

BRIEF CONTENTS

About the authors vii
Preface viii
Acknowledgements ix

PART 1 Introduction to economics 1

- 1** Ten principles of economics 1
- 2** Thinking like an economist 17

PART 2 Supply and demand: How markets work 41

- 3** The market forces of supply and demand 41

PART 3 The data of macroeconomics 73

- 4** Measuring a nation's income 73
- 5** Measuring the cost of living 92

PART 4 The real economy in the long run 109

- 6** Production and growth 109
- 7** Unemployment 133

PART 5 Interest rates, money and prices in the long run 155

- 8** Saving, investment and the financial system 155
- 9** The basic tools of finance 175
- 10** The monetary system 194
- 11** Money growth and inflation 219

PART 6 The macroeconomics of open economies 241

- 12** Open-economy macroeconomics: Basic concepts 241
- 13** A macroeconomic theory of the open economy 258

PART 7 Short-run economic fluctuations 273

- 14** Business cycles 273
- 15** Keynesian economics and IS-LM analysis 291
- 16** Aggregate demand and aggregate supply 315
- 17** The influence of monetary and fiscal policy on aggregate demand 338
- 18** The short-run trade-off between inflation and unemployment 357
- 19** Supply-side policies 381

PART 8 International macroeconomics 395

- 20** Common currency areas and european monetary union 395
- 21** The financial crisis and sovereign debt 418

About the authors vii
Preface viii
Acknowledgements ix

PART 1 INTRODUCTION TO ECONOMICS 1

1 Ten principles of economics 1

What is economics? 1
How people make decisions 2
How people interact 6
How the economy as a whole works 8
Conclusion 12

2 Thinking like an economist 17

Introduction 17
The economist as scientist 17
The economist as policy advisor 23
Why economists disagree 24
Let's get going 28
Appendix
Graphing and the tools of economics: A brief review 30

PART 2 SUPPLY AND DEMAND: HOW MARKETS WORK 41

3 The market forces of supply and demand 41

Markets and competition 41
Demand 43
Supply 50
Supply and demand together 56
Conclusion: How prices allocate resources 67

PART 3 THE DATA OF MACROECONOMICS 73

4 Measuring a nation's income 73

The economy's income and expenditure 74
The measurement of gross domestic product 75
The components of GDP 77
Real versus nominal GDP 81
GDP and economic well-being 85
Conclusion 88

5 Measuring the cost of living 92

The consumer prices index 92
Correcting economic variables for the effects of inflation 101
Conclusion 104

PART 4 THE REAL ECONOMY IN THE LONG RUN 109

6 Production and growth 109

Economic growth around the world 110
Growth theory 112
Productivity: Its role and determinants 113
Economic growth and public policy 118
Conclusion: The importance of long-run growth 129

7 Unemployment 133

Identifying unemployment 133
Job search 140
Minimum wage laws 142
Unions and collective bargaining 144
The theory of efficiency wages 146
The cost of unemployment 147
Conclusion 150

PART 5 INTEREST RATES, MONEY AND PRICES IN THE LONG RUN 155

8 Saving, investment and the financial system 155

Financial institutions in the economy 156
Saving and investment in the national income accounts 163
The market for loanable funds 166
Conclusion 171

9 The basic tools of finance 175

Present value: Measuring the time value of money 175
Managing risk 177
Asset valuation 184
Conclusion 190

10 The monetary system 194

The meaning of money 195
The role of central banks 201
The European Central Bank and the Eurosystem 202
The Bank of England 203
Banks and the money supply 204
Conclusion 215

11 Money growth and inflation 219

The classical theory of inflation 220
The costs of inflation 230
Conclusion 235

PART 6 THE MACROECONOMICS OF OPEN ECONOMIES 241

12 Open-economy macroeconomics: Basic concepts 241

The international flows of goods and capital 242
The prices for international transactions: Real and nominal exchange rates 245
A first theory of exchange rate determination: Purchasing power parity 248
Conclusion 254

13 A macroeconomic theory of the open economy 258

Supply and demand for loanable funds and for foreign currency exchange 258
Equilibrium in the open economy 261
How policies and events affect an open economy 264
Conclusion 270

PART 7 SHORT-RUN ECONOMIC FLUCTUATIONS 273

14 Business cycles 273

Trend growth rates 274
Causes of changes in the business cycle 281
Business cycle models 282
Conclusion 286

15 Keynesian economics and IS-LM analysis 291

The Keynesian cross 291
The multiplier effect 295
The IS and LM curves 301
General equilibrium using the IS-LM model 303
From IS-LM to aggregate demand 305
Conclusion 311

16 Aggregate demand and aggregate supply 315

Three key facts about economic fluctuations 315
Explaining short-run economic fluctuations 316
The aggregate demand curve 318
The aggregate supply curve 322
Two causes of economic fluctuations 327
New Keynesian economics 333
Conclusion 334

17 The influence of monetary and fiscal policy on aggregate demand 338

How monetary policy influences aggregate demand 338
How fiscal policy influences aggregate demand 345
Using policy to stabilize the economy 349
Conclusion 352

18 The short-run trade-off between inflation and unemployment 357

- The Phillips curve 357
- Shifts in the Phillips curve: The role of expectations 360
- The long-run vertical Phillips curve as an argument for Central Bank independence 366
- Shifts in the Phillips curve: the role of supply shocks 368
- The cost of reducing inflation 370
- Inflation targeting 375
- Conclusion 376

19 Supply-side policies 381

- Shifts in the aggregate supply curve 381
- Types of supply-side policies 385
- Conclusion 392

PART 8

INTERNATIONAL

MACROECONOMICS 395

20 Common currency areas and European monetary union 395

- The euro 396
- The single European market and the euro 396
- The benefits and costs of a common currency 398
- The theory of optimum currency areas 401
- Is Europe an optimum currency area? 404
- Fiscal policy and common currency areas 408
- Conclusion 413

21 The financial crisis and sovereign debt 418

- Bubbles and speculation 418
- The sovereign debt crisis 429
- Austerity policies – too far too quickly? 433

Glossary 441

Index 446

Credits 450