

Contents

Introduction for students 1

The Emergence of Modern Economic Society

PART I

1 *The economic problem* 7

The setting of the problem · The individual and society ·
The division of labor · Economics and scarcity ·
Economics and social organization · The production and
distribution problems · Mobilizing effort · Allocating
effort · Distributing output · The three solutions to the
economic problem · Tradition · Command · The market ·
Economics and the market system

2 *The pre-market economy* 25

The economic organization of antiquity · The agricultural
foundation of ancient societies · The economic life of the

cities · Slavery · Wealth and power · “Economics” and social justice in antiquity · Economic society in the Middle Ages · The manorial organization of society · The economics of manorial life · Town and fair · Guilds · Medieval economics · The prerequisites of change

3 *The emergence of the market society* 51

The itinerant merchant · Urbanization · The Crusades · The growth of national power · Exploration · The change in religious climate · The breakdown of the manorial system · The appearance of the economic aspect of life · Labor, land, and capital come into being · The enclosures · The factors of production · The rise of the “profit motive” · The workings of competition · The market system and the rise of capitalism

4 *The industrial revolution* 77

The pace of technical change · England in 1750 · The rise of the New Men · The industrial entrepreneur · Industrial and social repercussions · Early capitalism and social justice · The industrial revolution in the perspective of theory · Capital and productivity · Capital and saving · Growth in early capitalism · Incentives for growth · The market as a capital-building mechanism

5 *The impact of industrial technology* 101

The impact of one invention · The general impact of technology · The distribution of the labor force · The rise of unionism · Economies of large-scale production · The great entrepreneurs

6 *The change in market structure* 115

The change in competition · The limitation of competition · The threat of economic feudalism · The rise of antitrust legislation · The structure of the contemporary market · The stabilization of concentration · Causes for the

stabilization: antitrust · The new corporate executive · Oligopoly and market behavior · The challenge to the market system · The pressure on prices · The unresolved problem of economic power

7 *The Great Depression* 137

America in 1929 · The Great Crash · The Great Depression · The causes of the Depression: speculation · Weakness on the farm · Weakness in the factory · The maldistribution of income · The critical role of capital formation · The effects of falling investment

8 *The evolution of guided capitalism* 153

The New Deal · The farm problem · The attempt to control markets · Countering the Depression · The economy fails to respond · Compensatory government spending · The impact of the war · The aftermath of the war: inflation · The instruments of policy · The redistribution of income · The growth of the government sector · The New Economics · Remaining problems · A final prospect

Prosperity and Recession – The Economics of the Macro System

PART *II*

9 *Wealth and output* 175

The macroeconomic perspective · The national wealth · Capital · Wealth and claims · Wealth and output · The flow of production · The consumption flow · The investment flow · Gross and net investment · Consumption and investment · Gross national product · Cautions about GNP

10 *Output and income* 193

Output and demand · An economic model · Cost and output · A cost summary · Factor costs and national income · Factor costs and household incomes · Costs of materials · Tax costs · Indirect vs. direct taxes · Depreciation · The three streams of expenditure · The crucial role of expenditures · The complete circuit · GNP as a sum of costs and a sum of expenditures · Net national product and national income · The circular flow

11 *Saving and investment* 211

The meaning of saving · The demand gap · The dilemma of saving · The offset to savings · Claims · Public and private claims · The completed act of offsetting savings · Intersectoral offsets · Real and money saving · Transfer payments · Transfer payments and taxes · Profits and demand · Saving, investment, and growth

12 *The consumption sector* 225

The household sector · Subcomponents of consumption · Consumption and GNP · Saving in historic perspective · Long-run savings behavior · Short- vs. long-run savings behavior · The consumption-income relationship · The propensity to consume · The average and marginal propensity to consume · A diagram of the propensity to consume · The propensity to consume in simple mathematics · The passivity of consumption

13 *The investment sector* 243

The sector in profile · The categories of investment · Investment in historic perspective · The instability of investment · The importance of investment · The multiplier · The continuing impact of responding · The marginal propensity to save · The basic multiplier formula · Leakages · The downward multiplier · The multiplier and investment

14 *Investment and equilibrium* 259

The motivation of investment · Expectations · Induced investment · The acceleration principle · A model of the acceleration principle · Autonomous investment · The rate of interest · The determinants of investment · An investment model · The interplay of saving and investment · The idea of equilibrium · A new equilibrium · Equilibrium: another approach · Determinants of the new equilibrium · The paradox of thrift · A note on the export sector · The impact of foreign trade · Leakages and injections

15 *The government sector* 279

Government in the expenditure flow · The government sector in historical perspective · The composition of public spending · Classifying public expenditure · Characteristics of the public sector · Fiscal policy · Taxes, expenditures, and GNP · Automatic stabilizers · A diagram of government spending · Another view of equilibrium, again · Deficit spending · Deficits and losses · Debts and assets · Real corporate debts · Total business debts · Government deficits · Sales vs. taxes · Internal and external debts · Problems of a national debt · Expenditures vs. tax cuts · Perpetual public debts · Real burdens · Indirect effects · Personal debts and public debts · The public sector again in perspective · Public and private assets · Political problems · Political vs. economic considerations

16 *Money* 307

The supply of money · Currency · Bookkeeping money · The Federal Reserve System · The banks' bank · Fractional reserves · Loans and investments · Increasing the supply of money · New money · The expansion of deposits · Why banks must work together · Investments and interest · Creating reserves · Monetary control mechanisms · Federal Reserve notes · The gold cover · Gold and money · Money and belief

17 *Money and the macro system* 327

The quantity equation · The quantity theory · Changes in V · Changes in T · Output and prices · Inflation and public finance · Full employment vs. underemployment · Bottlenecks · Inflation vs. unemployment · Money and sticky prices · Money and interest rates · The financial demand for money · Liquidity preference · Liquidity preference and interest rates · Liquidity preference and money management · Fiscal policy and monetary policy · Monetary policy in perspective

18 *Employment and output* 343

Employment in perspective · Participation in the labor force · Short-run changes · The meaning of unemployment · Shifting demands for labor · The impact of technology · The influence of demand · The evolution of demand · Employment, demand, and leisure · Importance of the tertiary sector · Employment and GNP · Irregularities in the population's age distribution · Technological change · Demand-creating technology · Employment and investment · Industry-building inventions · Cost-reducing inventions · Income vs. employment · The impact of automation · Unemployment in the U.S. · Combatting unemployment · The long-run prospect

19 *The problem of growth* 369

The structural requirements of growth · Capital formation · The historical record · Business cycles · Reference cycles · Causes of cycles · The mechanism of business fluctuation · Business cycles and growth · Actual vs. potential GNP · Reaching full employment growth · Long-run growth · Causes of growth: extensive investment · Productivity · Causes of improved productivity · Changing patterns of growth · The value of growth

*Microeconomics—
The Anatomy of a Market System*

PART **III**

20 *Introduction to the microeconomy* 391

Micro- and macroeconomics · The system in micro perspective · The market as a system · The tasks of the market · The production-possibility curve · From production possibilities to market actualities · The circular flow again · The two markets

21 *The market for goods* 401

Behavior and prices · The conditions of supply and demand · Marginal utility · Quantities and schedules · Individual and collective demand · Balancing supply and demand · The emergence of the equilibrium price · The function of equilibrium prices · The role of competition · Prices and allocation · Price vs. nonprice rationing · Shortages and surpluses

22 *The market in movement* 419

Price changes · Elasticities · Elasticities, expenditures, and receipts · Behind elasticities of demand · The importance of time · Substitution and demand · Complements · Individual and collective demand, again · The market as a self-correcting mechanism · Stability and instability · Unstable situations · Destabilizing expectations · Predictive and normative price theory

23 *The market for factors* 439

The distribution of income · Land, labor, and capital · The supply curves of factors · The supply curve of labor · Elasticities and mobility · Time and technical specificity · Quasi rents · Supply curves and prices · The demand for the factors of production · Comparative earnings

Causes of income disparity · Property income ·
Entrepreneurial demand

24 *The firm in the factor market* 457

The problem of scale · The factor mix · The productivity curve: increasing returns · Diminishing returns · The law of variable proportions · Marginal revenue and marginal cost · Productivity and profit · The choice among factors · Bidding for factors · Factor pricing · The market solution to distribution · Marginal productivity and social justice

25 *The equilibrium of the firm* 475

Inside the firm: fixed and variable cost · Cost per unit · The cost profile · Average and marginal costs · From cost to revenue · Average and marginal revenue · Marginal revenue and marginal cost · The firm and the industry · Long-run equilibrium · Profits and equilibrium · Long and short run · Long-run industry costs · The competitive environment · Pure competition defined · Competition in fact and theory

26 *Competition in the real world* 497

Price-takers and price-searchers · “Pure” monopolies · The limits of monopoly · Cost curves for the monopolist · Monopoly revenues · Equilibrium for the monopoly · Monopoly vs. competitive prices · Oligopoly · The maximizing assumption · Oligopolistic indeterminacy · From oligopoly to imperfect competition · Equilibrium in monopolistic competition · The extent of market imperfection

27 *The market system in review* 513

The imperfect market · Waste · Advertising · Product differentiation · The gains from advertising and differentiation · Monopoly and inefficiency · The gains from monopoly · Waste and the market’s operation · Size and instability · The issue of power · Deeper weaknesses

of the market system · The market as a social instrument ·
A perspective on the market system

*The Economics
of
International Gain and Loss*

PART *IV*

28 *The gains from trade* 527

The bias of nationalism · The source of the difficulty · The gains from trade · The gains from specialization · Unequal advantages · Trade-off relationships · Comparative advantage · Opportunity cost · The role of prices · The “dangers” of international competition · The classical case for free trade · The case for tariffs · Mobility · Full employment · National self-sufficiency · Infant industries · The basic argument

29 *The problem of international transactions* 549

The mechanism of exchange · The supply of, and demand for, foreign exchange · Nonmerchandise items · The balance of payments on current account · The rate of exchange and the balance of payments · The process of adjustment · Fixed vs. flexible exchange rates · Fixed exchange rates · More on the balance of payments · Government transactions · Capital movements · Gold and reserves · Dollar reserves · Balancing the balance of payments · The meaning of the balance of payments deficit · The gold problem · Curing the deficit · Devaluation · Strengthening the IMF · International vs. interregional trade · Addendum: a note on the gold standard

*The Challenge to
the Market System*

PART *V*

30 *The drift of European economic history* 581

The trials of capitalism abroad · European capitalism: feudal heritage and national rivalry · The crucial role of European trade · The breakdown of international trade · European socialism · The recovery of European capitalism · Socialism and modern European capitalism · Conservative planning · Europe and America · Socialist planning in the U.S.S.R. · The drive to total planning · The planning mechanism · The plan in action · Planning and efficiency · The drift toward the market

31 *The underdeveloped world* 601

The background to underdevelopment · The conditions of backwardness · Social inertia · Further problems: population growth · The role of imperialism · The engineering of development · The problem of industrialization · Trade problems · Limitations on private foreign investment · The crucial avenue of aid · The economic possibilities for growth · Social and political problems · Collectivism and underdevelopment · Political implications · The challenge to the West

32 *The trajectory of economic society* 623

The stages of economic development · The inception of growth · Economies in mid-development · High consumption economies · A convergence of systems · The changing nature of the economic problem · The problem of abundance · The problem of work · Beyond the making of economic society

Statistical appendix 636

Index 640