they were with sardonic wit and penetrating insight, leaving us with enduring metaphors such as the leisure class and conspicuous consumption. Commons argued that institutions are social constructs that could improve general welfare. Accordingly, he established cooperative investigative programs to support pragmatic changes in the legal structure of government. Mitchell was a leader in developing economics as an empirical study; he was a keen observer of the business cycle and argued that theory must be informed by systematic attention to empirical data, or it was useless.

Contemporary Institutionalists employ the founders' "trilogy"—empirically informed evolutionary analysis directed toward pragmatic alteration of institutions shaping economic outcomes—in their policy approach. Examples include indicative planning—a macroeconomic policy in which the government sets up an overall plan for various industries and selectively directs credit to certain industries; and income support programs, including those assuring employment for all willing. Well-known

Institutionalists include Greg Hayden, Geoff Hodgson, Anne Mayhew, James Peach, and Ronnie Phillips.

### Radical Economists

Radical economists believe substantial equality-preferring institutional changes should be implemented in our economic system. Radical economists evolved out of Marxian economics. In their analysis, they focus on the lack of equity in our current economic system and on institutional changes that might bring about a more equitable system. Specifically, they see the current economic system as one in which a few people—capitalists and high-level managers—benefit enormously at the expense of many people who struggle to make ends meet in jobs that are unfulfilling or who even go without work at times. They see the fundamental instability and irrationality of the capitalist system at the root of a wide array of social ills that range from pervasive inequality to alienation, racism, sexism, and imperialism. Radical economists often use a class-oriented analysis to address these issues and are much more willing to talk about social conflict and tensions in our society than are mainstream economists.

A policy favored by many Radicals is the establishment of worker cooperatives to replace the corporation. Radicals argue that such worker cooperatives would see that the income of the firm is more equitably allocated. Likewise, Radical theorists endorse policies such as universal health care insurance that conform to the ethic of "putting people before profits."

There are a number of centers of Radical thought, including The Political Economy Research Institute, The New School for Social Research, and some campuses of the University of Massachusetts. A good place to find Radical views is the *Dollars and Sense* magazine. Well-known Radical economists include Lourdes Beneria, Sam Bowles, Arthur MacEwan, Robert Pollin, Gerald Epstein, Anwar Shaikh, Michael Reich, Richard Wolff, and Stephen Resnick, as well as a number of feminist economists who would be considered both Radicals and feminists.

### Feminist Economists

Feminist economics offers a substantive challenge to the content, scope, and methodology of mainstream economics. Feminist economists question the boundaries of what we consider economics to be and examine social arrangements surrounding provisioning. Feminist economists have many different views, but all believe that in some way traditional economic analysis misses many important issues pertaining to women.

Feminist economists study issues such as how the institutional structure tends to direct women into certain

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