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Principles of Economics: a Guided Tour

INTRODUCTION

- 1 Ten Principles of Economics ————— *The study of economics is guided by a few big ideas.*
- 2 Thinking Like an Economist ————— *Economists view the world as both scientists and policymakers.*
- 3 Interdependence and the Gains from Trade ————— *The theory of comparative advantage explains how people benefit from economic interdependence.*

HOW MARKETS WORK

- 4 The Market Forces of Supply and Demand ————— *How does the economy coordinate interdependent economic actors? Through the market forces of supply and demand.*
- 5 Elasticity and Its Application —————
- 6 Supply, Demand, and Government Policies ————— *The tools of supply and demand are put to work to examine the effects of various government policies.*

MARKETS AND WELFARE

- 7 Consumers, Producers, and the Efficiency of Markets ————— *Why is the equilibrium of supply and demand desirable for society as a whole? The concepts of consumer and producer surplus explain the efficiency of markets, the costs of taxation, and the benefits of international trade.*
- 8 Application: The Costs of Taxation —————
- 9 Application: International Trade —————

THE ECONOMICS OF THE PUBLIC SECTOR

- 10 Externalities ————— *Market outcomes are not always efficient, and governments can sometimes remedy market failure.*
- 11 Public Goods and Common Resources —————
- 12 The Design of the Tax System ————— *To fund programs, governments raise revenue through their tax systems, which are designed with an eye toward balancing efficiency and equity.*

FIRM BEHAVIOR AND THE ORGANIZATION OF INDUSTRY

- 13 The Costs of Production ————— *The theory of the firm sheds light on the decisions that lie behind supply in competitive markets.*
- 14 Firms in Competitive Markets —————
- 15 Monopoly —————
- 16 Monopolistic Competition ————— *Firms with market power can cause market outcomes to be inefficient.*
- 17 Oligopoly —————

THE ECONOMICS OF LABOR MARKETS

- 18 The Markets for the Factors of Production
- 19 Earnings and Discrimination
- 20 Income Inequality and Poverty

These chapters examine the special features of labor markets, in which most people earn most of their income.

TOPICS FOR FURTHER STUDY

- 21 The Theory of Consumer Choice
- 22 Frontiers of Microeconomics

Additional topics in microeconomics include household decision making, asymmetric information, political economy, and behavioral economics.

THE DATA OF MACROECONOMICS

- 23 Measuring a Nation's Income
- 24 Measuring the Cost of Living

The overall quantity of production and the overall price level are used to monitor developments in the economy as a whole.

THE REAL ECONOMY IN THE LONG RUN

- 25 Production and Growth
- 26 Saving, Investment, and the Financial System
- 27 The Basic Tools of Finance
- 28 Unemployment

These chapters describe the forces that in the long run determine key real variables, including GDP growth, saving, investment, real interest rates, and unemployment.

MONEY AND PRICES IN THE LONG RUN

- 29 The Monetary System
- 30 Money Growth and Inflation

The monetary system is crucial in determining the long-run behavior of the price level, the inflation rate, and other nominal variables.

THE MACROECONOMICS OF OPEN ECONOMIES

- 31 Open-Economy Macroeconomics: Basic Concepts
- 32 A Macroeconomic Theory of the Open Economy

A nation's economic interactions with other nations are described by its trade balance, net foreign investment, and exchange rate.

A long-run model of the open economy explains the determinants of the trade balance, the real exchange rate, and other real variables.

SHORT-RUN ECONOMIC FLUCTUATIONS

- 33 Aggregate Demand and Aggregate Supply
- 34 The Influence of Monetary and Fiscal Policy on Aggregate Demand
- 35 The Short-Run Trade-off between Inflation and Unemployment

The model of aggregate demand and aggregate supply explains short-run economic fluctuations, the short-run effects of monetary and fiscal policy, and the short-run linkage between real and nominal variables.

FINAL THOUGHTS

- 36 Six Debates over Macroeconomic Policy

A capstone chapter presents both sides of six major debates over economic policy.

SUGGESTIONS FOR Summer Reading

If you enjoyed the economics course that you just finished, you might like to read more about economic issues in the following books.



Daron Acemoglu and James A. Robinson

Why Nations Fail: The Origins of Power, Prosperity, and Poverty

(New York: Crown Publishing, 2012)

An economist and political scientist argue that establishing the right institutions is the key to economic success.

Abijit Banerjee and Esther Duflo

Poor Economics

(New York: Public Affairs, 2011)

Two prominent development economists offer their proposal on how to fight global poverty.

Yoram Bauman and Grady Klein

The Cartoon Introduction to Economics

(New York: Hill and Wang, 2010)

Basic economic principles, with humor.

Ben S. Bernanke

The Courage to Act: A Memoir of a Crisis and Its Aftermath

(New York: Norton, 2015)

A former chair of the Federal Reserve offers his take on what we learned from the financial crisis that shook the world in 2008 and 2009.

William Breit and Barry T. Hirsch

Lives of the Laureates

(Cambridge, MA: MIT Press, 2009)

Twenty-three winners of the Nobel Prize in Economics offer autobiographical essays about their life and work.

Bryan Caplan

The Myth of the Rational Voter: Why Democracies Choose Bad Policies

(Princeton, NJ: Princeton University Press, 2008)

An economist asks why elected leaders often fail to follow the policies that economists recommend.

Angus Deaton

The Great Escape: Health, Wealth, and the Origins of Inequality

(Princeton, NJ: Princeton University Press, 2013)

The 2015 Nobel laureate in economics discusses why the world is now a vastly richer place than it was in the past and why some people have been left behind.

Avinash Dixit and Barry Nalebuff

The Art of Strategy: A Game Theorist's Guide to Success in Business and Life

(New York: Norton, 2008)

This introduction to game theory discusses how all people—from corporate executives to criminals under arrest—should and do make strategic decisions.

William Easterly

The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor

(New York: Basic Books, 2013)

A former World Bank economist examines the many attempts to help the world's poorest nations and why these attempts have so often failed.

Milton Friedman

Capitalism and Freedom

(Chicago: University of Chicago Press, 1962)

In this classic book, one of the most important economists of the 20th century argues that society should rely less on the government and more on the free market.

Robert L. Heilbroner

The Worldly Philosophers

(New York: Touchstone, 1953, revised 1999)

A classic introduction to the lives, times, and ideas of the great economic thinkers, including Adam Smith, David Ricardo, and John Maynard Keynes.

Steven E. Landsburg

The Armchair Economist: Economics and Everyday Life

(New York: Free Press, 2012)

Why does popcorn cost so much at movie theaters? Steven Landsburg discusses this and other puzzles of economic life.

Steven D. Levitt and Stephen J. Dubner

Freakonomics: A Rogue Economist Explores the Hidden Side of Everything

(New York: Morrow, 2005)

Economic principles and clever data analysis applied to a wide range of offbeat topics, including drug dealing, online dating, and sumo wrestling.

Michael Lewis

The Big Short: Inside the Doomsday Machine

(New York: Norton, 2010)

How a few savvy investors managed to make money during the financial crisis of 2008 and 2009.

Roger Lowenstein

America's Bank: The Epic Struggle to Create the Federal Reserve

(New York: Penguin Press, 2015)

A history of the founding of one of the most important policymaking institutions in the United States.

Burton G. Malkiel

A Random Walk Down Wall Street

(New York: Norton, 2015)

This introduction to stocks, bonds, and financial economics is not a "get rich quick" book, but it might help you get rich slowly.

John McMillan

Reinventing the Bazaar: A Natural History of Markets

(New York: Norton, 2002)

A deep and nuanced, yet still very readable, analysis of how society can make the best use of market mechanisms.

P. J. O'Rourke

Eat the Rich: A Treatise on Economics

(New York: Atlantic Monthly Press, 1998)

A humorist asks why some nations prosper while others don't. He answers with a world tour that takes the reader from Albania to the New York Stock Exchange.

Richard H. Thaler

Misbehaving: The Making of Behavioral Economics

(New York: Norton, 2015)

A leading behavioral economist explains why we should question traditional assumptions of rationality.



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N. Gregory Mankiw

Harvard University



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Principles of Economics,
Eighth Edition

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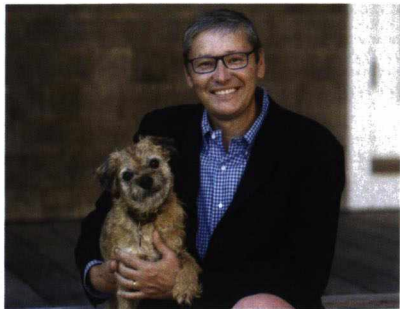
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*To Catherine, Nicholas, and Peter,
my other contributions to the next generation*

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About the Author



Joan Chod

N. Gregory Mankiw is the Robert M. Beren Professor of Economics at Harvard University. As a student, he studied economics at Princeton University and MIT. As a teacher, he has taught macroeconomics, microeconomics, statistics, and principles of economics. He even spent one summer long ago as a sailing instructor on Long Beach Island.

Professor Mankiw is a prolific writer and a regular participant in academic and policy debates. His work has been published in scholarly journals, such as the *American Economic Review*, *Journal of Political Economy*, and *Quarterly Journal of Economics*, and in more popular forums, such as the *New York Times* and *The Wall Street Journal*. He is also author of the best-selling intermediate-level textbook *Macroeconomics* (Worth Publishers). In addition to his teaching, research, and writing, Professor Mankiw has been a research associate of the National Bureau of Economic Research, an adviser to the Congressional Budget Office and the Federal Reserve Banks of Boston and New York, and a member of the ETS test development committee for the Advanced Placement exam in economics. From 2003 to 2005, he served as chairman of the President's Council of Economic Advisers.

Professor Mankiw lives in Wellesley, Massachusetts, with his wife, Deborah, three children, Catherine, Nicholas, and Peter, and their border terrier, Tobin.