FIFTEENTH CANADIAN EDITION

RAGAN

ECONOMICS

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PEARSON
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## Brief Contents

**PART 1**  What Is Economics?  
Chapter 1  Economic Issues and Concepts  
Chapter 2  Economic Theories, Data, and Graphs

**PART 2**  An Introduction to Demand and Supply  
Chapter 3  Demand, Supply, and Price  
Chapter 4  Elasticity  
Chapter 5  Price Controls and Market Efficiency

**PART 3**  Consumers and Producers  
Chapter 6  Consumer Behaviour  
Chapter 7  Producers in the Short Run  
Chapter 8  Producers in the Long Run

**PART 4**  Market Structure and Efficiency  
Chapter 9  Competitive Markets  
Chapter 10  Monopoly, Cartels, and Price Discrimination  
Chapter 11  Imperfect Competition and Strategic Behaviour  
Chapter 12  Economic Efficiency and Public Policy

**PART 5**  Factor Markets  
Chapter 13  How Factor Markets Work  
Chapter 14  Labour Markets and Income Inequality  
Chapter 15  Interest Rates and the Capital Market

**PART 6**  Government in the Market Economy  
Chapter 16  Market Failures and Government Intervention  
Chapter 17  The Economics of Environmental Protection  
Chapter 18  Taxation and Public Expenditure

**PART 7**  An Introduction to Macroeconomics  
Chapter 19  What Macroeconomics Is All About  
Chapter 20  The Measurement of National Income

**PART 8**  The Economy in the Short Run  
Chapter 21  The Simplest Short-Run Macro Model  
Chapter 22  Adding Government and Trade to the Simple Macro Model  
Chapter 23  Output and Prices in the Short Run

**PART 9**  The Economy in the Long Run  
Chapter 24  From the Short Run to the Long Run: The Adjustment of Factor Prices  
Chapter 25  Long-Run Economic Growth

**PART 10**  Money, Banking, and Monetary Policy  
Chapter 26  Money and Banking  
Chapter 27  Money, Interest Rates, and Economic Activity  
Chapter 28  Monetary Policy in Canada

**PART 11**  Macroeconomic Problems and Policies  
Chapter 29  Inflation and Disinflation  
Chapter 30  Unemployment Fluctuations and the NAIRU  
Chapter 31  Government Debt and Deficits

**PART 12**  Canada in the Global Economy  
Chapter 32  The Gains from International Trade  
Chapter 33  Trade Policy  
Chapter 34  Exchange Rates and the Balance of Payments

**MYECONLAB CHAPTER**  
Appendix to Chapter 35W: Challenges Facing the Developing Countries  
Mathematical Notes  
Timeline of Great Economists  
Index
Contents

List of Boxes xv
To the Instructor xvii
To the Student xxiv
Features of This Edition xxv
Supplements xxvii
Acknowledgements xxix
About the Author xxx

PART 1
What is Economics? 1

Chapter 1 Economic Issues and Concepts 1

1.1 What Is Economics? 3
Resources 4
Scarcity and Choice 4
Four Key Economic Problems 8
Economics and Government Policy 9

1.2 The Complexity of Modern Economies 10
The Nature of Market Economies 10
The Decision Makers and Their Choices 12
Production and Trade 13

1.3 Is There an Alternative to the Market Economy? 16
Types of Economic Systems 16
The Great Debate 18
Government in the Modern Mixed Economy 19

Summary 20
Key Concepts 21
Study Exercises 21

Chapter 2 Economic Theories, Data, and Graphs 24

2.1 Positive and Normative Statements 25
Disagreements Among Economists 26

2.2 Building and Testing Economic Theories 28
What Are Theories? 28
Testing Theories 29

2.3 Economic Data 32
Index Numbers 32
Graphing Economic Data 35

2.4 Graphing Economic Theories 36
Functions 36
Graphing Functions 37
A Final Word 42

Summary 42
Key Concepts 43
Study Exercises 43

PART 2
An Introduction to Demand and Supply 47

Chapter 3 Demand, Supply, and Price 47

3.1 Demand 48
Quantity Demanded 48
Quantity Demanded and Price 49
Demand Schedules and Demand Curves 50

3.2 Supply 55
Quantity Supplied 55
Quantity Supplied and Price 56
Supply Schedules and Supply Curves 56

3.3 The Determination of Price 60
The Concept of a Market 60
Market Equilibrium 60
Changes in Market Equilibrium 63
A Numerical Example 65
Relative Prices 66

Summary 66
Key Concepts 67
Study Exercises 67

Chapter 4 Elasticity 71

4.1 Price Elasticity of Demand 72
The Measurement of Price Elasticity 73
What Determines Elasticity of Demand? 76
Elasticity and Total Expenditure 78

4.2 Price Elasticity of Supply 80
Determinants of Supply Elasticity 81

4.3 Elasticity Matters for Excise Taxes 82
4.4 Other Demand Elasticities 84
Income Elasticity of Demand 84
Cross Elasticity of Demand 86

Summary 88
Key Concepts 89
Study Exercises 89

Chapter 5 Price Controls and Market Efficiency 92

5.1 Government-Controlled Prices 93
Disequilibrium Prices 93
Price Floors 93
Price Ceilings 94
5.2 Rent Controls: A Case Study of Price Ceilings 97
The Predicted Effects of Rent Controls 98
Who Gains and Who Loses? 99
Policy Alternatives 100
5.3 An Introduction to Market Efficiency 100
Demand as “Value” and Supply as “Cost” 101
Economic Surplus and Market Efficiency 102
Market Efficiency and Price Controls 104
One Final Application: Output Quotas 105
A Cautionary Word 106
Summary 107
Key Concepts 107
Study Exercises 108

PART 3 Consumers and Producers 111
Chapter 6 Consumer Behaviour 111
6.1 Marginal Utility and Consumer Choice 112
Diminishing Marginal Utility 112
Utility Schedules and Graphs 113
Maximizing Utility 113
The Consumer’s Demand Curve 116
Market Demand Curves 116
6.2 Income and Substitution Effects of Price Changes 117
The Substitution Effect 117
The Income Effect 118
The Slope of the Demand Curve 119
6.3 Consumer Surplus 121
The Concept 121
The Paradox of Value 123
Summary 125
Key Concepts 126
Study Exercises 126
Appendix to Chapter 6
Indifference Curves 130
6A.1 Indifference Curves 130
Diminishing Marginal Rate of Substitution 131
The Indifference Map 132
6A.2 The Budget Line 133
Properties of the Budget Line 133
The Slope of the Budget Line 133
6A.3 The Consumer’s Utility-Maximizing Choices 134
The Consumer’s Response to a Change in Income 135
The Consumer’s Response to a Change in Price 135
6A.4 Deriving the Consumer’s Demand Curve 136
Income and Substitution Effects 137
Study Exercises 139
Chapter 7 Producers in the Short Run 140
7.1 What Are Firms? 141
Organization of Firms 141
Financing of Firms 142
Goals of Firms 142
7.2 Production, Costs, and Profits 143
Production 143
Costs and Profits 145
Profit-Maximizing Output 147
Time Horizons for Decision Making 147
7.3 Production in the Short Run 149
Total, Average, and Marginal Products 150
Diminishing Marginal Product 150
The Average–Marginal Relationship 151
7.4 Costs in the Short Run 152
Defining Short Run Costs 153
Short-Run Cost Curves 154
Capacity 157
Shifts in Short-Run Cost Curves 157
Summary 159
Key Concepts 160
Study Exercises 160
Chapter 8 Producers in the Long Run 164
8.1 The Long Run: No Fixed Factors 165
Profit Maximization and Cost Minimization 165
Long-Run Cost Curves 168
8.2 The Very Long Run: Changes in Technology 172
Technological Change 173
Firms’ Choices in the Very Long Run 176
Summary 177
Key Concepts 177
Study Exercises 177
Appendix to Chapter 8
Isoquant Analysis 180
8A.1 Isoquants 180
An Isoquant Map 181
8A.2 Cost Minimization 182
The Principle of Substitution 182
PART 4  Market Structure and Efficiency  185
Chapter 9  Competitive Markets  185
9.1  Market Structure and Firm Behaviour  186
Competitive Markets  186
Competitive Behaviour  186
9.2  The Theory of Perfect Competition  187
The Assumptions of Perfect Competition  187
The Demand Curve for a Perfectly Competitive Firm  188
Total, Average, and Marginal Revenue  189
9.3  Short-Run Decisions  190
Should the Firm Produce At All?  191
How Much Should the Firm Produce?  192
Short-Run Supply Curves  194
Short-Run Equilibrium in a Competitive Market  195
9.4  Long-Run Decisions  198
Entry and Exit  198
Long-Run Equilibrium  202
Changes in Technology  203
Declining Industries  205
Summary  206
Key Concepts  207
Study Exercises  207
Chapter 10  Monopoly, Cartels, and Price Discrimination  211
10.1  A Single-Price Monopolist  212
Revenue Concepts for a Monopolist  212
Short-Run Profit Maximization  214
Why Are Monopolies So Rare?  217
Entry Barriers  217
The Very Long Run and Creative Destruction  218
10.2  Cartels and Monopoly Power  219
The Effects of Cartelization  221
Problems That Cartels Face  222
10.3  Price Discrimination  224
When Is Price Discrimination Possible?  225
Different Forms of Price Discrimination  226
The Consequences of Price Discrimination  230
Summary  232
Key Concepts  232
Study Exercises  233
Chapter 11  Imperfect Competition and Strategic Behaviour  237
11.1  Imperfect Competition  238
Between the Two Extremes  238
Defining Imperfect Competition  240
11.2  Monopolistic Competition  242
The Assumptions of Monopolistic Competition  243
Predictions of the Theory  243
11.3  Oligopoly and Game Theory  245
Profit Maximization Is Complicated  245
The Basic Dilemma of Oligopoly  246
Some Simple Game Theory  247
Extensions in Game Theory  249
11.4  Oligopoly in Practice  250
Cooperative Behaviour  250
Competitive Behaviour  251
The Importance of Entry Barriers  252
Oligopoly and the Economy  254
Summary  256
Key Concepts  257
Study Exercises  257
Chapter 12  Economic Efficiency and Public Policy  261
12.1  Productive and Allocative Efficiency  262
Productive Efficiency  263
Allocative Efficiency  264
Which Market Structures Are Efficient?  266
Allocative Efficiency and Total Surplus  267
Allocative Efficiency and Market Failure  270
12.2  Economic Regulation to Promote Efficiency  271
Regulation of Natural Monopolies  271
Regulation of Oligopolies  275
12.3  Canadian Competition Policy  277
The Evolution of Canadian Policy  277
Recent Reforms  279
Future Challenges  279
Summary  280
Key Concepts  280
Study Exercises  281
PART 5  Factor Markets  285
Chapter 13  How Factor Markets Work  285
13.1  The Demand for Factors  286
Marginal Revenue Product  286
13.2 The Supply of Factors 290
The Supply of Factors to the Economy 291
The Supply of Factors to a Particular Industry 293
The Supply of Factors to a Particular Firm 295

13.3 The Operation of Factor Markets 295
Differentials in Factor Prices 295
Economic Rent 299
A Final Word 303

Summary 304
Key Concepts 305
Study Exercises 305

Chapter 14 Labour Markets and Income Inequality 308
14.1 Wage Differentials 310
Wage Differentials in Competitive Markets 310
Wage Differentials in Non-competitive Markets 314
Legislated Minimum Wages 317

14.2 Labour Unions 319
Collective Bargaining 320
Unanswered Questions 322

14.3 Income Inequality 323
Measuring Income Inequality 323
Causes of Rising Income Inequality 327
Policy Implications 329

Summary 330
Key Concepts 331
Study Exercises 331

Chapter 15 Interest Rates and the Capital Market 335
15.1 A Brief Overview of the Capital Market 336
15.2 Present Value 337
The Present Value of a Single Future Payment 338
The Present Value of a Stream of Future Payments 340
Summary 340

15.3 The Demand for Capital 342
The Firm’s Demand for Capital 342
The Economy’s Demand for Investment 346

15.4 The Supply of Capital 346
Households’ Supply of Saving 346
The Economy’s Supply of Saving 348

15.5 Equilibrium in the Capital Market 348
The Equilibrium Interest Rate 348
Changes in the Market Equilibrium 349
Long-Run Trends in the Capital Market 352

Summary 354
Key Concepts 355
Study Exercises 355

PART 6 Government in the Market Economy 359

Chapter 16 Market Failures and Government Intervention 359
16.1 Basic Functions of Government 360
16.2 The Case for Free Markets 361
Automatic Coordination 362
Innovation and Growth 363
Decentralization of Power 364

16.3 Market Failures 364
Market Power 365
Externalities 365
Non-rivalrous and Non-excludable Goods 367
Asymmetric Information 372
Summary 373

16.4 Broader Social Goals 375
Income Distribution 375
Preferences for Public Provision 376
Protecting Individuals from Others 377
Paternalism 377
Social Responsibility 378
A General Principle 378

16.5 Government Intervention 378
The Tools of Government Intervention 379
The Costs of Government Intervention 380
Government Failure 381
How Much Should Government Intervene? 383

Summary 384
Key Concepts 385
Study Exercises 385
26.2 The Canadian Banking System 623
The Bank of Canada 623
Commercial Banks in Canada 626
Commercial Banks’ Reserves 628

26.3 Money Creation by the Banking System 630
Some Simplifying Assumptions 631
The Creation of Deposit Money 631
Excess Reserves and Cash Drains 634

26.4 The Money Supply 635
Kinds of Deposits 635
Definitions of the Money Supply 636
Near Money and Money Substitutes 636
The Role of the Bank of Canada 637

Summary 638
Key Concepts 638
Study Exercises 639

Chapter 27 Money, Interest Rates, and Economic Activity 642
27.1 Understanding Bonds 643
Present Value and the Interest Rate 643
Present Value and Market Price 645
Interest Rates, Bond Prices, and Bond Yields 646
Bond Riskiness 647

27.2 The Theory of Money Demand 647
Three Reasons for Holding Money 649
The Determinants of Money Demand 649
Money Demand: Summing Up 651

27.3 Monetary Equilibrium and National Income 651
Monetary Equilibrium 652
The Monetary Transmission Mechanism 653
An Open-Economy Modification 656
The Slope of the AD Curve 658

27.4 The Strength of Monetary Forces 658
The Neutrality of Money 659
Money and Inflation 661
The Short-Run Effects of Monetary Shocks 661

Summary 665
Key Concepts 666
Study Exercises 666

Chapter 28 Monetary Policy in Canada 670
28.1 How the Bank of Canada Implements Monetary Policy 671
Money Supply Versus the Interest Rate 671

28.2 Inflation Targeting 678
Why Target Inflation? 679
Inflation Targeting and the Output Gap 680
Inflation Targeting as a Stabilizing Policy 681
Complications in Inflation Targeting 682

28.3 Long and Variable Lags 685
What Are the Lags in Monetary Policy? 686
Destabilizing Policy? 686
Communications Difficulties 687

28.4 Thirty Years of Canadian Monetary Policy 688
Rising Inflation: 1987–1990 690
Inflation Targeting: 2001–2007 693
Financial Crisis and Recession: 2007–2010 694
Slow Economic Recovery: 2011–Present 695

Summary 697
Key Concepts 698
Study Exercises 698

PART 11 Macroeconomic Problems and Policies 701
Chapter 29 Inflation and Disinflation 701
29.1 Adding Inflation to the Model 703
Why Wages Change 703
From Wages to Prices 705
Constant Inflation 706

29.2 Shocks and Policy Responses 708
Demand Shocks 709
Supply Shocks 710
Accelerating Inflation 712
Inflation as a Monetary Phenomenon 714

29.3 Reducing Inflation 717
The Process of Disinflation 717
The Cost of Disinflation 719
Conclusion 720

Summary 721
Key Concepts 722
Study Exercises 722
There Can’t Be a Balance of Payments Deficit!  830
Summary  830
34.2 The Foreign-Exchange Market  830
The Exchange Rate  831
The Supply of Foreign Exchange  832
The Demand for Foreign Exchange  834
34.3 The Determination of Exchange Rates  834
Flexible Exchange Rates  835
Fixed Exchange Rates  836
Changes in Flexible Exchange Rates  837
Structural Changes  841
The Volatility of Exchange Rates  842
34.4 Three Policy Issues  842
Current Account Deficits and Surpluses  843
Is There a “Correct” Value for the Canadian Dollar?  848
Should Canada Have a Fixed Exchange Rate?  851
Summary  856
Key Concepts  858
Study Exercises  858
Appendix to Chapter 35W: Challenges Facing the Developing Countries  861
Mathematical Notes  M-1
Timeline of Great Economists  T-1
Index  I-1

Chapter 35W Challenges Facing the Developing Countries  W-1
35W.1 The Uneven Pattern of Development  W-2
35W.2 Impediments to Economic Development  W-4
   Natural Resources  W-4
   Inefficiency  W-5
   Human Capital and Health  W-5
   Agriculture  W-6
   Population Growth  W-6
   Cultural Barriers  W-7
   Domestic Saving  W-9
   Infrastructure  W-9
   Institutions  W-10
   Foreign Debt  W-10
35W.3 Development Policies  W-11
   The Older View  W-11
   The Rise of a New View  W-12
   The “Washington Consensus”  W-14
   Debate Beyond the Washington Consensus  W-16
   Conclusion  W-18
Summary  W-19
Key Concepts  W-19
### List of Boxes

**Applying Economic Concepts**

<table>
<thead>
<tr>
<th>Box</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1</td>
<td>The Opportunity Cost of Your University Degree</td>
<td>6</td>
</tr>
<tr>
<td>2-1</td>
<td>Where Economists Work</td>
<td>27</td>
</tr>
<tr>
<td>3-1</td>
<td>Why Apples but Not iPhones?</td>
<td>61</td>
</tr>
<tr>
<td>5-1</td>
<td>Minimum Wages and Unemployment</td>
<td>96</td>
</tr>
<tr>
<td>7-1</td>
<td>Is It Socially Responsible to Maximize Profits?</td>
<td>144</td>
</tr>
<tr>
<td>7-2</td>
<td>Three Examples of Diminishing Returns</td>
<td>152</td>
</tr>
<tr>
<td>7-3</td>
<td>The Digital World: When Diminishing Returns Disappear Altogether</td>
<td>158</td>
</tr>
<tr>
<td>8-1</td>
<td>The Significance of Productivity Growth</td>
<td>174</td>
</tr>
<tr>
<td>9-1</td>
<td>Why Small Firms Are Price Takers</td>
<td>189</td>
</tr>
<tr>
<td>9-2</td>
<td>The Parable of the Seaside Inn</td>
<td>199</td>
</tr>
<tr>
<td>10-1</td>
<td>Disruptive Technologies and Creative Destruction</td>
<td>220</td>
</tr>
<tr>
<td>12-1</td>
<td>Confidence, Risk, and Regulation in Canadian Banking</td>
<td>278</td>
</tr>
<tr>
<td>15-1</td>
<td>Inflation and Interest Rates</td>
<td>350</td>
</tr>
<tr>
<td>16-1</td>
<td>The World's Endangered Fish</td>
<td>370</td>
</tr>
<tr>
<td>16-2</td>
<td>Used Cars and the Market for “Lemons”</td>
<td>374</td>
</tr>
<tr>
<td>17-1</td>
<td>Using Prices to Reduce Pollution and Conserve Resources</td>
<td>400</td>
</tr>
<tr>
<td>18-1</td>
<td>Poverty Traps and the Negative Income Tax</td>
<td>433</td>
</tr>
<tr>
<td>19-1</td>
<td>The Terminology of Business Cycles</td>
<td>446</td>
</tr>
<tr>
<td>19-2</td>
<td>How the CPI Is Constructed</td>
<td>451</td>
</tr>
<tr>
<td>20-1</td>
<td>Value Added Through Stages of Production</td>
<td>466</td>
</tr>
<tr>
<td>20-2</td>
<td>Calculating Nominal and Real GDP</td>
<td>478</td>
</tr>
<tr>
<td>21-1</td>
<td>The Simple Multiplier: A Numerical Example</td>
<td>505</td>
</tr>
<tr>
<td>22-1</td>
<td>How Large Is Canada’s Simple Multiplier?</td>
<td>523</td>
</tr>
<tr>
<td>25-1</td>
<td>What Does Productivity Growth Really Look Like?</td>
<td>585</td>
</tr>
<tr>
<td>25-2</td>
<td>A Case Against Economic Growth</td>
<td>588</td>
</tr>
<tr>
<td>25-3</td>
<td>Climate Change and Economic Growth</td>
<td>608</td>
</tr>
<tr>
<td>27-1</td>
<td>Understanding Bond Prices and Bond Yields</td>
<td>648</td>
</tr>
<tr>
<td>27-2</td>
<td>Monetary Reform and the Neutrality of Money</td>
<td>660</td>
</tr>
<tr>
<td>28-1</td>
<td>What Determines the Amount of Currency in Circulation?</td>
<td>677</td>
</tr>
<tr>
<td>29-1</td>
<td>Is Deflation a Problem?</td>
<td>708</td>
</tr>
<tr>
<td>30-1</td>
<td>Stocks and Flows in the Canadian Labour Market</td>
<td>730</td>
</tr>
<tr>
<td>30-2</td>
<td>Voluntary or Involuntary Unemployment?</td>
<td>739</td>
</tr>
<tr>
<td>23-1</td>
<td>The 1997–1998 Asian Crisis and the Canadian Economy</td>
<td>548</td>
</tr>
<tr>
<td>24-1</td>
<td>Fiscal Policy in the Great Depression</td>
<td>572</td>
</tr>
<tr>
<td>25-1</td>
<td>Should Workers Be Afraid of Technological Change?</td>
<td>600</td>
</tr>
<tr>
<td>26-1</td>
<td>Hyperinflation and the Value of Money</td>
<td>618</td>
</tr>
<tr>
<td>28-1</td>
<td>Two Views on the Role of Money in the Great Depression</td>
<td>684</td>
</tr>
<tr>
<td>33-1</td>
<td>Trade Protection and Recession</td>
<td>808</td>
</tr>
<tr>
<td>34-1</td>
<td>A Student’s Balance of Payments with the Rest of the World</td>
<td>829</td>
</tr>
<tr>
<td>34-2</td>
<td>Managing Fixed Exchange Rates</td>
<td>838</td>
</tr>
<tr>
<td>34-3</td>
<td>News and the Exchange Rate</td>
<td>843</td>
</tr>
</tbody>
</table>

### Lessons from History

<table>
<thead>
<tr>
<th>Box</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-1</td>
<td>Economic Development and Income Elasticities</td>
<td>86</td>
</tr>
<tr>
<td>8-1</td>
<td>Jacob Viner and the Clever Draftsman</td>
<td>172</td>
</tr>
<tr>
<td>13-1</td>
<td>David Ricardo and “Economic Rent”</td>
<td>301</td>
</tr>
<tr>
<td>23-1</td>
<td>The 1997–1998 Asian Crisis and the Canadian Economy</td>
<td>548</td>
</tr>
<tr>
<td>24-1</td>
<td>Fiscal Policy in the Great Depression</td>
<td>572</td>
</tr>
<tr>
<td>25-1</td>
<td>Should Workers Be Afraid of Technological Change?</td>
<td>600</td>
</tr>
<tr>
<td>26-1</td>
<td>Hyperinflation and the Value of Money</td>
<td>618</td>
</tr>
<tr>
<td>28-1</td>
<td>Two Views on the Role of Money in the Great Depression</td>
<td>684</td>
</tr>
<tr>
<td>33-1</td>
<td>Trade Protection and Recession</td>
<td>808</td>
</tr>
<tr>
<td>34-1</td>
<td>Mercantilism, Then and Now</td>
<td>845</td>
</tr>
</tbody>
</table>
Extensions in Theory

3-1  The Distinction Between Stocks and Flows   49
11-1  The Prisoners’ Dilemma   249
16-1  Arthur Okun’s “Leaky Bucket”   376
18-1  Who Really Pays the Corporate Income Tax?   418
20-1  Arbitrary Decisions in National Income Accounting   475
21-1  The Theory of the Consumption Function   490
21-2  The Algebra of the Simple Multiplier   507
24-1  The Phillips Curve and the Adjustment Process   560
24-2  The Business Cycle: Additional Pressures for Adjustment   566
29-1  The Phillips Curve and Accelerating Inflation   714
30-1  Wage Stickiness and Involuntary Unemployment   737
32-1  The Gains from Trade More Generally   782
To the Instructor

Economics is a living discipline, changing and evolving in response to developments in the world economy and in response to the research of many thousands of economists throughout the world. Through fifteen editions, *Economics* has evolved with the discipline. Our purpose in this edition, as in the previous fourteen, is to provide students with an introduction to the major issues facing the world’s economies, to the methods that economists use to study those issues, and to the policy problems that those issues create. Our treatment is everywhere guided by three important principles:

1. Economics is *scientific*, in the sense that it progresses through the systematic confrontation of theory by evidence. Neither theory nor data alone can tell us much about the world, but combined they tell us a great deal.

2. Economics is *useful*, and it should be seen by students to be so. An understanding of economic theory combined with knowledge about the economy produces many important insights about economic policy. Although we stress these insights, we are also careful to point out cases in which too little is known to support strong statements about public policy. Appreciating what is not known is as important as learning what is known.

3. We strive always to be *honest* with our readers. Although we know that economics is not always easy, we do not approve of glossing over difficult bits of analysis without letting readers see what is happening and what has been assumed. We take whatever space is needed to explain why economists draw their conclusions, rather than just asserting the conclusions. We also take pains to avoid simplifying matters so much that students would have to unlearn what they have been taught if they continue their study beyond the introductory course. In short, we have tried to follow Albert Einstein’s advice:

> Everything should be made as simple as possible, but not simpler.

CURRENT ECONOMIC ISSUES

In writing the fifteenth edition of *Economics*, we have tried to reflect the major economic issues that we face in the early twenty-first century.

Living Standards and Economic Growth

One of the most fundamental economic issues is the determination of overall living standards. Adam Smith wondered why some countries become wealthy while others remain poor. Though we have learned much about this topic in the past 240 years since Adam Smith’s landmark work, economists recognize that there is still much we do not know.

The importance of technological change in determining increases in overall living standards is a theme that permeates both the microeconomics and macroeconomics halves of this book. Chapter 8 explores how firms deal with technological change at the micro level, and how changes in their economic environment lead them to create new products and new production processes. Chapters 11 and 12 discuss how imperfectly competitive firms often compete through their innovative practices, and the importance for policymakers of designing competition policy to keep these practices as energetic as possible.

Technological change also plays a central role in our discussion of long-run economic growth in Chapter 25. We explore not only the traditional channels of saving, investment, and population growth, but also the more recent economic theories that emphasize the importance of increasing returns and endogenous growth.

We are convinced that no other introductory economics textbook places as much emphasis on technological change and economic growth as we do in this book. Given the importance of continuing growth in living standards and understanding where that growth comes from, we believe this emphasis is appropriate. We hope you agree.

Financial Crisis, Recession, and Recovery

The collapse of U.S. housing prices in 2007 led to a global financial crisis the likes of which had not been witnessed in a century, and perhaps longer. A
deep recession, experienced in many countries, followed quickly on its heels. These dramatic events reawakened many people to two essential facts about economics. First, modern economies can and do go into recession. This essential fact had perhaps been forgotten by many who had become complacent after more than two decades of economic prosperity. Second, financial markets are crucial to the operation of modern economies. Like an electricity system, the details of financial markets are a mystery to most people, and the system itself is often ignored when it is functioning properly. But when financial markets cease to work smoothly and interest rates rise while credit flows decline, we are all reminded of their importance. In this sense, the financial crisis of 2007–2008 was like a global power failure for the world economy.

The financial crisis had micro causes and macro consequences. The challenges of appropriate regulation for financial and nonfinancial firms are explored in Chapters 12 and 16. The market for financial capital and the determination of interest rates are examined in Chapter 15. And debates regarding the appropriate role of the government in a market economy occur throughout the book, including in Chapters 1, 5, 16, 17, and 18.

On the macro side, the financial crisis affected the Canadian banking system, as discussed in Chapter 26, and led to some aggressive actions by the Bank of Canada, as discussed in Chapter 28. Moreover, as the global financial crisis led to a deep recession worldwide, Canadian fiscal policy was forced to respond, as we review in Chapters 24 and 31. Finally, as has happened several times throughout history, the recession raised the threat of protectionist policies, as we examine in Chapter 33.

Globalization

Enormous changes have occurred throughout the world over the last few decades. Flows of trade and investment between countries have risen so dramatically that it is now common to speak of the “globalization” of the world economy. Today it is no longer possible to study any economy without taking into account developments in the rest of the world.

Throughout its history, Canada has been a trading nation, and our policies relating to international trade have often been at the centre of political debates. International trade shows up in many parts of this textbook, but it is the exclusive focus of two chapters. Chapter 32 discusses the theory of the gains from trade; Chapter 33 explores trade policy, with an emphasis on NAFTA and the WTO.

With globalization and the international trade of goods and assets come fluctuations in exchange rates. In recent years there have been substantial changes in the Canada–U.S. exchange rate—a 15-percent depreciation followed the Asian economic crisis in 1997–1998 and also the 2014–2015 period, which saw a major decline in the world price of oil. An even greater appreciation occurred in the 2002–2008 period. Such volatility in exchange rates complicates the conduct of economic policy. In Chapters 27 and 28 we explore how the exchange rate fits into the design and operation of Canada’s monetary policy. In Chapter 34 we examine the debate between fixed and flexible exchange rates.

The forces of globalization are with us to stay. In this fifteenth edition of Economics, we have done our best to ensure that students are made aware of the world outside Canada and how events elsewhere in the world affect the Canadian economy.

The Role of Government

Between 1980 and 2008, the political winds shifted in Canada, the United States, and many other countries. Political parties that previously advocated a greater role for government in the economy argued the benefits of limited government. But the political winds shifted again with the arrival of the financial crisis and global recession in 2008, which led governments the world over to take some unprecedented actions. Many soon argued that we were observing the “end of laissez-faire” and witnessing the return of “big government.” But was that really true?

Has the fundamental role of government changed significantly over the past 35 years? In order to understand the role of government in the economy, students must understand the benefits of free markets as well as the situations that cause markets to fail. They must also understand that governments often intervene in the economy for reasons related more to equity than to efficiency.

In this fifteenth edition of Economics, we continue to incorporate the discussion of government policy as often as possible. Here are but a few of the many examples that we explore:

- tax incidence (in Chapter 4)
- the effects of minimum wages and rent controls (in Chapter 5)
- economic regulation and competition policy (in Chapter 12)
TO THE INSTRUCTOR

Microeconomics: Structure and Coverage

To open Part 1, Chapter 1 begins with an informal presentation of seven major issues of the day. We then introduce scarcity and choice, and this leads to a discussion of the market as a coordinating device. Finally, we turn to alternative economic systems. Comparisons with command economies help to establish what a market economy is by showing what it is not. Chapter 2 makes the important distinction between positive and normative inquiries and goes on to an introductory discussion of the construction and testing of economic theories.

Part 2 deals with demand and supply. After introducing price determination and elasticity in Chapters 3 and 4, we apply these tools in Chapter 5. The case studies are designed to provide practice in applying the tools rather than to give full coverage of each case presented. Chapter 5 also has an intuitive and thorough treatment of economic value and market efficiency.

Part 3 presents the foundations of demand and supply. The theory of consumer behaviour is developed via marginal utility theory in Chapter 6, which also provides an introduction to consumer surplus and an intuitive discussion of income and substitution effects. The Appendix to Chapter 6 covers indifference curves, budget lines, and the derivation of demand curves using indifference theory. Chapter 7 introduces the firm as an institution and develops short-run costs. Chapter 8 covers long-run costs and the principle of substitution and goes on to consider shifts in cost curves due to technological change. The latter topic is seldom if ever covered in the micro part of elementary textbooks, yet applied work on firms’ responses to changing economic signals shows it to be extremely important.

The first two chapters of Part 4, Chapters 9 and 10, present the standard theories of perfect competition and monopoly with a thorough discussion of price discrimination and some treatment of international cartels. Chapter 11 deals with monopolistic competition and oligopoly, which are the market structures most commonly found in Canadian industries. Strategic behaviour plays a central part in the analysis of this chapter. The first half of Chapter 12 deals with the efficiency of competition and the inefficiency of monopoly. The last half of the chapter deals with regulation and competition policy.

Part 5 begins with Chapter 13, which discusses the general principles of factor pricing and how

THE BOOK

Economic growth, financial crisis and recession, globalization, and the role of government are pressing issues of the day. Much of our study of economic principles and the Canadian economy has been shaped by these issues. In addition to specific coverage of growth and internationally oriented topics, growth and globalization appear naturally throughout the book in the treatment of many topics once thought to be entirely “domestic.”

Most chapters of Economics contain some discussion of economic policy. We have two main goals in mind when we present these discussions:

1. We aim to give students practice in using economic theory, because applying theory is both a wonderfully effective teaching method and a reliable test of students’ grasp of theory.

2. We want to introduce students to the major policy issues of the day and to let them discover that few policy debates are as “black and white” as they often appear in the press.

Both goals reflect our view that students should see economics as useful in helping us to understand and deal with the world around us.

The choice of whether to study macro first or micro first is partly a personal one that cannot be decided solely by objective criteria. We believe that there are excellent reasons for preferring the micro–macro order, and we have organized the book accordingly. For those who prefer the macro–micro order, we have attempted to make reversibility easy. The first three chapters provide a solid foundation whether you choose to first introduce microeconomics (Chapters 4–18) or macroeconomics (Chapters 19–34).
factor prices are influenced by factor mobility. Chapter 14 then examines the operation of labour markets, addressing issues such as wage differentials, discrimination, labour unions, and the current trend of rising income inequality. Chapter 15 discusses investment in physical capital, the role of the interest rate, and the overall functioning of capital markets.

The first chapter of Part 6 (Chapter 16) provides a general discussion of market success and market failure and outlines the arguments for and against government intervention in a market economy. Chapter 17 deals with environmental regulation, with a detailed discussion of market-based policies and an introduction to the issue of global climate change. Chapter 18 analyzes taxes, public expenditure, and the main elements of Canadian social policy. These three chapters expand on the basics of microeconomic analysis by providing current illustrations of the relevance of economic theory to contemporary policy situations.

Macroeconomics: Structure and Coverage

Our treatment of macroeconomics is divided into six parts. We make a clear distinction between the economy in the short run and the economy in the long run, and we get quickly to the material on long-run economic growth. Students are confronted with issues of long-run economic growth before they are introduced to issues of money and banking. Given the importance of economic growth in driving overall living standards, we believe that this is an appropriate ordering of the material, but for those who prefer to discuss money before thinking about economic growth, the order can be easily switched without any loss of continuity.

The first macro chapter, Chapter 19, introduces readers to the central macro variables, what they mean, and why they are important. The discussion of national income accounting in Chapter 20 provides a thorough treatment of the distinction between real and nominal GDP, the GDP deflator, and a discussion of what measures of national income do not measure and whether these omissions really matter.

Part 8 develops the core short-run model of the macro economy, beginning with the fixed-price (Keynesian Cross) model in Chapters 21 and 22 and then moving on to the AD/AS model in Chapter 23. Chapter 21 uses a closed economy model with no government to explain the process of national-income determination and the nature of the multiplier. Chapter 22 extends the setting to include international trade and government spending and taxation. Chapter 23 rounds out our discussion of the short run with the AD/AS framework, discussing the importance of both aggregate demand and aggregate supply shocks. We place the Keynesian Cross before the AD/AS model to show that there is no mystery about where the AD curve comes from and why it is downward sloping; the AD curve is derived directly from the Keynesian Cross model. In contrast, books that begin their analysis with the AD/AS model are inevitably less clear about where the model comes from. We lament the growing tendency to omit the Keynesian Cross from introductory macroeconomics textbooks; we believe the model has much to offer students in terms of economic insights.

Part 9 begins in Chapter 24 by showing how the short-run model evolves toward the long run through the adjustment of factor prices—what we often call the Phillips curve. We introduce potential output as an “anchor” to which real GDP returns following AD or AS shocks. This chapter also addresses issues in fiscal policy, including the important distinction between automatic stabilizers and discretionary fiscal stabilization policy. Our treatment of long-run growth in Chapter 25, which we regard as one of the most important issues facing Canada and the world today, goes well beyond the treatment in most introductory texts.

Part 10 focuses on the role of money and financial systems. Chapter 26 discusses the nature of money, various components of the money supply, the commercial banking system, and the Bank of Canada. In Chapter 27 we offer a detailed discussion of the link between the money market and other economic variables such as interest rates, the exchange rate, national income, and the price level. In Chapter 28 we discuss the Bank of Canada’s monetary policy, including a detailed discussion of inflation targeting. The chapter ends with a review of Canadian monetary policy over the past 30 years.

Part 11 deals with some of today’s most pressing macroeconomic policy issues. It contains separate chapters on inflation, unemployment, and government budget deficits. Chapter 29 on inflation examines the central role of expectations in determining inflation and the importance of credibility on the part of the central bank. Chapter 30 on unemployment examines the determinants of frictional and structural unemployment and discusses likely reasons for increases in the NAIRU over the past few decades. Chapter 31 on budget deficits stresses the importance
of a country’s debt-to-GDP ratio and also the effect of budget deficits on long-term economic growth.

Virtually every macroeconomic chapter contains at least some discussion of international issues. However, the final part of Economics focuses primarily on international economics. Chapter 32 gives the basic treatment of international trade, developing both the traditional theory of static comparative advantage and newer theories based on imperfect competition and dynamic comparative advantage. Chapter 33 discusses both the positive and normative aspects of trade policy, as well as the WTO and NAFTA. Chapter 34 introduces the balance of payments and examines exchange-rate determination. Here we also discuss three important policy issues: the desirability of current-account deficits or surpluses, whether there is a “right” value for the Canadian exchange rate, and the costs and benefits of Canada’s adopting a fixed exchange rate.

We hope you find this menu both attractive and challenging; we hope students find the material stimulating and enlightening. Many of the messages of economics are complex—if economic understanding were only a matter of common sense and simple observation, there would be no need for professional economists and no need for textbooks like this one. To understand economics, one must work hard. Working at this book should help readers gain a better understanding of the world around them and of the policy problems faced by all levels of government. Furthermore, in today’s globalized world, the return to education is large. We like to think that we have contributed in some small part to the understanding that increased investment in human capital by the next generation is necessary to restore incomes to the rapid growth paths that so benefited our parents and our peers. Perhaps we may even contribute to some income-enhancing accumulation of human capital by some of our readers.

SUBSTANTIVE CHANGES TO THIS EDITION

We have revised and updated the entire text with guidance from both users and nonusers of the previous editions of this book. For this edition, we have aimed to reduce the book’s length by about 10 percent, and this required streamlining many discussions and deleting some boxes. As always, we have strived very hard to improve the teachability and readability of the book. We have focused the discussions so that each major point is emphasized as clearly as possible, without distracting the reader with nonessential points. As in recent editions, we have kept all core material in the main part of the text. Three types of boxes (Applying Economic Concepts, Lessons from History, and Extensions in Theory) are used to show examples or extensions that can be skipped without fear of missing an essential concept. But we think it would be a shame to skip too many of them, as there are many interesting examples and policy discussions in these boxes.

What follows is a brief listing of the main changes that we have made to the textbook.

Microeconomics

Part 1: What is Economics?
In Chapter 1 we have added income inequality to the initial list of motivating topics, deleted the box on the failure of central planning, and have deleted the appendix on graphing (given that this topic is well covered in Chapter 2).

Part 2: An Introduction to Demand and Supply
In Chapter 3 on demand and supply, we have provided a fuller discussion of weather shocks, and have added a numerical example of a demand-and-supply model. We have deleted the box on weather events as well as the box on the algebra of market equilibrium. In Chapter 4 on elasticity, we have clarified the discussion by adding summary tables for each type of elasticity and have deleted the box on the algebra of tax incidence. We have also clarified the distinction between normal and inferior goods and provided numerical examples to demonstrate this distinction. Lastly, we have added a new small box on economic development and income elasticities. In Chapter 5 we have deleted the former opening section on the interaction of markets.

Part 3: Consumers and Producers
In Chapter 7 on the theory of the firm, we have streamlined the discussion of diminishing marginal returns, deleted the box on idle capital equipment and flat cost curves, and have added a new box on the flat marginal cost curves (and high fixed costs) characteristic of many digital products. In Chapter 8 on firms in the long run, we have added the example of Ford’s River Rouge factory to illustrate diseconomies of scale. Also in Chapter 8, we have streamlined the discussion of the three aspects of technological change, and deleted the box on the evolution of personal banking.
Part 4: Market Structure and Efficiency
We have streamlined several small parts of Chapter 9, and have deleted the discussion of sunk costs and a firm’s exit from the industry. In Chapter 10 we added a new discussion of why monopolies are rare, which now feeds into the discussion on entry barriers. We removed the box on Irish pubs, added modern examples to the existing box on creative destruction, and streamlined the discussion of cartels. In Chapter 11 on imperfect competition, we have rewritten the entire first section, streamlined the section on oligopoly in practice, and deleted the box about OPEC. In Chapter 12 we have shortened the discussion of market structure and efficiency, deleted the box on allocative efficiency and income distribution, and also deleted the box on innovation and imperfect competition.

Part 5: Factor Markets
In Chapter 13, the short section on income distribution, together with the box on income inequality, have been moved to Chapter 14 where we now have an expanded discussion of the ongoing trend in Canada and elsewhere toward greater income inequality. In Chapter 14 on labour markets, we have re-worked the introduction, which now motivates the chapter’s topics with the figure on the changing shares of Canadian employment over the past century. We have streamlined the discussions of wage differentials and bilateral monopoly. In Chapter 14 we have also deleted the box on the development of labour unions as well as the old final section on the “good jobs/bad jobs” debate. The chapter now ends with a new section on rising income inequality, with current data, various possible explanations, and some policy discussion.

Part 6: Government in the Market Economy
In Chapter 16 we have clarified our discussions of common-property resources, moral hazard, and the preferences for public provision. We have removed the brief discussion of economic intervention and failure. In Chapter 17 on environmental policy we have removed the discussion of uncertainty and the choice between emissions taxes and “cap and trade” systems and have added a new box providing examples of pollution pricing. The old section on past (and mostly ineffective) Canadian climate policy has been deleted, as has the box on the open letter from economists. We have added a new section on current Canadian climate policy, which focuses on provincial policies currently in place.

Macroeconomics

Part 7: An Introduction to Macroeconomics
At the beginning of Chapter 19 we have removed the discussion of the two approaches to macroeconomics and moved that material into the Instructor’s Manual. In Chapter 20 we have removed the discussion of GNP, focussing only on GDP, its measurement, meaning, and omissions.

Part 8: The Economy in the Short Run
There are no major changes in Chapters 21 and 22. These two chapters still lay out the basic demand-determined macro model—first in a closed economy with no government and then in the expanded and more realistic version (with government and foreign trade). In Chapter 23 we have deleted the box on the Keynesian AS curve, but have incorporated some of this material into the body of the text.

Part 9: The Economy in the Long Run
In Chapter 24 we have re-designed the opening section of the chapter, which explains the three macroeconomic states, and have shortened our discussion toward the end of the chapter regarding the effects of fiscal policy on potential output. We have deleted the former Chapter 25, but moved the box on real-world examples of productivity growth to the newly renumbered Chapter 25, which examines long-run growth.

Part 10: Money, Banking, and Monetary Policy
The two opening chapters on money and banking and the money market are still largely unchanged. In Chapter 28, which examines Canadian monetary policy in considerable detail, we have extended the final section to discuss the slow economic recovery since 2011, and the challenges faced by the Bank’s new governor.

Part 11: Macroeconomic Problems and Policies
In Chapter 29 on inflation, we have removed the box on expectations formation, but say more about it in the main part of the text. We have also deleted the box on the NAIRU as a razor’s edge. In Chapter 30, we have clarified the discussion about the two competing sets of theories regarding fluctuations in unemployment. In Chapter 31 on deficits and debt, we have clarified the discussion of the primary budget deficit, and now use numerical examples to demonstrate the concept. We have also entirely reworked our discussion of structural and cyclical budget deficits, and how these relate to the stance of fiscal policy.
Part 12: Canada in the Global Economy

In Chapter 32 on the gains from trade, we have clarified our discussion of scale economies and intra-industry trade. In Chapter 33 we have vastly streamlined the discussion of the WTO (and GATT) and we have deleted the box on the transformation of Canadian trade. In Chapter 34 we have clarified the connection between the official financing account and the central bank’s intervention in the foreign-exchange market. We have also shortened the algebraic derivation of the current account, and moved this material into a footnote. We have updated the discussion of the shock-absorbing properties of the exchange rate using the most recent decline in the world price of oil as an example.

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Welcome to what is most likely your first book about economics! You are about to encounter what is for most people a new way of thinking, which often causes people to see things differently than they did before. But learning a new way of thinking is not always easy, and you should expect some hard work ahead. We do our best to be as clear and logical as possible and to illustrate our arguments whenever possible with current and interesting examples.

You must develop your own technique for studying, but the following suggestions may prove helpful. Begin by carefully considering the Learning Objectives at the beginning of a chapter. Read the chapter itself relatively quickly in order to get the general idea of the argument. At this first reading, you may want to skip the boxes and any footnotes. Then, after reading the Summary and the Key Concepts (at the end of each chapter), reread the chapter more slowly, making sure that you understand each step of the argument.

With respect to the figures and tables, be sure you understand how the conclusions that are stated in boldface at the beginning of each caption have been reached. You should be prepared to spend time on difficult sections; occasionally, you may spend an hour on only a few pages. Paper and pencil are indispensable equipment in your reading. It is best to follow a difficult argument by building your own diagram while the argument unfolds rather than by relying on the finished diagram as it appears in the book.

The end-of-chapter Study Exercises require you to practise using some of the concepts that you learned in the chapter. These will be excellent preparation for your exams. To provide you with immediate feedback, we have posted Solutions to Selected Study Exercises on MyEconLab (www.myeconlab.com). We strongly advise that you should seek to understand economics, not to memorize it.

The red numbers in square brackets in the text refer to a series of mathematical notes that are found starting on page M-1 at the end of the book. For those of you who like mathematics or prefer mathematical argument to verbal or geometric exposition, these may prove useful. Others may disregard them.

In this edition of the book, we have incorporated many elements to help you review material and prepare for examinations. A brief description of all the features in this book is given in the separate section that follows.

We encourage you to make use of MyEconLab that accompanies this book (www.myeconlab.com) at the outset of your studies. MyEconLab contains a wealth of valuable resources to help you. MyEconLab provides Solutions to Selected Study Exercises. It also includes many additional practice questions, some of which are modelled on Study Exercises in the book. You can also find animations of some of the key figures in the text, marked with the symbol below the figure number, as well as an electronic version of the textbook. For more details about MyEconLab, please see the description on the inside front cover of your text.

Over the years, the book has benefited greatly from comments and suggestions we have received from students. Please feel free to send your comments to christopher.ragan@mcgill.ca. Good luck, and we hope you enjoy your course in economics!
Features of This Edition

We have made a careful effort with this edition to incorporate features that will facilitate the teaching and learning of economics.

- A set of Learning Objectives at the beginning of each chapter, correlated to the Chapter Outline, clarifies the skills and knowledge to be learned in each chapter. These same learning objectives are used in the chapter summaries, as well as in the Study Guide.

- Major ideas are highlighted with a yellow background in the text.
- Key terms are boldfaced where they are defined in the body of the text, and they are restated with their definitions in the margins. In the index at the back of the book, each key term and the page reference to its definition are boldfaced.

- The colour scheme for figures consistently uses the same colour for each type of curve. For example, all demand curves are blue and all supply curves are red.
- A caption for each figure and table summarizes the underlying economic reasoning. Each caption begins with a boldfaced statement of the relevant economic conclusion.

- Applying Economic Concepts boxes demonstrate economics in action, providing examples of how theoretical material relates to issues of current interest.
- Extensions in Theory boxes provide a deeper treatment of a theoretical topic that is discussed in the text.
- Lessons from History boxes contain discussions of a particular policy debate or empirical finding that takes place in a historical context.
- Photographs with short captions are interspersed throughout the chapters to illustrate some of the arguments.
Chapter Summaries are organized using the same numbered heading as found in the body of the chapter. The relevant Learning Objective (LO) numbers are given in red next to each heading in the summary.

Key Concepts are listed near the end of each chapter.

A set of Study Exercises is provided for each chapter. These often quantitative exercises require the student to analyze problems by means of computations, graphs, or explanations.

A set of Mathematical Notes is presented in a separate section near the end of the book. Because mathematical notation and derivations are not necessary to understand the principles of economics but are more helpful in advanced work, this seems to be a sensible arrangement. References in the text to these mathematical notes are given by means of red numbers in square brackets.

A Timeline of Great Economists, extending from the mid-seventeenth century to the late twentieth century, is presented near the end of the book. Along this timeline we have placed brief descriptions of the life and works of some great economists, most of whom the reader will encounter in the textbook. The timeline also includes some major world events in order to give readers an appreciation of when these economists did their work.

Economists on Record, on the inside of the back cover, provides some classic quotations that are relevant to the study and practice of economics.

For convenience, a list of the Common Abbreviations Used in the Text is given inside the front cover.
MYECONLAB

The Ragan MyEconLab has been designed and refined with a single purpose in mind: to create those moments of understanding that transform the difficult into the clear and obvious. With homework, quiz, test, activity, and tutorial options, instructors can manage all their assessment needs in one program.

- All of the end-of-chapter study exercises are assignable and automatically graded in MyEconLab.
- The Gradebook records each student’s performance and time spent on the Tests and Study Plan and generates reports by student or by chapter.
- The Gradebook records each student’s performance and time spent on the Tests and Study Plan and generates reports by student or by chapter.
- Test Bank questions are also assignable for test, quiz, or homework and auto-graded in the MyEconLab.

MyEconLab also includes the following features.

Adaptive Learning

MyEconLab’s Study Plan is now powered by a sophisticated adaptive learning engine that tailors learning material to meet the unique needs of each student. MyEconLab’s new Adaptive Learning Study Plan monitors students’ performance on homework, quizzes, and tests and continuously makes recommendations based on that performance.

If a student is struggling with a concept such as supply and demand, or having trouble calculating a price elasticity of demand, the Study Plan provides personalized remediation activities—a pathway based on personal proficiencies, the number of attempts, back on track. Students will also receive recommendations for additional practice in the form of rich multimedia learning aids such as videos, an interactive eText, Help Me Solve This tutorials, and graphing tools.

The Study Plan can extrapolate a student’s future trouble spots and provide learning material and practice to avoid pitfalls. In addition, students who are showing a high degree of success with the assessment material are offered a chance to work on future topics based on the professor’s course coverage preferences. This personalized and adaptive feedback and support ensure that your students are optimizing their current and future course work and mastering the concepts, rather than just memorizing and at guessing answers.


Economics in the News

Economics in the News is a turnkey solution to bringing current news into the classroom. Updated weekly during the academic year, two relevant articles (one micro, one macro) are uploaded with questions that may be assigned for homework or for classroom discussion.

Digital Interactives

Digital Interactives immerse students in a fundamental economic principle, helping them to learn actively. They can be presented in class as a visually stimulating, highly engaging lecture tool, and can also be assigned with assessment questions for grading. Digital Interactives are designed for use in traditional, online, and hybrid courses, and many incorporate real-time, as well as data display and analysis tools. To learn more, and for a complete list of digital interactives, visit www.myeconlab.com.

Learning Catalytics

Learning Catalytics is a bring-your-own-device classroom engagement tool instructors can use to ask students questions utilizing 18 different question types, allowing students to participate in real time during lectures. With Learning Catalytics you can:

- Engage students in real time, using open-ended tasks to probe student understanding.
- Promote student participation using any modern Web-enabled device they already have—laptop, smartphone, or tablet.
- Address misconceptions before students leave the classroom.
- Understand immediately where students are and adjust your lecture accordingly.
- Improve your students’ critical thinking skills.
- Engage with and record the participation of every student in your classroom.
Learning catalytics gives you the flexibility to create your own questions to fit your course exactly or to choose from a searchable question library Pearson has created. For more information, visit learningcatalytics.com.

**Dynamic Study Modules**

Dynamic Study Modules, which focus on key topic areas and are available from within MyEconLab, are an additional way for students to obtain tailored help. These modules work by continuously assessing student performance and activity on discrete topics and provide personalized content in real time to reinforce concepts that target each student’s particular strengths and weaknesses.

Each Dynamic Study Module, accessed by computer, smartphone, or tablet, promotes fast learning and long-term retention. Because MyEconLab and Dynamic Study Modules help students stay on track and achieve a higher level of subject-matter mastery, more class time is available for interaction, discussion, collaboration, and exploring applications to current news and events.

Instructors can register, create, and access all of their MyEconLab courses at www.myeconlab.com.

**Pearson eText**

Pearson eText gives students access to the text whenever and wherever they have online access to the Internet. eText pages look exactly like the printed text, offering powerful new functionality for students and instructors. Users can create notes, highlight text in different colours, create bookmarks, zoom, click hyperlinked words and phrases to view definitions, and view in single-page or two-page view.

**INSTRUCTOR’S RESOURCES**

These instructor supplements are available for download from a password-protected section of Pearson Canada’s online catalogue (www.pearsoncanada.ca/highered). Navigate to your book’s catalogue page to view a list of those supplements that are available. Speak to your local Pearson sales representative for details and access.

**Instructor’s Manual**

• An Instructor’s Manual (in both Word and PDF format) written by Christopher Ragan. It includes full solutions to all the Study Exercises.

**Computerized Test Bank**

• Computerized Test Bank. Pearson’s computerized test banks allow instructors to filter and select questions to create quizzes, tests or homework. Instructors can revise questions or add their own, and may be able to choose print or online options. These questions are also available in Microsoft Word format.

**PowerPoint Slides**

• PowerPoint® Slides, covering the key concepts of each chapter, that can be adapted for lecture presentations.

**Image Library**

• An Image Library, consisting of all the figures and tables from the textbook in gif format. These files can easily be imported into PowerPoint slides for class presentation.

**Additional Topics**

• Additional Topics, written by Christopher Ragan, offering optional topics on a wide variety of economic subjects. A list of these topics is included in the text; students can access them on MyEconLab (www.myeconlab.com).

**TECHNOLOGY SPECIALISTS**

Learning Solutions Managers. Pearson’s Learning Solutions Managers work with faculty and campus course designers to ensure that Pearson technology products, assessment tools, and online course materials are tailored to meet your specific needs. This highly qualified team is dedicated to helping schools take full advantage of a wide range of educational resources, by assisting in the integration of a variety of instructional materials and media formats. Your local Pearson Canada sales representative can provide you with more details on this service program.
It would be impossible to acknowledge here by name all the teachers, colleagues, and students who contributed to the development and improvement of this book over its previous fourteen editions. Hundreds of users have written to us with specific suggestions, and much of the credit for the improvement of the book over the years belongs to them. We can no longer list them individually but we thank them all sincerely.

For the development of this fifteenth edition, we are grateful to the many people who offered informal suggestions. We would also like to thank the following instructors who provided us with formal reviews of the textbook. Their observations and recommendations were extremely helpful.

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- Mayssun El-Attar Vilalta, McGill University

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Christopher Ragan
About the Author

Chris Ragan received his B.A. in economics from the University of Victoria, his M.A. from Queen’s University, and his Ph.D. from the Massachusetts Institute of Technology in Cambridge, Massachusetts in 1990. He then joined the Department of Economics at McGill University in Montreal, where he has taught graduate courses in macroeconomics and international finance and undergraduate courses in macroeconomic theory and policy, current economic issues, and financial crises. Over the years he has taught principles of economics (micro and macro) to thousands of students at McGill and maintains a reputation on campus as being “super-excited” about economics. In 2007, Chris Ragan was awarded the Noel Fieldhouse Teaching Award from McGill for teaching excellence.

Professor Ragan’s research focuses mainly on the design and implementation of macroeconomic policy in Canada. He has been privileged to serve the federal government in Ottawa as Special Advisor to the Governor of the Bank of Canada and as the Clifford Clark Visiting Economist at the Department of Finance. He currently serves as the chair of Canada’s Ecofiscal Commission, a five-year project of independent economists and advisors to promote the greater use of pollution pricing in the Canadian economy.

Chris Ragan used the third edition of this textbook as an undergraduate student in 1981 and joined Richard Lipsey as a co-author in 1997 for the book’s ninth edition. For several editions, Lipsey and Ragan worked diligently to maintain the book’s reputation as the clearest and most comprehensive introductory economics textbook in Canada. Although Professor Ragan is now the sole listed author, this fifteenth edition of Economics still owes much to the dedication of previous authors, including Richard Lipsey, Douglas Purvis, and Gordon Sparks.