Preface

This book was written to provide instructors with an introductory text suitable for teaching students practical macroeconomics useful for interpreting macroeconomic commentary found in the business sections of newspapers. The first edition’s success indicates that many instructors are unhappy with the encyclopedic approach of the traditional texts, with their emphasis on technical matters and lack of attention to real-world applications. Some instructors used the first edition as a text for a regular principles-of-macroeconomics class, some used it for an applied course following a traditional macro-principles class, some used it as a supplementary text for a traditional macro-principles course, and some used it as a text for an MBA macroeconomics course. All used it to produce students capable of interpreting media commentary on the macroeconomy.

This second edition maintains the three distinguishing features of the first edition: it is concise, nontechnical, and applied. It should continue to appeal to instructors and students swamped by the encyclopedic approach of traditional principles texts, to instructors teaching mainly business students interested in relevance, and to instructors teaching a policy- or applications-oriented macroeconomics course.

Why and how is it concise? Educational psychologists have been telling instructors for years that it is better to teach students a small amount of important material well than to cover a large amount of material less thoroughly. Accordingly, this book concentrates on the important concepts of macroeconomics, forgoing pages of supplementary material that is interesting and useful but not essential. This book summarizes the essentials that students need to know, as well as providing numerous examples of applications.

Why and how is it nontechnical? What do we want our students to be able to do upon completing their macroeconomics course, manipulate a 45°-line diagram and derive the multiplier, or interpret and evaluate media commentary on the macroeconomy? I am not alone in believing that for many students the latter is preferable, and that in terms of meeting this latter goal there is a high opportunity cost associated with pressing students to learn algebraic and graphical derivations. Only graphs with exceptional pedagogical value, such as the aggregate-supply/aggregate-demand diagram and its alter ego, the Phillips curve, are employed in this book. This less-technical approach does not mean a loss of rigor, however.
A different kind of rigor appears, involving critical thinking skills that most students find very challenging.

Why and how is it applied? Although those seeking a degree in economics need to become conversant with the technical skills and theoretical nuances of professional economists, it is not necessary that these dominate introductory courses where many students are not committed economics majors and the opportunity cost is high. This is even more the case for business-oriented students. The application orientation of this text is accomplished by providing more than 600 two- or three-sentence news clips, the vast majority based on actual news reports, as illustrations or student exercises. Much can be learned from working through these clippings—institutional facts, policy nuances, common misunderstandings, perspective on magnitudes, alternative viewpoints, and political realities, as well as how theoretical concepts are applied.

Chapter 1 describes what readers will find in this text, but several features should be emphasized.

1. Do not be fooled by the “nontechnical” flavor of the book. The material is intellectually demanding and is presented at a high conceptual level necessary for successful interpretation and evaluation of media commentary. Some challenging topics, such as real versus nominal interest rates and international phenomena, are given much more emphasis than in traditional texts because they play such a prominent role in media interpretation.

2. Some of the most common technical material has made its way into the text via optional end-of-chapter appendices. Appendices 4.3 and 5.1 explain the 45°-line diagram and the graphical derivation of the AD curve, for example. Appendix A at the end of the book provides an overview of supply/demand analysis of the four major macroeconomic submarkets and how the aggregate-supply/aggregate-demand diagram summarizes activity in these four markets. For students not yet versed in supply/demand analysis, appendix A also contains an introduction to microeconomic supply and demand curves.

3. To smooth exposition, in each chapter I have set some material aside in boxed areas called curiosities. These are short expositions of important related topics. They should be considered integral parts of the chapter.

4. Each chapter ends with examples of news clippings and answers to related questions, followed by several exercises based on news clips. Many chapters also have a set of numerical exercises asking students to test their understanding of concepts by calculating their implications in terms of numerical examples. Appendix B at the end of the book contains additional questions, but without any indication of which chapter’s material is relevant. To aid independent study, answers to all even-numbered questions are provided in appendix C.

5. Some end-of-chapter questions are easy, but many can be quite difficult, primarily because news clips seldom announce the macroeconomic concept relevant to their interpretation and journalists never spell things out as completely as do textbooks. Consequently,
these excursions into the real world sometimes seem ambiguous to students, and some instructors may wish to tailor the difficulty level by providing extra information. I have given most of the more difficult exercises even numbers so that their solutions can be found in appendix C.

The second edition incorporates innumerable minor changes, but no major changes. Several sections were rewritten (the most changed being appendix 15.1 on the principle of comparative advantage), one curiosity was dropped and three added (2.2 on where to find data, 12.2 on why the NRU has fallen, and 15.1 on where the foreign exchange market is), two appendices were dropped and three added (8.1 on financial intermediaries, 10.1 on the bond market, and 11.1 on applying the real versus nominal interest rate distinction), news-clip questions were added, numbers were updated throughout, and minor changes were made everywhere to improve exposition. The ancillaries have been improved. Those adopting the book for classroom use can request an instructor’s manual providing answers to odd-numbered questions and suggestions for lecturing. Available to all at www.sfu.ca/~kennedy is a bank of multiple-choice questions (with answers) tailored to the unique character of the text.

My thanks to the anonymous reviewers whose suggestions played a big part in the revision. I did not always take their advice, however, so responsibility for any shortcomings lies entirely with me.