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INTERMEDIATE ECONOMICS

JACK HARVEY

FIFTH EDITION

M
MACMILLAN

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Preface to the First Edition

This is a textbook for the student, not a popular account of economic affairs for the everyday man in the street. It recognises that there is no short cut to learning, and asks for a conscientious effort by the reader.

Given that, the book will do its part by making that learning as easy and thorough as possible. At all times I have kept in mind the many students who are working without a tutor, particularly students overseas.

First, the scope of the book is strictly limited. (a) It explains simple economic principles and shows how they can be used to throw light on many of the problems which occur in the real world. (b) It covers the requirements of the GCE 'A' Level syllabus, papers in economics set by professional bodies, and first-year university courses.

Secondly, questions are provided at the end of each chapter and form an integral part of the course. They are of two kinds. The first kind has been designed: (a) to test the student's understanding of the text; (b) to ensure that the student thinks about the ideas expounded; (c) to encourage the student to provide his own examples; (d) to emphasise definitions and important points. To derive full value from the book, a conscientious attempt must be made to answer them. Only when he needs a check or runs into difficulties should the student refer to the answers. The second kind, marked †, deals with special problems which would otherwise interrupt the flow of the text, and takes the student a little further. Indeed, in some respects they are an approach towards 'programmed' learning. The student should be able to think out the answers himself, but it is permissible to refer to the end of the book a little earlier than with the first type of question. These answers should be used to amplify notes.

Thirdly, numerous diagrams are included. Not only do these assist learning by the impact of the visual impression, but they are a neat form of expressing relationships. It is a useful exercise for the student himself to construct other diagrams.

Fourthly, the text is divided into headings and, wherever possible, points are placed under subheadings and enumerated. This assists reading and note-taking.

Although the book provides a complete course, certain sections, especially those describing economic institutions, are given in summary form. Some amplification is provided through the questions, but where the student requires further help he is referred to my *Elementary Economics*. On the other hand, a few sections and questions are 'starred' and the student should not worry if he does not fully understand them at the first attempt. They can be omitted for a later reading.

The student is advised to use the book as follows:

- 1 Read through the whole book quickly.
- 2 Return to the beginning and study each chapter carefully. Write notes in the margin and underline important points of the text.
- 3 Answer the questions at the end of the chapter; check answers with those given.
- 4 Write concise notes covering the chapter material, incorporating examples from the answers to the questions. Tabulate points wherever possible. Such notes will consolidate your understanding, give precision to ideas, and prove invaluable for examination revision. Some practice should also be had in answering the type of question set by the appropriate examining body.

To those critics who may complain that I oversimplify and thus tend towards error, I make little concession. In London I am often asked by a stranger the best way to get to a certain place. The exact answer would be to describe the short cuts which I, a Londoner, would use. In all probability the enquirer would be so confused that, as soon as I was out of sight, he would consult somebody else. So my directions are more likely to be: 'Follow this road to the fourth set of traffic lights, and then ask again'. This is the policy I have adopted for persons starting a study of economics.

It is impossible to thank all who have contributed to this book – firms, nationalised industries, government departments, etc. All have been most helpful when I have sought information. To some persons, however, I am particularly indebted. Mr M. K. Johnson, Lecturer in Economics, Hatfield Polytechnic, has provided many of the questions. The boys of St Clement Danes have proved enthusiastic 'guinea-pigs' for testing purposes, indicating on numerous occasions how the text could be made clearer and the questions and answers improved. My wife has willingly accepted the privations which the writing of this book has entailed. And to my mother and father I owe a special debt. They applied the principle of the division of labour – doing the humdrum chores while I studied.

Preface to the Fifth Edition

This new edition goes much further than bringing facts up to date and revising the text to cover recent changes in institutions, the development of economic theory and the evolution of government policy.

The decision to reset has provided the opportunity to change the whole approach. After an examination of the role of economics and the two main methods, the market economy and the command economy, of organising production, the book concentrates on the market economy and the part that the government can play in improving the way in which it works.

I feel little need to apologise for this 'normative' stance, particularly at a time when 'command' economies are collapsing throughout the world as it has become evident that, in comparison with market economies, they have failed to 'deliver the goods'.

The market economy faces two broad criticisms: (1) it is motivated by self-interest or, expressed in a more extreme form, 'greed'; (2) its attributed efficiency, working through Adam Smith's 'hidden hand', is based on false assumptions.

Admittedly the first is an unattractive feature of the market economy, but in mitigation it does provide a simple motivational objective as opposed to such nebulous alternatives as 'social responsibility' or 'the public good' where everybody's business becomes nobody's business, and where stagnation or even decline can replace the innovation, ingenuity and risk-taking of private enterprise.

The second, market failure, can be identified. Instead of amputating the 'hidden hand', we can direct it. This is the theme of this new edition. Basic economic theory is retained. In examining policies there is nothing so practical as sound theory: it gives coherence in organising thought and provides a means of testing arguments.

This theory is then applied to the various causes of market failure and thus the possible solutions to the major economic problems of the day: the role of the State in the allocation of resources, privatisation policy,

monopoly, the activities of trade unions, paying for state-provided goods and services, pollution, conservation, and government action to achieve full employment, price stability, a balanced regional development, a healthy balance of payments, the European Community, the Single Market, the European Monetary System and aid for less developed countries.

An examination of the above topics involves applying recent developments in economic theory and techniques. Thus the student is introduced to elementary 'welfare economics', cost-benefit analysis, criticisms of Keynes, the view of the monetarists, aggregate demand and aggregate supply analysis, supply-side economics and the relationship between expectations of wage bargainers and inflation.

Although government policy and institutions are dealt with in the context of the UK, overseas students should have little difficulty in applying the principles developed to the particular conditions of their own country.

As there are so many excellent workbooks and multiple choice and data-response question-books available, questions at the end of each chapter have been omitted and the space saved devoted to enlarging the text.

Suggested additional reading has also been omitted for the book aims at being a complete text for the targetted level. However the reader who is interested in further study of the application of theory to the British economy is recommended to read *Understanding the UK Economy*, ed. Peter Curwen (Macmillan Education 1990).