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To Susan — for encouraging me to find my voice.

A.J.C.
About the Author

Avi J. Cohen

Avi J. Cohen is Professor of Economics at York University and at the University of Toronto. He has a PhD from Stanford University; is a Life Fellow of Clare Hall, University of Cambridge; and is past Co-Chair of the Canadian Economics Association Education Committee.


Professor Cohen is co-author of the best-selling *Study Guide* that accompanied the first eight editions of Parkin/Bade’s *Economics.* He is the winner of numerous teaching awards, including Canada’s most prestigious national award for educational leadership, the 3M Teaching Fellowship.
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I wrote Economics for Life to show you how to use economic ideas to make smart choices in life. I focus on core concepts that you can use regularly, to make smart choices in your life as a consumer, as a businessperson, and as an informed citizen.

You, like most people, are probably not interested in economic concepts for their own sake. This book is not designed to train you as an economist. Instead, my goal is to present important ideas, concepts, and decision-making strategies — based on an economic way of thinking — that will help you be more successful throughout life. The stories in the book reflect real-life situations. You will, I hope, quickly see how you can make yourself better off by learning the economic lessons they contain.

The Three Keys shown are at the heart of making smart choices and are at the heart of this book. You can always spot them by the key icon in the margin.

You will first learn about the Three Keys to Smart Choices in Chapter 1, and they will reappear many times. The Three Keys are like a map, helping you choose a direction to take at decision points — forks in the road. When you face a decision, they focus your attention on the information that is most useful to making your smart choice.

If you learn to use the three keys well and start making smarter choices in life, then I will have done my job well and you will have gained strong tools in your quest for success. If you do not enjoy reading this book or do not learn to make smarter choices in life, then I will have failed.

The only way for me to know how close I’ve come to achieving the goal of helping you make smart choices is to hear from you. Let me know what works for you in this book — and, more importantly, what doesn’t. You can write to me at avicohen@yorku.ca. In future editions I will acknowledge by name all students who help improve Economics for Life.

Now start learning how economics will help you make smarter choices in life!

Professor Avi J. Cohen
Economics
York University
University of Toronto

P.S. Your first smart choice will be to read the tour of the features in the book to find out how you can get the most out of your textbook.
Learning Objectives

Learning objectives are repeated at the beginning of each main section of every chapter and provide an important reminder of what you will learn in each section.

Features of This Book

Welcome to Microeconomics for Life: Smart Choices for You. This tour of your textbook is designed to help you use this book effectively and complete your course successfully.

Chapter Opener

Every chapter begins with a two-page spread. These two pages set the theme for the chapter. Like a trailer for a movie, this opening spread gives you a preview of what is coming and prepares you for the “feature presentation.”

Every chapter has a title and a subtitle. The main title summarizes the content of the chapter in plain language. The subtitle for the chapter is in the language economists use when referring to the concepts.

Every chapter is divided into main sections, and each of these sections is accompanied by a learning objective. The learning objective describes what you will have learned after reading each section. Once you have read the chapter, you can review these learning objectives to test your understanding of the chapter material.

Every chapter begins with an overview that introduces you to the main ideas and themes in the chapter. This introduction connects the economic principles discussed in the chapter to the choices and decisions you make in your everyday life.

Put Your Money Where Your Mouth Is: Weighing Benefits, Costs, and Substitutes

You just finished an intense workout at the gym and desperately want something to drink. You usually bring along your favourite Gatorade (which costs $3 a bottle), but today you forgot it. The snack bar has bottled water and juice, but no Gatorade.

Your buddy, who is always trying to make a buck, says, “I have a bottle of what you want — how much will you pay for it?”

Besides wondering if this guy is really a buddy, what do you think about to decide how much you are willing to pay him? Obviously, how thirsty you are and how much you expect to feel from the drink matter a lot. But just because you badly want Gatorade doesn’t mean you will pay $10 for the bottle.

What are your alternatives? You could buy a water or pay $2, but they don’t have the electrolytes for your muscles that Gatorade does. You could drink water from the tap at the locker room for free. You could head home and drink the bottle you forgot, or head to a store to buy your Gatorade for $3.

You decide you so want the Gatorade now that you are willing to make an offer. You know your entrepreneurial buddy won’t take less than the $3 he paid for the bottle, so you are willing to pay $4. You make the purchase.
Special Features

bally you want it plays a role. But just as important is what your alternative choices are. There are substitutes for everything — water for Gatorade, a yoga class for a gym workout, long underwear or a move to Florida for winter costs. Substitutes need not be exactly the same product or service. Substitutes just have to basically satisfy the same want. For any choice, what you are willing and able to pay, or to give up, depends on what substitutes are available, and what they cost.

The final factor determining how much you are willing and able to give up is how much you can afford. Are you able to pay the price of the product or service you want? Can you afford to take the time to relax all evening when you have a test tomorrow?

The list of things we want is endless. But the choices we actually make reflect our willingness — and ability — to give up something in exchange. Economists use the term demand to describe consumers’ willingness and ability to pay for a particular product or service. Demand is not just what consumers want. You must pay your money (or time) when your mouth is in order to demand a product or service. And those demands, or choices, are smart choices only when expected benefits are greater than opportunity costs.

Refresh

The Refresh feature provides three questions that require you to review and apply the concepts in the preceding section. These questions give you the opportunity to assess your understanding of the principles developed in the section. Answers to these questions are located on MyEconLab (www.myeconlab.com) that accompanies this book.

Key Terms

Key terms are bolded in the text where they first appear, and definitions for key terms are in the glossary at the end of the book.

Economics Out There

These feature boxes provide real-world examples of the economic principle being discussed. The stories told in Economics Out There help you make connections between the concepts in the chapter and everyday life.
Three Keys Icon

In keeping with the theme of making smart choices, you will also find an icon in the margin beside text that discusses the Three Keys to Smart Choices. The key (or keys) being discussed is indicated by the number on the key icon.

Notes

In the margin, you will see notes that provide a quick explanation of the idea, concept, or principle being discussed in the narrative.

Study Guide

CHAPTER 2 SUMMARY

2.1 Put Your Money Where Your Mouth Is: Weighing Benefits, Costs, and Substitutes

Your willingness to buy a product or service depends on your ability to pay, comparative benefits and costs, and the availability of substitutes.

- Preference — your wants and their intensity.
- Demand — consumers’ willingness and ability to pay for a particular product or service.
- For any choice, what you are willing to pay or give up depends on the cost and availability of substitutes.

2.2 Living on the Edge: Smart Choices Are Marginal Choices

Key 2 states, “Count only additional benefits and additional costs.” Additional benefits mean marginal benefits — not total benefits — and marginal benefits change with circumstances.

- Marginal benefit — the additional benefit from a choice, changing with circumstances.
- Marginal benefit explains the diamond/water paradox. Why do diamonds cost more than water, when water is more valuable for survival? Diamonds are more abundant, marginal benefit is low. Because diamonds are scarce, marginal benefit is high.

2.3 Move On When the Price Isn’t Right: The Law of Demand

The demand curve combines two forces — switch to substitutes, willingness and ability to pay — determining quantity demanded, and can be read as a demand curve as a marginal benefit curve.

- Quantity demanded — the amount you actually plan to buy at a given price.
- Market demand — the sum of demands of all individuals willing and able to buy a particular product or service.

- Law of demand — if the price of a product or service rises, quantity demanded decreases. Other things remaining the same.
- Demand curve — shows the relationship between price and quantity demanded, other things remaining the same.

2.4 Moving the Margins: What Can Change Demand?

Quantity demanded changes only with a change in price. All other influences on consumers’ choice change demand.

- Demand is a catch-all term summarizing all possible influences on consumers’ willingness and ability to pay for a particular product or service.
- Increase in demand — increase in consumers’ willingness and ability to pay. Rightward shift of demand curve.
- Decrease in demand — decrease in consumers’ willingness and ability to pay. Leftward shift of demand curve.

A change in demand affects available resources. For example, demand increases with:
- increase in preferences.
- increase in price of a substitute.
- increase in income for normal goods.
- increase in income for inferior goods.
- a fall in price of a complement.

A change in quantity demanded affects what you buy. For example, demand increases with:
- increase in expected future prices.
- increase in number of consumers.
Using Your Textbook to Achieve Success in Your Course

This textbook is set up for your success. Each element is designed to help you organize, understand, and learn the material efficiently and easily. Here is a four-step guide to being successful in this course.

1: Fully understand the learning objectives

The learning objectives in each chapter are presented in the chapter opener and repeated in the margin at the beginning of each section of the chapter. If you can do what each learning objective asks, you will understand what is most important in each section. These learning objectives are the core of the course. Master these and you have mastered the course. The most important point in each section — a one- to two-sentence summary of what each learning objective asks — appears in red after each section head in the Study Guide’s Chapter Summary.

True/False Questions

There are 15 true/false questions, organized by learning objective. The heading next to each learning objective number gives you the topic of the questions that follow. Each question is answered at the end of the book, with a brief explanation.

Multiple Choice Questions

There are 15 multiple choice questions organized by learning objective. The heading next to each learning objective number gives you the topic of the questions that follow. Each question is answered at the end of the book, with a brief explanation.
2: Check your understanding of the learning objectives

At the end of each complete section, there are three questions titled Refresh. When you complete a section, take the 5 to 10 minutes required to answer the Refresh questions. These questions are designed for you to assess how well you have mastered the learning objective. They will help you make sure you understand what is important.

Research shows that small quizzes help students get higher grades and retain more of what they learn than spending the same amount of time highlighting and rereading material.

3: Complete the Study Guide material

After finishing the chapter, complete the Study Guide pages — it will save you study time and reinforce what you have mastered. The Study Guide is divided into two main sections, a chapter summary and a set of exam-like questions.

**Chapter Summary** The Chapter Summary contains the key points you need to know. It is organized using the same major sections as the chapter. The first item in red under each section head is the most important point in that section. The Chapter Summary is an excellent study aid for the night before a test. It’s a final check of the ideas — the learning objectives — you have studied.

**Exam-Like Questions** Do the true/false and multiple-choice questions *without looking at the answers*. This is the single most important tip for profitably using the Study Guide. Struggling for the answers to questions you find challenging is one of the most effective ways to learn. The athletic saying of “No pain, no gain” applies equally to studying. You will learn the most from right answers you have had to struggle for and from your wrong answers and mistakes. Look at the answers only after you have attempted all the questions. When you finally do check the answers, be sure to understand where you went wrong and why your right answers are right.

4: Know it before you go on

Master each chapter by taking the above actions *before* moving on. Feel confident that you understand the chapter’s objectives. By following this simple four-point plan you will be making a smart choice for learning, and you will do well in the course.
When people ask me what I do, I say, “I teach Economics.” While I am a full professor at two universities, a productive academic with an active research program (past president of the History of Economics Society) and honourable service commitments to my schools, my professional identity is largely tied to my teaching.

As a young assistant professor, the immortality of publishing articles in journals that would forever be in libraries was an important goal. But over time, I came to realize how few people would read those articles, let alone be affected by them. Most of my, and I suspect your, “academic footprint” on this earth will be through our students. Over a career, we teach tens of thousands students.

As economists and teachers, what do we want our lasting “economic footprint” to be? There is a wonderful old Saturday Night Live skit by Father Guido Sarducci called “The Five Minute University” ([http://www.youtube.com/watch?v=kO8x8eoU3L4](http://www.youtube.com/watch?v=kO8x8eoU3L4)). Watch it. His premise is to teach in five minutes what an average college or university graduate remembers five years after graduating. For economics, he states it’s the two words “supply and demand.” That’s it.

The serious question behind the skit, the one that motivates this book, is “What do we really want our students to remember of what we teach them in an introductory economics class?”

The vast, vast majority of students in introductory economics never take another economics course. Economics for Life is designed to help those students learn what they need to know to be economically literate citizens. If we can teach students the fundamentals of thinking like an economist, they will be equipped to make smarter choices in their lives as consumers, as businesspeople, and as citizens evaluating policies proposed by politicians.

For microeconomics, the essentials are grounded in the Three Keys to Smart Choices, which form the core of Microeconomics for Life: Smart Choices for You.

**Key 1:** Choose only when additional benefits are greater than additional opportunity costs.

**Key 2:** Count only additional benefits and additional opportunity costs.

**Key 3:** Be sure to count all additional benefits and costs, including implicit costs and externalities.

We can teach all topics in micro with those three keys.
Because economists disagree far more about macroeconomics than microeconomics, I incorporated that disagreement into the core of the macro textbook as "the fundamental macroeconomic question."

If left alone by government, do the price mechanisms of market economies adjust quickly to maintain steady growth in living standards, full employment, and stable prices?

Not only do economists disagree over the answer to this question, so do the politicians our students will be voting for, for the rest of their lives. I believe the essential macroeconomic concepts students must know in order to answer that question for themselves — the macroeconomics they need to know as citizens — are included in Macroeconomics for Life: Smart Choices for All?

Focusing on essential concepts means letting go of many of the more technical concepts and tools that most introductory courses include to prepare students to become economics majors. I consider these exclusions to be a major strength of the textbooks. The excluded concepts detract from the student's accepting the value of the basic economic analysis that will enhance her decision-making throughout her life. As one strays beyond the core concepts and stories set out in Economics for Life, diminishing returns set in rapidly.

It is far more valuable, I believe, for students to understand and apply the core economic concepts well than to be exposed to a wide range of concepts they will not master and therefore will likely soon forget.

Economics for Life is also designed to get students interested in economics as a way of thinking that will help them make smarter choices in their lives. Concepts are not presented as theoretical ideas that must be learned in isolation, or as formulas for a set of problems. Instead, each chapter begins with a scenario, and the concepts emerge logically as the narrative unfolds.

**Vision (and Graphs) for the Second Edition**

The first edition had narratives based on tables of numbers — implicit graphs — but very few graphs. The second edition makes these implicit graphs explicit. The addition of simple demand and supply graphs and production possibilities frontiers fits smoothly into the existing flow of the book's narrative, providing the students an additional powerful tool for their understanding of the material. Graphs now appear in chapters on demand and supply, rent controls and minimum wages, explanation of choosing output where marginal revenue equals marginal cost, externalities, labour-hiring decisions, and in the macro text, in chapters on aggregate demand and aggregate supply (complete with output gaps and shocks), and the money, loanable funds and foreign exchange markets.

The vision of focusing on the core economic concepts remains the foundation of the second edition. There are still no indifference curves or detailed models of market structure in micro. Although I believe that the many detailed firm cost curves are not core concepts (once students master marginal cost and marginal revenue), for those who want to teach the complete model of perfect competition, there is a concise treatment in the new Appendix to Chapter 9. (Contact me if you would like to discuss my reasons for excising cost curves beyond marginal cost.) In macro there are no derivations of aggregate demand from the aggregate expenditure model, detailed multiplier formulas (whether spending, tax, transfer, or money) or aggregate production functions.
Micro still focuses on the Three Keys for Smart Choices, and the macro narrative focuses on using the expanded circular flow diagram and simple aggregate demand and aggregate supply graphs to explore the question: “How well do markets adjust to provide steady growth in living standards, full employment, and stable prices?” Students are asked throughout the macro text, “Should the government keep its hands off of the economy, or does it need to be hands on?” I try to present sympathetically the strongest case for both the hands-off and hands-on positions.

**Join Me!**

The second edition of *Economics for Life* retains the focus on the question “What do we really want our students to remember of what we teach them in an introductory economics class?” The focus is on essential economic concepts students need to know to become economically literate citizens, delivered in an engaging, narrative style. **The concepts are now illustrated with the core graphs that are at the heart of thinking like an economist.**

Because fewer topics are covered in more depth, this literacy-targeted approach allows instructors to spend more time in the classroom helping students master the core concepts, supported by active learning exercises, group work, economic experiments, and other forms of engagement that are integrated into both the student exercises and the Instructor’s Manual. Have a look for more details.

What I find exciting about these books is the possibility of helping far more students “get” the benefit of thinking like an economist. If these books succeed in doing what they set out to do — and you and your students will be the judges of that — then your students will be more actively engaged with the material. Students will learn economics in a way that will stay with them — even five years after leaving your classroom.

This brings us back to the question of your “economic footprint.” You will cover fewer topics using *Economics for Life* (the 12 micro or 9 macro chapters can be covered in a semester, with room for discussion), but your students will retain more. If we do our jobs well, after five years, your students will actually be ahead of students who were exposed to the full range of topics. Your economic footprint will be larger. You will have produced more students who have better learned the fundamentals of thinking like an economist, and who are making smarter choices in their lives as consumers, as businesspeople, and as citizens evaluating policies proposed by politicians.

You will have succeeded in helping your students learn how to use economics in life.

Avi Cohen
Toronto
Supplements

This textbook is supported by many supplemental materials designed to help instructors quickly customize their courses and enhance student learning.

All of the supplements have been developed and edited by Professor Avi Cohen, the author of the text. Professor Cohen has over 30 years of experience teaching introductory economics, is an award-winning teacher, and is a 3M National Teaching Fellow. He is the author of the Study Guide accompanying the first eight editions of Michael Parkin’s and Robin Bade’s Economics: Canada in the Global Environment. He served for many years at York University as Dean’s Advisor on Technology Enhanced Learning (TEL), where he developed and ran do TEL, a faculty development program for instructors interested in transforming their face-to-face courses to blended or fully online formats.

The following support materials developed by Professor Cohen are available for instructors.

Instructor’s Manual

The Instructor’s Manual (IM) will assist you in preparing for and teaching this course, whether you are a neophyte teaching the course for the first time, or an experienced instructor looking for ways to enliven your classroom or to adapt to the growing world of fully or partially online courses. The IM is organized by chapter, paralleling the textbook organization.

To make it easy and efficient for you to customize your lectures, each chapter includes an overview and concise summary of the main ideas, concepts and key graphs. You will find class discussion questions and answers to the student Refresh questions for each chapter.

Whether you are teaching 30 students or 500, we provide proven strategies for enhancing the interactivity of your classroom or online environment. Strategies, current discussion topics, economic data, and media stories will be updated regularly on Professor Cohen’s teaching blog. See the Instructor’s Manual for details.

PowerPoint Presentations

The PowerPoint® slides are a set of lectures based on the textbook content, paralleling the Chapter Summary found in the end-of-chapter Study Guide material. Professor Cohen selected, developed, and edited all of the content in the slides to allow you to be able to prepare and present a focused and manageable lecture without having to wade through an excessive number of slides. You can, of course, still elaborate on each slide’s material. The parallels between the slides and the Study Guide’s Chapter Summary make it easier for students to connect the textbook material, your classroom presentation, and the Study Guide exercises.

The design of the slides matches the textbook design so students connect more easily the material they have read and the content of your classroom presentation. The font sizes of the slides have been tested for readability from the back of a 500-seat lecture hall as well as on mobile devices. The graphs’ slides are dynamic — as you click through them, curves shift and new equilibrium points appear.
**Narrated Dynamic Graphs**

The PowerPoint graphs, built from the textbook graphic files, are the basis of the Narrated Dynamic Graphs. For each analytical graph in the textbook, there is a short MP4 video. In a voice-over, Professor Cohen talks the student through the meaning of the graph, and traces shifts of curves and changes in outcomes. There is a moving cursor directing students’ attention to the portion of the graph being discussed in the narration. These MP4 files, which tell the story of each graph, can be viewed online or downloaded to a student’s computer or mobile device.

**Pearson TestGen**

Professor Cohen created or edited all multiple choice and true/false questions in the testbank. Multiple choice questions have five good choices. "None of the above" and "All of the above" are actually used as correct answers, and sometimes the fifth choice is humorous. Questions are classified by level of difficulty (1 – 3) and as recall or analytical.

This computerized test item file enables instructors to view and edit existing test questions, add questions, generate tests, and print tests in a variety of formats. Powerful search and sort functions make it easy to locate questions and arrange them in any order desired. TestGen also enables instructors to administer tests on a local area network, have the tests graded electronically, and have the results prepared in electronic or printed reports. These questions are also available in MyTest, which is available through MyEconLab at www.myeconlab.com.

**MyEconLab**

Pearson Canada’s online resource, MyEconLab, offers instructors and students all of their resources in one place, written and designed to accompany this text. MyEconLab creates a perfect pedagogical loop that provides not only text-specific assessment and practice problems, but also tutorial support to make sure students learn from their mistakes.

At the core of MyEconLab are the following features:

**NEW Dynamic Study Modules:** Canadian study modules allow students to work through groups of question and check their understanding of foundational Economics topics. As students work through questions, the Dynamic Study Modules assess their knowledge and only show questions that still require practice. Dynamic Study Modules can be completed online using your computer, tablet, or mobile device.

**NEW Learning Catalytics:** Learning Catalytics is a “bring your own device” student engagement, assessment, and classroom intelligence system. It allows instructors to engage students in class with a variety of questions types designed to gauge student understanding.

**Study Plan:** As students work through the Study Plan, they can clearly see which topics they have mastered — and, more importantly, which they need to work on. Each question has been carefully written to match the concepts, language, and focus of the text, so students can get an accurate sense of how well they’ve understood the chapter content.
Adaptive Assessment: Integrated directly into the MyEconLab Study Plan, Pearson's adaptive assessment is the latest technology for individualized learning and mastery. As students work through each question, they are provided with a custom learning path tailored specifically to the concepts they need to practise and master.

Unlimited Practice: Most Study Plan exercises contain algorithmically generated values to ensure that students get as much practice as they need. Every problem links students to learning resources that further reinforce the concepts they need to master.

Auto-Graded Tests and Assignments: MyEconLab comes with two preloaded Sample Tests for each chapter. Students can use these tests for self-assessment and obtain immediate feedback. Instructors can assign the Sample Tests or use them along with Test Bank questions or their own exercises to create tests or quizzes.

Economics Video Questions: Instructors also have access to a series of video questions that tie current events to key concepts from the text.

Learning Resources: Each assessment contains a link to the eText page that discusses the concept being applied. Students also have access to guided solutions, dynamic narrated graphs, news feeds, and glossary flash cards.

Experiments in MyEconLab: Experiments are a fun and engaging way to promote active learning and mastery of important economic concepts. Pearson's Experiments program is flexible and easy for instructors and students to use. They include single-player experiments that allow students to play against virtual players from anywhere at any time and multiplayer experiments allow you to assign and manage a real-time experiment with your class.
Acknowledgments

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Ian Howe wrote the Study Guide for the first edition and helped polish all of the original textbook chapters. His humour and vast knowledge of StatsCan data and policy issues continue to enliven many questions at the end of each chapter and in the Instructor’s Manual. Andrew Dickens searched out and compiled most data for tables and charts. Deryk Ouseley drew the marvelous illustrations on the covers and others inside that capture the spirit of the Economics for Life books.

Much of what is good (I think; you judge) in this book comes from my long association with Robin Bade and Michael Parkin. During more than 20 years as an author to the Study Guide accompanying their Economics: Canada in the Global Environment, I have learned so much from their skills as teachers, writers, and economists. Their commitment to clarity, conciseness, and helping students learn has made them both an inspiration and role models. Although this textbook is intended for a slightly different audience, I hope that it will be judged to be in their league.

Many students in both my York and University of Toronto classes caught typos, ambiguities, and offered suggestions for improving the text, including Zaid Faiz, Harpal Hothi, Catherine Huntley, Vadim Slukovich, and Mia Viswanathan. Lior Krimus and Mahsa Nasseri plastered a first edition textbook with dozens of sticky notes containing detailed suggestions for better explaining concepts in ways students would “get it.” The time-machine analogy for explaining marginal revenue and pricing decisions with the one-price rule in Chapter 9 is their idea.

Thanks to Dwayne Benjamin, who invited me to teach the ECO105Y course at the St. George campus, and has steadfastly supported giving the many science, public policy, and international relations students at the University of Toronto a different way to learn introductory economics, while retaining the option to become Economics majors and minors.

The team Pearson assembled — Susan Bindernagel, Richard di Santo, Joel Gladstone, Leigh-Ann Graham, Jurek Konieczny, Suzanne Simpson Millar, Victoria Naik, Mohinder Singh, Karen Townsend, Nurlan Turdaliev, and Claire Varley — have shown me how much hard work and skill go into transforming a manuscript into a product for the now-digital marketplace. I have learned that I am not simply an author, but a “digital content creator!” Thank you all.

Claudine O’Donnell deserves pride-of-place thanks for this second edition, as did Gary Bennett and Allan Reynolds for the first. It is because of their abiding faith and support that the Economics for Life books are before you.

Avi J. Cohen
Toronto
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