



# ECONOMIC PRINCIPLES

Seven Ideas for Thinking ...

About Almost Anything


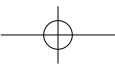


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## NOTE TO INSTRUCTORS

What does the world need another principles textbook for? That's a legitimate question, and the answer is mostly personal. I began teaching economic theory in 1982 as a teaching assistant. Within a couple of years I was lecturing and wondering why most textbooks were i) long, ii) similar in content, iii) boring, iv) expensive, and v) so darned politically correct. I got to the point where even the word "widget" bothered me. Several years later I co-authored a third year textbook with the intention of writing a book that would avoid most of the pitfalls in other books. No doubt every textbook writer starts with the same objectives. I discovered the publishing industry is structured in such a way that it is almost impossible to write outside the mold.


In order for publishers to make money on a book they have to cater to the "average" student, in the "average" class, being taught by the "average" instructor. They must keep an eye open for unconventional topics or missing chapters. They also have to worry about books "offending someone." Printing a conventional textbook is expensive and involves a substantial risk. It also involves significant costs to correct mistakes. All of these factors lead to the bland books we see in the market place.

With these thoughts in mind, I initially published this book as an electronic text. An electronic text is cheap, easy to change, and I had complete control over the book. With complete control I was able to avoid the marketing problem of a conventional textbook. When marketing a conventional book, publishers "fish" for customers by sending every potential teacher a free copy, followed up by a visit from a sales representative. In addition to the book there is a litany of "supplements": instructor guides, overheads, test banks, study guides, software, perhaps even Internet support. These supplements cost money and these costs get built into the price of the book. The bottom line is students pay over \$100 for a typical textbook. So the second reason for writing and publishing an electronic book was to produce a basic book with a low price.


Unfortunately there turned out to be a major drawback to an electronic book. The Napster generation just stole it. One student would buy a copy and then just email it to all his or her friends. Others would post the book on pirate websites. In the end, the costs of trying to protect the copyrighted material exceeded revenues.

But all is not lost. Pearson understood what I was trying to do with my book and has arranged to publish the original book through its courseware division. By using this unconventional method of delivering the book, editorial control remains with the author. In addition, the lower printing costs, and absence of supplements means that the book is still one of the lowest cost books on the market.

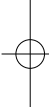
So much for history. What actually makes this book different from other introductory principle texts?

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- First, the book is relatively short. I focus on the essential ideas in microeconomics. The book is not encyclopedic, and hopefully it doesn't read like a dictionary either.
  - Second, the book is quite visual. To aid instructors and students the most important ideas are boxed. There are lots of graphs and tables.
  - Third, the book is full of interesting examples, applications, and even jokes. I've avoided examples about widgets or gadgets, and most examples are real and (at least I think) interesting.

One of the (few) advantages of growing older is having the luxury of time to go back and read the masters of economics. I found this quote from the preface of John Stuart Mill's first edition (1848) of his *Principles* book most interesting. In commenting on Adam Smith's *Wealth of Nations* he states:




The most characteristic quality of that work, and the one in which it most differs from some others which have equaled or even surpassed it as mere expositions of the general principles of the subject, is that it invariably associates the principles with their applications. This of itself implies a much wider range of ideas and of topics than are included in Political Economy, considered as a branch of abstract speculation. ... Except on matters of mere detail, there are perhaps no practical questions, even among those which approach nearest to the character of purely economical questions, which admit of being decided on economical premises alone. And it is because Adam Smith never loses sight of this truth; because, in his applications of Political Economy, he perpetually appeals to other and often far larger considerations than pure Political Economy affords — that he gives that well-grounded feeling of command over the principles of the subject for purposes of practice, owing to which the *Wealth of Nations*, alone among treatises on Political Economy has not only been popular with general readers, but has impressed itself strongly on the minds of men of the world and of legislators.




I don't think this sentiment is any less true today.

- Fourth, the questions at the end of each chapter are a rich source of learning. I've avoided questions like "repeat what is on page 45," and have included questions that make students think. Each chapter has review questions (with answers), which students should be able to do on their own. Each chapter also has a large set of problems (with the odd-numbered ones answered). These questions are harder, and designed for groups to discuss and practice on.
- Fifth, the overriding emphasis is on *explanation*. There is the odd discussion of policy




implications, but I've kept them to a minimum. This might offend some economists, but I believe the most important aspect of a principles course is to teach students how to think like an economist, and this begins with explaining behavior.

- Sixth, the book has not been edited for political correctness. I don't go out of my way to make gratuitous offenses, but I have no idea if the number of female names equals the number of male names, or if I've used enough examples outside my own personal culture ... I probably haven't. I've simply written a text to interest the reader, convince them economics is useful, and perhaps whet their intellectual appetite.
- Seventh, an entire part of the book is devoted to transaction cost economics. I believe the principles of economics apply not only to the volume and terms of trade, but also to how that trade is organized.
- Finally, this book is about economic principles, not mathematical details. There are several appendices to help those who want to learn more about the mechanics of the model. However, the entire book can be read (and understood) without reference to them. Years ago, after teaching a first year class production possibility curves, budget constraints, indifference curves, and demand curves, I came to realize that 90% of the students in the class only saw four downward sloping lines. They didn't have enough economic background to appreciate the difference between the curves. Since then I've found a focus on the key important ideas leads to much better prepared students for intermediate theory.



Over the years a few people have been very helpful to me in developing this book. I'd like to thank Suki Badh, Bogdan Buduru, Les Marshall, and Bill Sjostrom for their assistance and encouragement.



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