INTRODUCTORY ECONOMICS

INTRODUCTORY ECONOMICS

Barry Harrison
Charles Smith
Brinley Davies

M
MACMILLAN

© Barry Harrison, Charles Smith and Brinley Davies 1992

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London W1P 9HE.

Any person who does any unauthorised act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

First published 1992 by
THE MACMILLAN PRESS LTD
Houndmills, Basingstoke, Hampshire RG21 2XS
and London
Companies and representatives
throughout the world

ISBN 978-0-333-54294-1 ISBN 978-1-349-22006-9 (eBook)
DOI 10.1007/978-1-349-22006-9

A catalogue record for this book is available
from the British Library

Copy-edited and typeset by Povey-Edmondson
Okehampton and Rochdale, England

CONTENTS

<i>List of Figures</i>	ix	An optimum allocation of resources	38
<i>List of Tables</i>	xii	Market failure	38
<i>Acknowledgements</i>	xv	Disadvantages of the price mechanism	41
<i>Preface</i>	xvi	Review questions	43
1 WHAT IS ECONOMICS?	1	5 SOME APPLICATIONS OF PRICE THEORY	44
Connections	1	Connections	44
Key concepts	1	Key concepts	44
What is economics?	1	Price controls	44
The economic problem	1	Black markets: tickets for a big event	46
Opportunity cost	3	The price of new houses	47
Production possibility curves	3	Rent controls	47
Economic systems	4	Agricultural support policies	48
Review questions	8	Review questions	50
2 THE TOOLS OF ECONOMIC ANALYSIS	9	6 THE BASIS OF DEMAND	51
Connections	9	Connections	51
Key concepts	9	Key concepts	51
Economics as a social science	9	The law of diminishing marginal utility	51
The presentation of economic data	10	Indifference analysis	52
The sources of economic data	16	Normal, inferior, Giffen and Veblen goods	56
Economic data and economic policy	17	Review questions	60
Review questions	18	Appendix 1: The principle of equi-marginal returns	61
 		Appendix 2: Indifference curves and total utility	63
3 DEMAND, SUPPLY AND MARKET PRICE	19	Appendix 3: Non-intersection of indifference curves	64
Connections	19	Appendix 4: The income and substitution effects of a price change	65
Key concepts	19		
Demand	19	7 THE LAWS OF RETURNS	66
Supply	21	Connections	66
The determinants of price	23	Key concepts	66
The effects of changes in the underlying conditions of demand and supply	23	The laws of returns	66
Elasticity of demand and supply	25	Economies of scale	68
Review questions	34	Diseconomies of scale	69
 		The growth of firms	70
4 THE PRICE MECHANISM AND MARKET FAILURE	35	Survival of small firms	71
Connections	35	Review questions	73
Key concepts	35		
The functions of price	35		
The rationing function	35		
The 'signalling' function	37		

8 COSTS AND REVENUE	74	Second degree price discrimination	104
Connections	74	Third degree price discrimination	104
Key concepts	74	Disadvantages of price discrimination	105
Costs in the short run: fixed costs and variable costs	74	Advantages of price discrimination	105
Average (unit) and marginal costs	74	Review questions	108
The behaviour of short run variable costs	75	13 IMPERFECT COMPETITION	109
The behaviour of average fixed costs and total average cost	76	Connections	109
The behaviour of average costs in the long run	76	Key concepts	109
The long run average cost curve	78	Monopolistic competition	109
The firm's revenue	79	Oligopoly	111
The firm's profit	79	Review questions	117
The break-even level of output	80	14 LABOUR	118
Review questions	82	Connections	118
9 THE FINANCE OF INDUSTRY	83	Key concepts	118
Connections	83	The division of labour	118
Key concepts	83	Mobility of labour	120
Sources of finance	83	Population	122
The gearing ratio	85	Review questions	127
The Stock Exchange	86	15 ENTERPRISE	128
Review questions	86	Connections	128
10 PERFECT COMPETITION	87	Key concepts	128
Connections	87	What is an entrepreneur?	128
Key concepts	87	Entrepreneurship in large firms	129
Assumptions	87	Implications for the theory of the firm	130
Market conditions	88	Review questions	136
Equilibrium of the firm and industry	88	16 LAND AND CAPITAL	137
Efficiency	91	Connections	137
The supply curve under perfect competition	91	Key concepts	137
Review questions	93	Land	137
11 MONOPOLY	94	Capital	138
Connections	94	Review questions	141
Key concepts	94	17 THE DISTRIBUTION OF FACTOR INCOMES	142
Sources of monopoly	94	Connections	142
The theory of monopoly	95	Key concepts	142
Some important points regarding the theory of monopoly	96	Wages	142
Perfect competition versus monopoly	97	Economic rent	149
Contestable markets	98	Profit	150
Government monopoly policy	98	Interest	151
Monopoly policy in the UK	99	The personal distribution of income and wealth	151
Review questions	101	The functional distribution of income	152
12 PRICE DISCRIMINATION	102	Review questions	155
Connections	102	18 NATIONAL INCOME AND ITS MEASUREMENT	157
Key concepts	102	Connections	157
Conditions under which price discrimination can take place	102	Key concepts	157
First degree price discrimination	103		

The problems of measurement	157	22 AGGREGATE DEMAND AND AGGREGATE SUPPLY	197
Defining national income	159	Connections	197
Measuring national income	159	Key concepts	197
Exclusions from national income	162	The aggregate demand curve	197
Nominal income and real income	162	Aggregate supply	198
Personal income and personal disposable income	163	Long run equilibrium	199
Measuring economic welfare	163	Factors causing a change in aggregate demand	200
International comparisons of the standard of living	165	Factors causing a change in aggregate supply	202
Uses of national income statistics	166	The effect of a change in aggregate demand	203
Review questions	169	The effect of a change in aggregate supply	205
		Review questions	207
19 THE DETERMINATION OF NATIONAL INCOME	170	23 MONEY AND THE CREATION OF BANK DEPOSITS	208
Connections	170	Connections	208
Key concepts	170	Key concepts	208
The model of income determination	170	The functions of money	208
Review questions	180	Components of the money supply	209
		The creation of bank deposits	210
20 NATIONAL INCOME DETERMINATION: THE FOUR- SECTOR ECONOMY	181	The multiple expansion of bank deposits	210
Connections	181	Review questions	213
Key concepts	181	24 THE MONETARY SECTOR	214
Income determination in a three-sector model: the government sector and aggregate demand	181	Connections	214
The equilibrium level of national income in a three-sector model	182	Key concepts	214
A change in government expenditure	182	The securities traded in the money market	214
The three-sector multiplier	183	Financial intermediaries	217
The three-sector model: the injections and leakages approach to income determination	183	The Bank of England	217
The balanced budget multiplier	184	The discount market	219
Income determination in a four-sector model: the foreign trade sector and aggregate demand	185	The retail banks	220
An increase in export expenditure	186	Accepting houses	222
The four-sector multiplier	186	The parallel money markets	222
Review questions	189	The Euro-currency market	223
		Review questions	224
21 INVESTMENT	190	25 MONETARY CONTROL	225
Connections	190	Connections	225
Key concepts	190	Key concepts	225
Discounting to present value (DPV)	190	Defining the money supply	225
Determinants of investment	191	The background to monetary policy	226
Theories of investment	192	Techniques of monetary policy	229
Cost-benefit analysis	193	Review questions	231
Review questions	196	26 INTEREST RATES	232
		Connections	232
		Key concepts	232
		What is 'the rate of interest'?	232
		Why are there so many rates of interest?	233
		The loanable funds theory	233

A modern approach to loanable funds theory	235	31 FREE TRADE AND PROTECTION	290
Liquidity preference theory	236	Connections	290
The term structure of interest rates	242	Key concepts	290
The nominal rate of interest and the real rate of interest	244	Types of restriction on trade	290
Review questions	246	Arguments for protection	292
		Arguments against protection	294
		The 'New Protectionism'	297
27 MEASURING CHANGES IN THE VALUE OF MONEY	247	The General Agreement on Tariffs and Trade	297
Connections	247	Review questions	301
Key concepts	247		
Price relatives	247	32 THE BALANCE OF PAYMENTS	302
Index numbers	247	Connections	302
A weighted price index	248	Key concepts	302
General problems with index numbers	248	The balance of payments	302
The Retail Prices Index	250	The causes of the UK's balance of payments deficit	305
Uses of the RPI	251	Review questions	308
The Tax and Price Index	251		
Review questions	254		
		33 EXCHANGE RATE SYSTEMS	310
28 INFLATION	255	Connections	310
Connections	255	Key concepts	310
Key concepts	255	The foreign exchange market	310
The quantity theory of money	255	The determination of exchange rates in free markets	312
The Keynesian view of inflation	257	Factors causing movements in free market exchange rates	313
The inflationary spiral	258	Fixed exchange rates	315
The Phillips Curve	259	Advantages of floating exchange rates	316
The consequences of inflation	263	Disadvantages of floating exchange rates	317
Review questions	268	Advantages of fixed exchange rates	318
		Disadvantages of fixed rates	318
29 RATIONAL EXPECTATIONS IN ECONOMICS	269	The effective exchange rate	319
Connections	269	Depreciation and the current balance	319
Key concepts	269	Attributes of an effective monetary system	320
The importance of expectations	269	The International Monetary Fund	321
Adaptive expectations	269	Components of international liquidity	321
Rational expectations	270	Review questions	323
Rational expectations and policy-ineffectiveness	270		
The policy implications of rational expectations	273	34 EUROPE'S ECONOMIC COMMUNITY	324
Criticisms of the rational expectations hypothesis	273	Connections	324
Assessment of rational expectations	274	Key concepts	324
Review questions	277	Types of economic integration	324
		Institutions of the EC	324
30 INTERNATIONAL TRADE	278	Financing the EC	325
Connections	278	Why is there an EC?	325
Key concepts	278	EC policies	327
Theories of international trade	278	1992: the removal of barriers to trade	331
Criticisms of the principles of absolute and comparative advantage	282	1992 and European monetary union	332
Intra-industry specialisation	283	The UK 'hard ecu' proposal	333
Review questions	288	1992 and EC competition policy	333
		Review questions	335

35 PUBLIC FINANCE AND TAXATION	336	37 SUPPLY-SIDE POLICIES IN THE UK	359
Connections	336	Connections	359
Key concepts	336	Key concepts	359
Why do governments spend?	336	The advent of 'supply-side' economics	359
Why do governments levy taxes?	337	Reforming the labour market	359
The Budget	337	Tax reform	363
The National Debt	338	Deregulation	366
Classification of taxes	338	Privatisation	366
The principles of taxation	339	Supply-side policies: have they worked?	369
Income tax in the UK	341	UK competitiveness in the 1980s	371
Some less well-known taxes	343	Review questions	372
The impact and incidence of indirect taxes	344		
Direct taxes versus indirect taxes	345	38 DEVELOPMENT AND THE PROBLEMS OF THE LESS DEVELOPED COUNTRIES	373
Review questions	352	Connections	373
36 STABILISATION POLICY	353	Key concepts	373
Connections	353	What is a 'developed country'?	373
Key concepts	353	The sources of economic development	373
The objectives of stabilisation policy	353	Characteristics of developing countries	375
Demand management techniques	355	Choice of developing strategy	376
Conflict between policies?	357	Review questions	385
Why do policies conflict?	358		
Review questions	358	<i>Glossary</i>	387
		<i>Index</i>	393

LIST OF FIGURES

1.1	A typical production possibility curve	4	5.5	The operation of an agricultural support scheme	49
2.1	UK visible imports by commodity; and UK volume of imports	11	5.6	Horizontal world supply curve	50
2.2	UK volume of imports, 1980 and 1989	11	6.1	An indifference curve	53
2.3	A supply curve	12	6.2	An indifference map	53
2.4	A demand curve	13	6.3	A budget line	54
2.5	'Steady decline in savings'	13	6.4	Changes in the budget line	54
2.6	'Savings collapse'	13	6.5	Consumer's maximum possible level of utility	54
2.7	Using a moving average to smooth data	15	6.6	Indifference map for a normal good	55
2.8	Revisions of UK unemployment data	18	6.7	Normal and inferior goods	55
3.1	Movements along a demand curve	20	6.8	The indifference curve and the downward sloping demand curve	56
3.2	Shifts of a demand curve	20	6.9	Types of good	57
3.3	Movements along a supply curve	21	6.10	Matrix box	60
3.4	Shifts of a supply curve	22	6.11	Equi-marginal returns	61
3.5	The determination of equilibrium price	23	6.12	Indifference curves and total utility	63
3.6	Altering the underlying conditions of supply and demand: graphical presentation	24	6.13	Non-intersection of indifference curves	64
3.7	Altering the underlying conditions of supply and demand: tabular presentation	25	6.14	The demand curve, the cross demand curve, and the Engel curve	65
3.8	Elasticity of demand when price rises from £2 to £4	26	7.1	Marginal and average product of labour	67
3.9	Demand curves with constant elasticity	26	7.2	The implications of integration	70
3.10	Price changes and total revenue	29	8.1	Short run relationship between costs and returns	76
3.11	(Price) elasticity of supply	32	8.2	Graphical presentation of unit and marginal costs	77
3.12	Elasticity of supply in the momentary period, the short run, and the long run	33	8.3	Short run average cost curves	77
4.1	The market working perfectly	36	8.4	Short run cost structures in the steel industry	78
4.2	The 'polluter pays' principle	38	8.5	Long run average cost curve	80
4.3	Social cost	40	8.6	Break-even circulation	81
4.4	Supply and demand conditions for car parking in a busy town centre	43	10.1	Relationship between the market and the firm in perfect competition	88
5.1	Maximum and minimum price controls	44	10.2	Equilibrium of the firm: firms entering the industry	89
5.2	Inelastic supply and demand determined price	46	10.3	Equilibrium of the firm: firms leaving the industry	89
5.3	The supply of and demand for new houses	47	10.4	Marginal cost and the supply curve	92
5.4	Shortage of rented property and rent increases	48	10.5	Supply in the long run	93
			11.1	The equilibrium of a monopolist	96
			11.2	Monopoly price and quantity	96
			11.3	Perfect competition versus monopoly	97

12.1	Perfect price discrimination	103	17.11	Membership of TUC-affiliated trade unions, 1970–90	154
12.2	Second degree price discrimination	104	17.12	A Lorenz Curve	154
12.3	Third degree price discrimination	105	17.13	Lorenz curves of income earned and earners	155
12.4	Profits and losses without and with discrimination	106	18.1	Value added at each stage of production	158
13.1	Short run equilibrium under monopolistic competition	110	18.2	Shares in GDP, main industrialised countries, 1985	168
13.2	Long run equilibrium under monopolistic competition	111	18.3	GDP per head, main industrialised countries, 1985	169
13.3	The oligopolist's 'kinked' demand curve	112	19.1	Consumption, investment and aggregate demand	172
13.4	The oligopolist's absorption of a rise in costs	113	19.2	The equilibrium level of income in a two-sector economy	173
13.5	The oligopolist's reaction to changes in demand	114	19.3	Savings, investment and equilibrium	174
14.1	Population change and its components, England and Wales, 1971–2 to 1987–8	123	19.4	An increase in aggregate demand	175
14.2	UK density of population per square mile	123	19.5	The effect of a reduction in aggregate demand	177
14.3	UK proportion of males and females, by age group	124	19.6	A reduction in planned savings	177
14.4	Percentage of UK workforce in primary, secondary and tertiary industry, 1987	124	20.1	An increase in aggregate demand in the three-sector model	183
14.5	Optimum population	124	20.2	The equilibrium level of income: planned injections equals planned leakages	185
14.6	Age structure of UK, 1891 and 1988 and of EC, 1990 and projected 2020	125	20.3	The equilibrium level of income in a four-sector economy	186
15.1	Types of business organisation, private sector, UK	129	20.4	The effect of an increase in exports	187
15.2	Brand names and trade marks owned by Hillsdown Group plc	131	21.1	The equilibrium level of investment	193
15.3	What motivates tycoons	136	22.1	A typical aggregate demand curve	198
16.1	Rises in land prices, UK, 1987–8	138	22.2	Aggregate supply in the short run and the long run	199
16.2	Production possibility curve for consumer and capital goods	140	22.3	Short and long run equilibrium between aggregate demand and aggregate supply	200
17.1	The profit maximising number of workers employed	143	22.4	A change in aggregate demand	200
17.2	The equilibrium wage rate in an occupation	144	22.5	A change in aggregate supply in the short run and the long run	202
17.3	Changes in the wage rate	145	22.6	The effect of an unanticipated increase in aggregate demand on price and output in the short and in the long run	203
17.4	Elasticity of supply of labour and wages	147	22.7	The effect of an unanticipated reduction in aggregate demand	204
17.5	The effect of a monopsonist on the wage rate	148	22.8	The effect of a supply shock on output and prices in the short and long run	205
17.6	Transfer earnings and economic rent	149	22.9	The effect of an increase in wages on prices and output in the short and long run	205
17.7	Transfer earnings and economic rent	150	22.10	The effect of an increase in investment on prices and output in the short and long run	206
17.8	Distribution of personal income, UK, 1989	153	23.1	Deposit of £100,000 in Bank A's balance sheet	211
17.9	Distribution of marketable wealth, UK, 1987	153			
17.10	Functional distribution of income, UK, 1960 and 1987	154			

23.2	Withdrawal of £90,000 from Bank A's balance sheet	211	28.7	Inflation and unemployment, UK, 1976–90	263
23.3	Transfer of funds from Bank A to Bank B: Bank B's balance sheet	211	28.8	A short run Phillips Curve for the UK, 1986–90	264
23.4	Fall in Bank B's cash reserves after a loan	212	29.1	The effect of an unanticipated increase in the money supply of x per cent	271
23.5	Multiple increase in total bank deposits	212	29.2	The effect of a perfectly anticipated increase in the money supply of x per cent	272
24.1	A Treasury bill	215	29.3	An anticipated increase in the money supply: the price level and real output	272
24.2	A local authority bond	216	29.4	Interest rates and growth of money supply, UK, 1980–89	273
24.3	The financial system	224	30.1	A production possibility curve and a trading possibility curve	280
25.1	Relationships between the monetary aggregates and their components	227	30.2	Units of labour required per \$m of output: intercountry comparison, 1980	286
26.1	Supply and demand for loanable funds	234	31.1	The effect of a tariff on economic welfare	294
26.2a	The effect of a change in the demand for loanable funds on the rate of interest	234	32.1	The behaviour of the UK Current Account	306
26.2b	The effect of a change in the supply of loanable funds on the rate of interest	234	32.2	UK motor industry trade deficit cut	308
26.3	The transactions demand for cash and the level of income	237	33.1	Equilibrium rate of exchange	313
26.4	The effect of a change in the frequency of income receipts on an individual's average transactions demand for money	238	33.2	Inflation and the sterling/dollar exchange rate	314
26.5	Speculative or asset demand for money	239	33.3	Maintaining the fixed exchange rate	316
26.6	Overall demand for money in the liquidity preference theory	240	33.4	The J Curve effect	320
26.7	The equilibrium rate of interest	241	33.5	Supply and demand for sterling	323
26.8	Supply and demand for money in equilibrium	241	34.1	Supply and demand analysis of the CAP arrangements	327
26.9	The effect of changes in the demand for money on the position of the liquidity preference curve	242	35.1	Vertical equity	340
26.10	The effect of an increase in the demand for money is offset by an accommodating increase in the supply of money	242	35.2	Personal allowances and income tax rates, UK, 1989/90	342
26.11	A normal yield curve	243	35.3	Tax/benefit changes and the poverty and unemployment traps	343
26.12	The effect on the yield curve of an expected fall in interest rates	243	35.4	Impact and incidence of taxation	344
28.1	The effect of an increase in aggregate demand on the price level	259	35.5	Choices between income and leisure	351
28.2	The effect of an increase in costs on the price level	260	36.1a	The deflationary gap	355
28.3	The inflationary spiral	260	36.1b	The inflationary gap	355
28.4	The Phillips Curve	262	36.2	The Neo-Keynesian 'box'	356
28.5	Employment and the real wage	262	36.3	The effects of direct policies on aggregate demand	357
28.6	Short run Phillips Curves and the expectations augmented or long run Phillips Curve	263	37.1	The unemployment trap	365
			37.2	Indicators of competitiveness, UK, 1970s and 1980s	370
			38.1	Investment as a percentage of GNP	378
			38.2	Past and projected world population	384
			38.3	Age structure in the UK, and India, 1985	384

LIST OF TABLES

2.1	UK visible imports by commodity, 1980 and 1989	11	17.3	Male and female earnings and employment	156
2.2	Price and quantity supplied	12	18.1	National income, UK, 1989	160
2.3	Price and quantity demanded	12	18.2	PPPs and exchange rates, 1985	167
2.4	Increase in personal income on previous year	14	18.3	GDP, 1985, £bn	168
2.5	Expenditure on motor vehicles: moving average	15	18.4	GDP, 1985, £per head	168
2.6	Expenditure on motor vehicles: seasonally adjusted data	16	19.1	Aggregate demand in a two-sector economy	172
2.7	Average weekly earnings of manual workers, UK manufacturing industry, 1988	16	19.2	The equilibrium level of national income	172
3.1	Income and own-price elasticities of demand and cross elasticities of demand	30	19.3	Planned investment exactly equals planned savings	174
3.2	Estimate own-price, cross and income elasticities	31	19.4	MPC, proportion of extra income spent on consumption, and the multiplier effect	175
6.1	Combinations of apples and pears giving equal levels of utility	52	19.5	Planned investment, national income and savings	176
7.1	Output change as more workers are employed	67	19.6	A reduction in aggregate demand	177
7.2	UK firms, employment and turnover, 1986 and 1979	72	19.7	Disposable income, consumption and savings, 1983–90	178
7.3	Output variation with increasing amounts of labour and fixed amounts of other factors	73	19.8	Household wealth, 1984–8	180
8.1	The behaviour of variable and marginal cost	75	21.1	Discounting to present value	190
8.2	Behaviour of average total cost	76	21.2	The mechanics of the accelerator	192
8.3	Behaviour of average revenue and marginal revenue as sales change	79	21.3	Investment and GNP, 1978–88	196
8.4	Relationship between revenues, costs and profit at various levels of output	80	24.1	Banks in the UK: combined balance sheet of monthly reporting institutions	221
9.1	Sources of funding for UK industrial and commercial companies	85	27.1	Index of prices	248
11.1	Market conditions and monopoly	95	27.2	Weighted index of prices	249
11.2	Main instruments of UK monopoly	99	27.3	Weights assigned to items in the RPI	250
13.1	Concentration ratios in selected industries	111	27.4	Changes in prices and the value of money	254
14.1	Internal migration	121	28.1	Inflation in the Weimar Republic, 1913–23	256
17.1	Physical product and revenue product	143	28.2	Inflation in Hungary, 1938–46	256
17.2	The effect of state intervention on the distribution of personal income	152	29.1	Changes in GDP, inflation, unemployment and money growth, UK, 1980–5	276
			30.1	World exports, 1981–9	278
			30.2	Production possibilities for wheat and cars, UK and Portugal	279
			30.3	Units of output produced without specialisation, UK and Portugal	279
			30.4	Units of output produced after specialisation, UK and Portugal	279

30.5	Specialisation by absolute advantage	281	32.4	Net invisible exports, 1985–90	307
30.6	Comparative advantage	282	32.5	Increase in domestic demand	307
30.7	Self-sufficiency and complete specialisation, UK and Portugal	282	33.1	Rates of exchange	311
30.8	Partial specialisation	283	33.2	International reserves	322
30.9	Growth of exports	285	34.1	EC revenue and expenditure, 1988	325
30.10	Intra-bloc trade as percentage of total trade	286	34.2	CAP financial support, 1988	328
30.11	Successful international specialisation	287	34.3	Value of an ecu, 1990	330
30.12	Value added per worker and wage rate, developed and developing countries	289	34.4	Inflation rates before and after EMS	331
31.1	Annual average growth of <i>per capita</i> real GNP, 1973–85	293	35.1	Tax revenues raised, 1990–91	338
31.2	Relative magnitude of welfare effects, USA	296	37.1	The costs of four UK privatisations	368
32.1	UK balance of payments, 1990	304	37.2	UK privatisations	368
32.2	UK balance of payments deficit, 1986–91	306	37.3	Growth of labour productivity	369
32.3	Interest, profits and dividends, 1988Q1–1989Q4	306	37.4	International comparison of output per head	370
			38.1	Economic development	375
			38.2	Economic indicators in two groups of developing countries	377
			38.3	The ‘Asian Dragons’	378
			38.4	Aid to developing countries	379
			38.5	IDA aid commitments by region	383

ACKNOWLEDGEMENTS

The authors and publishers wish to thank the following for permission to reproduce copyright material:

The Economic Review, for Figure 2.8 (January 1990) and Figure 8.4, from J. Aylen, 'Cost Curves in the Steel Industry' (September 1989), and for Table 3.2, in E. Symons and I. Walker, 'Fiscal Harmonisation' (May 1990) and Table 38.3, from the Data Supplement (1990).

Hillsdown Group plc for Figure 15.2.

Fiscal Studies for Figure 35.3.

Barclays Bank Review for Figure 37.2.

Finance and Development for Figure 38.2 and for Table 38.5.

Philips for Figure 38.3, from *Philips Certificate Atlas* (1987).

Daily Mirror for the extract on p. 108.

Department of Employment Gazette for Tables 7.2, 17.3 and 27.3 and for Box 27.2.

National Westminster Bank Review for Table 28.2.

Federal Reserve Bank of St Louis Review for Tables 31.1, 31.2 and for material in Box 31.3.

Barclays Country Report for Question 1 on p. 288 and Question 5 on p. 309.

Barclays Economic Review for Tables 32.2 and 32.5.

Lloyds Bank Economic Bulletin for Table 34.3.

Lloyds Bank Economic Profile for Figure 2.1.

Economics (Journal of the Economics Association) for Tables 37.3 and 37.4 and for Figure 37.1.

The Economist for Tables 30.5 and 38.2, for Figure 38.1 and for material in Box 38.5.

BIS Financial Review for Table 34.4, from N. Healey 'The Great EMS Debate 1990 Vintage (May 1990).

The Bank of England for Figures 24.2, 25.1 and 29.4 and Table 24.1.

Bank of England Quarterly Bulletin for Table 30.10.
The Financial Times for Table 33.1.

The IMF for Tables 30.9, 33.2, 38.4, for Figure 30.2 and for material in Boxes 31.1, 31.2, 31.4, 38.2.

The Controller of Her Majesty's Stationery Office for Figures 2.2, 2.5, 2.6, 2.7 14.1, 14.2, 14.3, 14.4, 14.5, 17.7, 17.8, 17.9, 17.10, 28.7, 32.1 and for Tables 2.1, 2.4, 2.6, 2.7, 3.1, 3.2, 14.1, 17.2, 18.1, 19.7, 19.8, 21.3, 29.1, 32.1, 32.3, 32.4, 35.1, 37.2 and for material included in Boxes 13.1 and 35.1.

Nottingham City Council for Figure 24.2.

The EC for Tables 34.1 and 34.2.

The IDA for Figure 38.5.

The Independent for material in Boxes 37.1 and 37.2.

The IBRD for Figures 38.1 and 38.2 and for material in Boxes 37.3, 38.1, 38.3 and 38.4.

The IEA for Table 37.1.

The OECD for Tables 18.2, 18.3, 18.4 and for Figures 18.2 and 18.3.

The Guardian for Figures 14.6, 15.3, 32.2, 33.2 and for material in Boxes 14.1 and 37.5.

The Sunday Times for Figure 16.1.

The Observer for material in Box 16.1.

GATT for Table 30.1.

Macmillan Publishers for material in Box 30.4 and for Table 30.11 from M. Porter, *The Competitive Advantage of Nations*.

UNIDO for Figure 30.2, for Table 30.12 and for material in Box 38.2.

The UN for Table 38.4 and for material in Boxes 31.1, 31.2 and 31.4.

Every effort has been made to trace all the copyright-holders, but if any have been inadvertently overlooked the publishers will be pleased to make the necessary arrangement at the first opportunity.

PREFACE

This book is designed to provide a modern and thorough treatment of introductory economics. Although written primarily with the needs of the 'A' level student in mind, it will also be useful to those taking non-specialist courses in economics in universities and polytechnics, as well as those studying for professional qualifications.

The emphasis throughout the book is on clarity, accuracy and relevance. It is hoped that this will stimulate interest and encourage understanding. We have sought to explain the most complex aspects of the subject in a way that is sympathetic to the needs of students at this level, many of whom have no prior knowledge of economics. We have also sought to show the relevance of what can often appear to be abstract theory by providing real-world examples wherever possible to illustrate the importance of theory in understanding the economic environment.

Economic terminology is used throughout the book to enhance understanding of the subject and to enable readers to follow the coverage of economic events in the media. However, we hope readers will find the book free of jargon and we make no apologies for its absence.

There are several features of this book, apart from clarity and accuracy, which we feel will appeal to readers. Each chapter begins with a section entitled **Connections**, which relates the material to be covered in that chapter to other topics covered in the book. This is particularly important in a subject like economics where material covered in one chapter is often related to material covered in other chapters. This is followed by a list of **Key Concepts** that are introduced and discussed in the chapter. There are also **Review Questions** at the end of each chapter which are designed to provide a check on progress and understanding. Most chapters also contain case study or insight material which is set in boxes so as not to interrupt the flow of the text. The boxes often given an application of economic theory or provide an illuminating insight into material covered in the chapter.

We are aware that not all students taking courses in economics have a strong mathematical background and we have therefore devoted a complete

chapter to explaining and interpreting typical graphs and charts that are widely used in teaching introductory economics. There is also an explanation of time-series data and we hope this chapter will give confidence to readers who lack a strong mathematical background. More generally we hope it will be useful in preparing all candidates for the data response paper that all major examination boards now set.

The book is also modern in its approach. Recent developments in theory are treated thoroughly and there are separate chapters on the aggregate demand/aggregate supply framework now used in analysing economic policy and on rational expectations. There are also separate chapters on monetary policy, the Economic Community and economic development which provide a careful and detailed analysis of these areas where change has been rapid in recent years.

We are grateful to many people for their help, support and encouragement during the writing of this book. We would like to thank the entire team at Macmillan for their help and encouragement and must place on record our particular thanks to Stephen Rutt. We would also like to thank Stan Goodman of Rickmansworth School, Hertfordshire, John Wigley of Haberdashers' Aske's School, Elstree, and Phyllis Palmer of Dinington Comprehensive School, Sheffield, for valuable comments on earlier drafts of this book. They are responsible for many improvements to the text, but as we have not always accepted their advice we are unable to implicate them in any errors or omissions that remain. We are also grateful to Keith Povey and his editorial team (Barbara Docherty, Ann Edmondson and Tony Edmondson) for their efforts in ensuring the book's smooth passage to the printer. Finally, we would like to thank our wives and families for all the support and encouragement they have given us during the writing of this book.

BARRY HARRISON
CHARLES SMITH
BRINLEY DAVIES