

Economic Issues and Policy

Eighth Edition



Instructors' Manual

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Brief Contents



Preface to the Instructors' Manual v

Part One: Fundamentals and Foundations

Chapter 1: Introduction 1
Chapter 2: U.S. Poverty and Inequality 13
Chapter 3: Racism and Discrimination 22
Chapter 4: Violence and Crime 31

Part Two: Social Services

Chapter 5: Education and Equity 44
Chapter 6: Housing, Homelessness, and Segregation 53
Chapter 7: Healthcare and the Coronavirus 63
Chapter 8: Social Security and Other Entitlements 73

Part Three: Global Issues

Chapter 9: Global Poverty and Exploitation 81
Chapter 10: Global Agriculture and World Hunger 90
Chapter 11: The Global Environment and Climate Change 99
Chapter 12: Global Trade, Finance, and Partnerships 110

Part Four: Efficiency and Stability Issues

Chapter 13: Market Power and Government Regulations 120
Chapter 14: Unemployment, Immigration, and Inflation 127
Chapter 15: Government Macroeconomic Policy and Contempt for the Poor 137
Chapter 16: Taxes, Deficits, and the National Debt 150

Part Five: You and the World Around You

Chapter 17: Global Economics and Ideology 160

Preface to the Instructors' Manual



This instructor's manual is intended to help you teach a course in the economics of social issues, whether you've never taught it before or whether you've taught it numerous times. Over the last few years, the news cycle has become extraordinarily short, meaning the issues and how they are dealt with are changing rapidly. Furthermore, the availability of online data means there is little excuse for not being as up-to-date as possible. The textbook is revised every three years, as is the instructor's manual. The instructor's manual is intended to help you keep up and let you know what is new in the text.

As you know, today's politics is volatile, and controversy surrounds us. Some of this will make its way into the classroom, and the thoughts and ideas in this manual will help you deal with the controversy from a fact-based and unemotional position.

And, of course, instructors like to have classroom exercises and sample test questions. The set of classroom exercises is a new feature, and the sample test questions contain multiple choice, true/false, and critical thinking questions. Some of these questions are new, representing new data and material, and some are old yet still relevant. The critical thinking questions could be used in essays or class discussion. Updated PowerPoint slides are also included.

As the textbook portends, the fundamental structure underlying our economy is one of inequality and systemic racism. In the text and in the instructors' manual, you will read the word "contempt" over and over. This is deliberate, intended to draw attention to the attitude that finds these conditions acceptable.



Today, February 24, 2022, Russia attacked Ukraine, and at this point, we know very little of what will transpire in the days ahead. We do know with certainty, however, that this European war will impact many of the issues in this text. From the Chapter 1 topics of scarcity and opportunity costs, to the final chapter on global economics and ideology, the old world order has just been shattered and a new one will rise up. It is for circumstances such as this that my constant urge is to add breaking news to the text until the very last moment. Since each new revision of the text goes to print before the new *Instructor's Manual*, my last chance is to place late breaking material into the *Instructor's Manual*. I don't think you will have any trouble locating the News Update in each chapter of the manual.

I hope you find this manual helpful, and I hope you will contact me if you have suggestions or critiques. Thank you.

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1

Introduction



NEWS UPDATE

- Scarcity amid the coronavirus pandemic has taken its toll on our economy, our jobs, our activities, our relationships, our mental health — and, of course — our physical health. As of February 23, 2022, the total number of deaths in the United States from COVID-19 was 936,000. When will it hit one million? Keep up to date with COVID-19 data at the Centers for Disease Control at www.cdc.gov/covid-data-tracker.

PURPOSE

Chapter 1 is the first of four chapters in Part One, “Fundamentals and Foundations.” The purpose of Chapter 1 is to introduce students to the basic economic theory and terminology they will use to address the socioeconomic issues and policies throughout the remainder of the text and hopefully throughout their life. The purpose of Part One is to identify the two fundamental pillars of our society and economy: inequality and racism. This foundation is introduced in Chapter 1, inequality is addressed more specifically in Chapter 2, racism is addressed more directly in Chapter 3, and related topics of crime and violence are linked to inequality and poverty in Chapter 4. Recognition of the two pillars of the structural foundation is woven throughout the textbook.

WHAT’S NEW?

This section of the Instructors’ Manual is itself new and is intended to alert you to new material in the textbook chapter you will want to read as you prepare for your class.

1. The basic economic problem of scarcity is more evident in our lives than ever before in the context of the coronavirus pandemic. There has been a scarcity of masks, testing, contact tracing, personal protective equipment (PPE), vaccinations, treatments, and ICU beds. The consequences are life and death.
2. The *Viewpoint* section describes the views of the economic left (liberal) and the economic right (conservative) in terms of socioeconomic issues and policy. New material describes the populist ideology of former President Trump and the sway he and his ideology had on Republican legislators and officials. Trump’s brand of populism is also nationalistic in the sense of “America First,” and over the years, we’ve seen Trump’s populist ideology become more and more authoritarian, ultimately resulting in the January 6, 2021, insurrection in our nation’s Capitol.

TEACHING SUGGESTIONS

As you prepare to teach from the corresponding textbook, there are more suggestions than usual in this first chapter of the Instructors' Manual, since many of the suggestions pertain to the entire text. For the same reason, the format of Chapter 1 of the manual is somewhat different from the remaining chapters.

► In General

- Please read the *Preface to the Instructor* and encourage your students to read the *Preface to the Student*. The two prefaces set the tone for the book and explain how the features of the textbook will help your students excel in the course.
- Students like to skip over the “boxes” and other featured material in textbooks. Please urge them to read this material, since it will be quite helpful. In Chapter 1, the *Road Map* leads the student to all other chapters in the text. The *Economic Toolbox* provides a “heads up” for concepts students can watch for as they study the text. The margin definitions and the summary will be valuable.
- Your students need to read the *Viewpoint* sections at the end of each chapter to understand the perspectives and policy preferences of the economic left (liberal) and the economic right (conservative). The Chapter 1 *Viewpoint* section is especially important, as it establishes the left/right framework used throughout the text.
- The *Viewpoint* sections will help your students understand that nationalist populism, as exemplified by former President Trump, is not an accepted economic perspective but instead is a right-wing ideology. While populism can incorporate certain aspects of both the economic left and the right (more so the right), it is premised on a serious misunderstanding of economics, a misinterpretation of facts, and a poor understanding of the impact of policies. Populism frequently incorporates conspiracy theories and the ideology of white supremacy, and uses immigrants, foreign countries, and global organizations as scapegoats for the problems faced by the populist leader’s base of support.
- The section titled *To the Student* is a feature at the end of each chapter designed to encourage the student to be socially active on an issue addressed in the chapter. In Chapter 1, students are asked to consider the relationship between their own education and their ability and responsibility to improve the world around them.
- The *Discussion and Action Questions*, also at the end of each chapter, are designed to get students to think, critically utilize the Internet, and imagine how they might make this a better world. You might find these questions helpful when preparing lectures and discussions. For example, in Chapter 1, students are asked whether our relatively efficient market-based economy is necessarily equitable and whether income or some other factor should determine how goods and services are allocated.
- The *glossary* and *index* at the end of the text will also be very useful to your students.
- In addition to subsequent chapters that focus directly on diversity and international topics, such as Chapter 3 on racism and discrimination and Chapter 9 on global poverty, significant coverage of diversity and global material is woven throughout the text. Global and diversity topics are highlighted by respective icons in the margins of the text.
- As our student populations have become more diverse, I have become more aware of the cultural bias in the examples I use. Many international or minority students do not automatically think of complements when presented with cranberry sauce and turkey, for example. Be sure to describe the relationships that are not obvious to everybody.

- Encourage your students to review their class notes daily and to practice redrawing all the graphs! Encourage them to know the definitions of all important terms in the chapter, utilizing the definitions in the margins.
- Encourage confidence in your students by explaining there are only two basic types of graphs used in the text, though there are additional graphs in the appendices. The two graphs in the text are the production possibilities curve and demand and supply. Once students have mastered these, they really will know a great deal about economics — and certainly far more than many of the politicians, pundits, and generally opinionated people they meet.

➤ *Student Interest*

- Students will be interested in many topics mentioned in this chapter, including inequality and poverty, racism and discrimination, Black Lives Matter, right-wing domestic terrorism, mass school shootings, and the coronavirus pandemic.
- Student confidence will improve if we reassure our students that once they understand the basic theory in Chapter 1, all the remaining issues in the text are within their ability to comprehend.

➤ *Controversy*

- As students use the *Viewpoint* section to learn the viewpoints of the economic left and the economic right, they will 1) understand the range of economic views about social issues and policy throughout the remainder of the text, and 2) have a structure within which to formulate their own opinions.
- Students will learn about former President Donald Trump's ideology of nationalist populism and its movement toward authoritarianism.

➤ *Economic Theory and Models*

- Again, we use just two different graphical models in this chapter and in the text (except for the appendices). The first is the production possibilities model, used to analyze opportunity costs, unemployment, and economic growth.
- The second is the supply and demand model, used to understand how markets function in determining prices and allocating goods and services.
- Students are introduced to the economic concepts of efficiency and equity, market successes and failures, microeconomics and macroeconomics, public and private goods, and other vital concepts.

➤ *Data and Terminology*

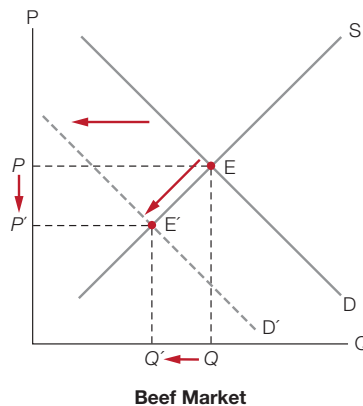
- Economics is very precise, and our students need to be precise, as well. They need to carefully read the titles, footnotes, and captions of the tables and figures and distinguish between terms such as the mean and median; real and nominal; GDP, GNP, and GNI; and GDP per capita and average annual growth rate of GDP per capita, and so on.

➤ *Fundamentals*

- Students will have strong feelings attached to the notion of the two fundamental pillars underlying our economy: inequality and racism, which are often driven by attitudes of contempt, the ideology of populism, and efforts by those with privilege to preserve that privilege in ways inimical to the well-being of others.

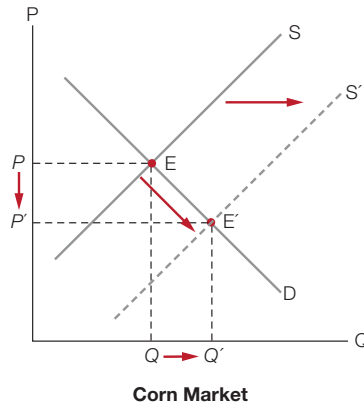
CLASSROOM EXERCISES

1. Consider the market for beef. Assuming consumers either eat beef or other meats, shift the curve to show what happens in the beef market if the price of chicken decreases. [Shift the demand curve for beef backward because consumers are eating more chicken instead of beef.] What is the effect on the equilibrium price of beef? [Decrease] On the equilibrium quantity of beef bought and sold? [Decrease] Note: Remind your students they should address this question in the following sequence, and shift only one curve!
 - i. Label the initial equilibrium point [E] within the graph.
 - ii. Label the initial equilibrium price [P] and equilibrium quantity [Q] along their respective axes. [Students should place P along the price axis and Q along the quantity axis.]
 - iii. Decide which group (consumers or producers) is most directly and immediately impacted by the change that is occurring (the decreased price of chicken) [it is consumers], and then increase or decrease the single corresponding curve [decrease the consumer demand curve D for beef]. Note that a decrease in demand is a backward shift in the demand curve.
 - iv. Label the new equilibrium point [E'] within the graph.
 - v. Label the new equilibrium price [P'] and equilibrium quantity [Q'] along their respective axes.
 - vi. Answer the following questions: What is the impact of the initial change (the decrease in the price of chicken) on the market price of beef? [Decrease] On the quantity of beef that is bought and sold? [Decrease]

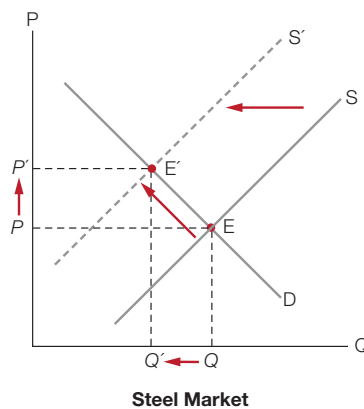


[*Note to the instructor:* The demand and supply graphs in this chapter of the *Instructors' Manual* are spelled out carefully in terms of symbols for the variables and arrows showing the direction of change. Text graphs either use similar symbols or numerical values for the prices and quantities. Graphs for classroom exercises in future chapters of the *Instructors' Manual* will normally not be spelled out in the same detail as in this chapter, so you may want to refer back to this chapter repeatedly if necessary.]

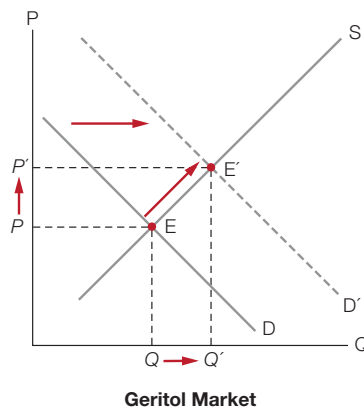
2. Follow the steps outlined in #1, but shift the curve to show what happens in the corn market if corn producers have unusually good weather this year. [Shift the supply curve forward.] Label the new equilibrium point [E'] within the graph. Label the new equilibrium price [P'] and equilibrium quantity [Q'] along their respective axes. What is the effect of good weather on the equilibrium quantity of corn bought and sold? [Increase] On the equilibrium price of corn that is bought and sold? [Decrease]



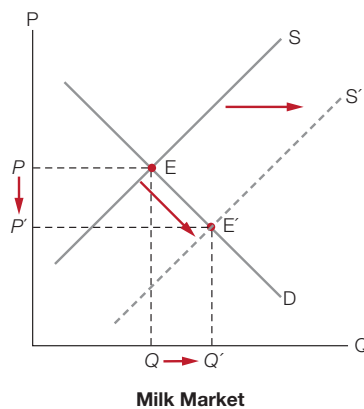
3. Follow the steps outlined in #1, but shift the curve to show what happens in the steel market if rising energy prices increase the cost of producing steel. What is the effect on the equilibrium price of steel? [Increase] On the equilibrium quantity of steel that is bought and sold? [Decrease]



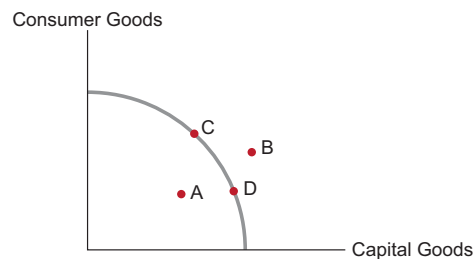
4. Follow the steps outlined in #1, but shift the curve to show what happens in the market for Geritol (a supplement advertised for elderly people) if the size of the elderly population increases. What is the effect on the equilibrium price of Geritol? [Increase] On the equilibrium quantity of Geritol that is bought and sold? [Increase]



5. Follow the steps outlined in #1, but shift the curve to show what happens in the market for milk if technological progress makes it cheaper and easier to produce milk. What is the effect on the equilibrium price of milk? [Decrease] On the equilibrium quantity of milk that is bought and sold? [Increase]



6. (Appendix 1-1) Consider the production possibilities curve. Which points on the graph show:



- unemployment of resources? [A]
 - a level of output unachievable in the current time period, but possible with economic growth? [B]
 - a level of output showing increased capital goods and fewer consumer goods in the current time period, assuming we begin at Point C? [D]
7. (Appendix 1-1) Using the same graph as #6, shift the curve to show what will occur over time due to economic growth made possible by the expansion of capital goods production in the initial time period. [The entire curve will shift outward.]

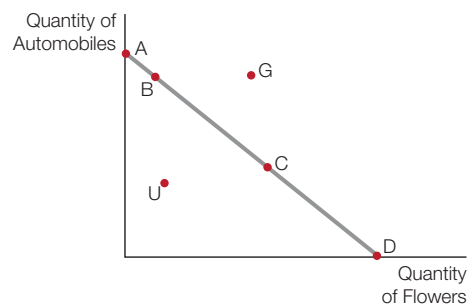
SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. In the quotations that open the chapter, Nelson Mandela and Milton Friedman:
 - a. are concerned about business failures.
 - b. are concerned about poverty.**
 - c. advocate for communism.
 - d. advocate for capitalism.
2. The law of demand says that:
 - a. price and quantity demanded are positively related.
 - b. price and quantity demanded are negatively related.**
 - c. when price goes up, quantity demanded goes up.
 - d. when price goes down, quantity demanded goes down.
3. The upward slope of the supply curve signifies:
 - a. the law of supply.**
 - b. the best alternative foregone.
 - c. the law of scarcity.
 - d. the law of equilibrium.
4. Opportunity cost refers to:
 - a. the dollars spent on a product.
 - b. the best alternative forgone in order to produce or consume something else.**
 - c. the resources used to make something.
 - d. the money spent by a business to produce something.
5. Economics deals primarily with:
 - a. inefficient businesses.
 - b. insufficient money.
 - c. scarcity.**
 - d. the nation's money supply.
6. Which of the following is not considered to be a resource in economics?
 - a. land
 - b. labor
 - c. machinery
 - d. money**
7. In the production possibilities graph, opportunity costs are shown as:
 - a. a movement along the curve.**
 - b. a point below the curve.
 - c. a point out beyond the curve.
 - d. points on the axes.

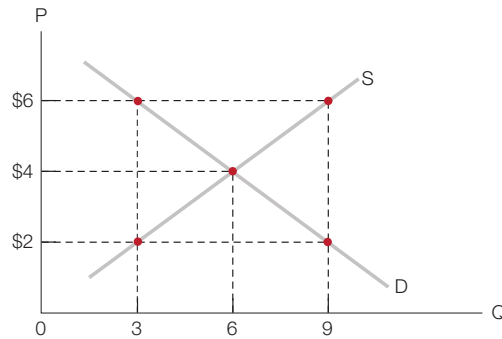
8. Which of the following is not considered a service?
- healthcare**
 - education
 - an automobile
 - city mass transit
9. Which of the following is *not* true? Production possibilities assumes that:
- all available resources are fully used.
 - all available resources are efficiently used.
 - while technology may change, the quantity of resources does not.**
 - the quality of resources can change but not the quantity.

The next three questions refer to the following production possibilities graph.



10. Which point shows a situation where all resources and technology are used in the production of automobiles, and none are used in flower production?
- A**
 - D
 - U
 - G
11. Which point indicates unemployment?
- A
 - D
 - U**
 - G
12. A movement from Point B to Point C represents:
- economic growth.
 - scarcity.
 - opportunity costs.**
 - efficiency.

The next three questions refer to the following demand and supply graph.



13. Equilibrium price and quantity are:
- \$6 and 3.
 - \$4 and 6.**
 - \$2 and 3.
 - none of the above
14. What will occur at a price of \$2?
- a surplus of 6
 - a shortage of 6**
 - a surplus of 3
 - a shortage of 9
15. At what price would there be a surplus of 6?
- \$6**
 - \$4
 - \$2
 - We cannot say from this data.
16. When demand increases in a graph of demand and supply:
- equilibrium price will increase, but equilibrium quantity will decrease.
 - equilibrium price will decrease, but equilibrium quantity will increase.
 - both equilibrium price and quantity will decrease.
 - both equilibrium price and quantity will increase.**
17. When supply increases in a graph of demand and supply:
- equilibrium price will increase, but equilibrium quantity will decrease.
 - equilibrium price will decrease, but equilibrium quantity will increase.**
 - both equilibrium price and quantity will decrease.
 - both equilibrium price and quantity will increase.
18. Police protection and national defense are examples of:
- capital goods.
 - public goods and services.**
 - private goods.
 - resources.

19. Capital goods:
- is another term for consumer goods.
 - are goods provided by the government.
 - are goods used to produce other goods.**
 - benefit the economy largely in the immediate time period.
20. Which of the following does not represent a market failure?
- spillovers
 - market power
 - the provision of public goods and services
 - technology change**
21. The ability to influence the market price of a product is:
- competitive pricing.
 - microeconomic pricing.
 - market power.**
 - economic power.
22. Which of the following is a microeconomic topic?
- total income
 - total output
 - distribution of income**
 - gross domestic product
23. The term public refers to:
- consumers.
 - businesses.
 - workers.
 - government.**
24. Which of the following is generally not a private good?
- a house
 - a school**
 - a factory
 - a restaurant
25. Another term for externality is:
- spillover.**
 - public good.
 - public service.
 - capital good.
26. Inequity:
- is defined as “unfairness.”
 - is a type of market failure.
 - would include racism and poverty.
 - all of the above**

27. Instability as a market failure can take the form of:

- a. unemployment.
- b. inflation.
- c. a rise in the average price level.
- d. all of the above**

(Appendix 1-1) The following three questions refer to the production possibilities schedule below.

<u>Alternative</u>	<u>Housing</u>	<u>Food</u>
A	140	0
B	120	10
C	90	20
D	50	30
E	0	40

28. What is the opportunity cost of producing the first 10 units of food?

- a. \$200,000
- b. 20 units of forgone housing**
- c. 50 units of forgone medical care
- d. We cannot say because we do not know the price of either housing or food.

29. What is the opportunity cost of producing the last 10 units of food?

- a. \$200,000
- b. 20 units of forgone housing
- c. 50 units of forgone housing**
- d. substandard housing units

30. This production possibility schedule displays:

- a. increasing opportunity costs.**
- b. constant opportunity costs.
- c. no opportunity costs.
- d. perfect opportunity costs.

True / False Questions

1. Price and quantity demanded are positively related. (F)
2. A shift of the supply curve to the right is an increase in supply. (T)
3. Equilibrium price will go up if supply increases. (F)
4. Society can reach a point beyond its current production possibilities curve if economic growth occurs. (T)
5. Any point on the production possibilities curve represents full employment. (T)
6. Public goods are generally provided by or paid for by the government. (T)
7. Spillover costs or benefits are examples of market failures. (T)
8. Scarcity means that we have limited resources relative to our unlimited wants. (T)
9. The cost of unemployment for the economy is foregone production. (T)
10. Most economists believe the government should not become involved in the case of market failures. (F)
11. Macroeconomics deals with the economy as a whole. (T)
12. Gross domestic product and gross national income are similar in value but focus on production in the first case and income in the second. (T)
13. If the government places a tax or regulation on the production of a good, the supply curve of the good will decrease. (T)
14. The marketplace is often efficient but not necessarily equitable. (T)
15. Unless externalities or other market failures are present, the competitive marketplace is generally considered to be equitable. (F)
16. Pure capitalism is characterized by private ownership and government economic decision making. (F)
17. There is hunger in a world of plenty because poor people lack the income to purchase the food that is produced. (T)
18. Liberals (the economic left) generally value equity. (T)
19. Liberals (the economic left) generally support government involvement in the economy. (T)
20. (*Appendix 1-1*) "Increasing opportunity costs" means that as more of one good is produced, we must give up increasingly larger amounts of the other good. (T)

Critical Thinking Question

You have now just brushed the surface of the concepts of markets, efficiency, equity, and market failures and how and when the government should intervene. Nevertheless, you probably have some ideas of your own about the government role in the economy. Think about topics such as poverty and inequality, racism and discrimination, crime and violence, market power, externalities, and economic instability, and respond how and to what extent you believe the government should be involved in addressing these issues.

Note to the instructor: It would be interesting to ask your students about this now, at the beginning of the course, and again at the end of the course. Have any students changed their minds?

U.S. Poverty and Inequality



NEWS UPDATE

- The state of Minnesota has found itself in the enviable position of having a \$7.7 billion surplus this year, and the governor and wide swaths across the state want to spend a small portion of it on free school breakfasts and lunches for all Minnesota school children. There are detractors, of course: those whose contempt for the poor extends to food-shaming children in front of their peers amid the current program for poor kids.

PURPOSE

The purpose of this chapter is to introduce students to the problems of poverty and inequality in the United States. This is the first of the chapters focused on inequity, and it addresses the first of two foundational pillars underlying our economy. (The other is racism.) Many students think of poverty in the abstract: they have stereotypical images of poor people, but they never think of themselves or fellow students as being poor. It may be that COVID-19 has opened the eyes of students to a great deal of suffering from the virus and a damaged economy. Students' own families might be suffering. In reality, poverty can impact anyone, and it often occurs as a result of normal life events like divorce, the death of a spouse, an illness, the loss of a job — and in this case, a pandemic. Poverty and inequality seem especially egregious in a rich country like the United States.

WHAT'S NEW?

1. The impact of the coronavirus pandemic on poverty and inequality is new. As with other destructive events, those who are most vulnerable suffer the most, and an inadequate safety net becomes even far more insufficient. We see the impact of COVID-19 in higher poverty rates and greater inequality. Increased inequality also stems from the 2017 tax bill, structural changes in our economy, and a long-term trend toward increasing inequality in large part due to changes in our tax system over time.
2. The emphasis placed on inequality as a structural foundation of our economy is also new. The text has always addressed poverty and inequality, but current circumstances, attitudes, and controversies have brought these topics to the forefront. These include attitudes of white supremacy, stereotypes of “welfare queens” and welfare fraud, contempt for the poor, and political divisiveness.
3. “Women’s Rage” is a new phenomenon (or at least a phenomenon newly in the open), as women (especially working mothers) react to the heightened expectations of them amid the pandemic in parallel with society’s aversion to providing greater social benefits to meet their needs. For example, women are often the ones expected to care for their children when they are ill or when their childcare providers shut down or their children attend school virtually from home. Yet they are considered lazy if they do not also work in a paying job and disorganized if they cannot balance all of these responsibilities. Ironically, they are also considered selfish if they continue in their careers despite the needs of their children.

4. The efforts by President Joe Biden and most of the Democrats to provide universal paid maternity and sick leave, childcare subsidies, and continued Child Tax Credits were met with strong opposition by Republicans and a few Democrats. It is nevertheless remarkable that the president *sought* a vastly broader safety net, expanded universal entitlements, and increased investments in human capital.
5. There is greater attention to two interventions that have been quite successful in reducing poverty amid the early phase of the coronavirus pandemic: the Child Tax Credit (CTC) and the Universal Basic Income (UBI). The size of the CTC was increased, it was made refundable, and checks were mailed to recipients monthly rather than yearly. The UBI has also received renewed attention, with multiple cities using experimental programs and finding that the UBI can be extremely effective in reducing poverty. Personally, I had once opposed it but am now in favor.
6. There is greater emphasis in this edition on structural unemployment as a source of poverty, especially since former President Trump built his base upon those who are structurally unemployed. Trump policies of trade restrictions, resurrection of the coal industry, opposition to immigration, and other policy measures generally opposed by economists are discussed, as well as the more appropriate policy responses recommended by economists.

TEACHING SUGGESTIONS

➤ *Student Interest*

- One feature of the text is the attempt to involve students in using their new knowledge and insights to make this a better world. Suggested activities are generally in the sections *To the Student* and the *Discussion and Action Questions*, both at the end of each chapter.
- In the case of poverty and the associated problem of hunger, the *To the Student* section in Chapter 2 encourages students to join organizations such as Bread for the World, a citizens' lobby on domestic and world hunger-related legislation. You and your students should be aware that while this is a progressive Christian organization, the intent is *not* to promote Christianity but rather to make students aware of their political influence. The organization provides excellent educational material and policy advice on the issues.

➤ *Controversy*

- As this manual goes to press, President Biden's Build Back Better legislation (the human infrastructure bill) does not have enough votes to pass in Congress. This means the Child Tax Credit (among other benefits) will come to an end, even though the Child Tax Credit was found to be highly cost-effective in reducing child poverty. Students may want to discuss this, along with other aspects of Build Back Better. Perhaps they will want to be involved by encouraging their legislators to support this important tax credit.
- I have heard students report they have seen someone "buy steaks with food stamps" or know someone who "had additional children to receive higher welfare benefits." I like to challenge students to avoid conclusions based on anecdotal evidence.
- Some students today are pretty conservative, and many of them work in addition to being students. They work hard and are careful with their money. They don't understand why poor people cannot do the same. They need to understand that it is one thing to be a hardworking, single, and able-bodied young person; it is another thing to be poor, poorly educated, single with children, without transportation, and experiencing any number of other difficulties.

- This early chapter in the text allows for students to utilize the framework of the economic left (liberal) and the economic right (conservative) in an interesting context of poverty programs. You should be able to get a good discussion going as students become aware of where they themselves stand on issues they may have never thought about before.

➤ *Economic Theory and Models*

- Economic theory is discussed in terms of the effects of economic growth versus trickle down, but there are no graphs in this chapter (except for the Lorenz curves used and explained in Appendix 2-1).

➤ *Data and Terminology*

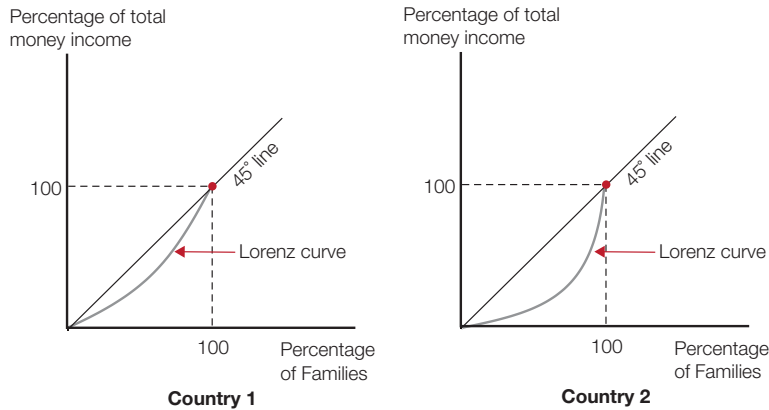
- While this trend is not new, students may be surprised to learn that teen pregnancy rates have been decreasing over time. They may have insights as to why this is the case.
- Students will be interested in the poverty line for a family of four and how much money that means for food and other expenses of the family. Life at the poverty line is frugal at best.
- Our data depend on precise terminology. For example, many people say “wealthy” when they mean “rich,” or “earnings” when they mean “income.” Stress the distinctions, especially for the titles and captions of data tables.
- You will likely need to reinforce for your students the meaning of the term “refundable” in the context of certain tax credits. This conversation will also reinforce student understanding that tax returns must be filed before someone can receive the benefits of these refundable tax credits.

➤ *Fundamentals*

- Some students are surprised to learn that the U.S. income distribution has become less and less equal due to the policies of conservative presidents from 1981 to 2020, and that the United States has the greatest inequality among all Western industrialized countries. Oddly enough, students who are too young to have been alive during the presidential administration of Ronald Reagan nevertheless seem to revere him. They should be told of his extensive cuts to social programs for the poor, extensive tax cuts for the rich, his deregulation of workplace safety and environmental protection, and his promotion of a somewhat insidious supply-side policy.
- Changes in the tax code under Republican presidents Ronald Reagan, George W. Bush, and Donald Trump greatly contributed to rising inequality in U.S. income distribution.
- Students and even many instructors are surprised to learn that people who are classified as poor are poor *despite* any government cash assistance they receive and that being poor does not necessarily make them eligible for government assistance. It is disturbing that so many Americans harbor contempt for the poor and are satisfied with an income distribution that creates child poverty and poor standards of living.
- Explain to students that 1) wealth is distributed far more unequally than income, and 2) it takes wealth to build wealth.
- Racism is an issue in this chapter insofar as people of color have much higher poverty rates than white people. Students are also surprised to learn that most poor people are white, but simultaneously, white people have a lower poverty rate than other racial and ethnic groups. Clarify this distinction, as students may not intuitively understand it.

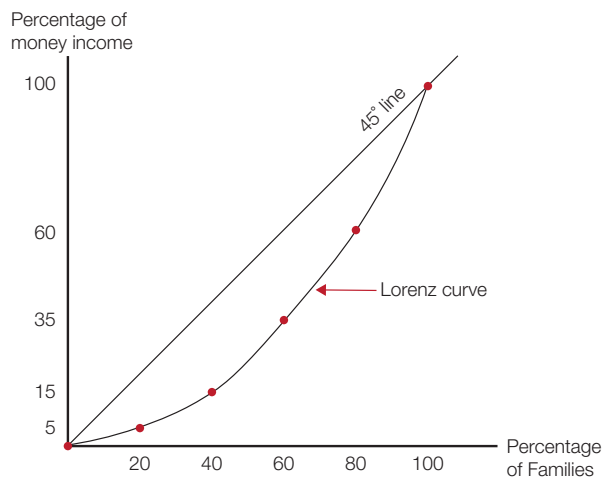
CLASSROOM EXERCISES

- (Appendix 2-1) Consider the following Lorenz curves for two hypothetical countries. In which country (1 or 2) is the income distribution most equal? [Country 1: We can tell by the greater proximity of the Lorenz curve to the 45-degree line, or more technically, the smaller area between the Lorenz Curve and the 45-degree line.]



- (Appendix 2-1) Construct a Lorenz curve based on the following income distribution. What is the meaning of the 45-degree line? [The 45-degree line connects all points in the graph where the percent of money income is equal to the percent of families.]

<u>Fraction of Total Families</u>	<u>Percent of Total Money Income Received</u>
Poorest Fifth	5%
Second Fifth	10%
Third Fifth	20%
Fourth Fifth	25%
Richest Fifth	40%



SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. The 2020 poverty rate is approximately:
 - a. 3%.
 - b. 11%.**
 - c. 28%.
 - d. 45%.
2. A situation in which people are poor in comparison to other people is:
 - a. relative poverty.**
 - b. absolute poverty.
 - c. dismal poverty.
 - d. remedial poverty.
3. Since 1960, poverty rates in the United States:
 - a. increased dramatically.
 - b. decreased dramatically.**
 - c. increased greatly and then returned to the 1960 poverty rate.
 - d. remained remarkably constant.
4. From 1981 to 2020, income distribution in the United States has:
 - a. become less equal.**
 - b. become more equal.
 - c. remained remarkably stable.
 - d. this is not discussed in the text.
5. Most of the poor in the United States are:
 - a. white.**
 - b. African American.
 - c. Hispanic.
 - d. Asian American.
6. The age group with the highest poverty rate is people:
 - a. under age 18.**
 - b. age 18–64.
 - c. age 65 and over.
 - d. We do not have data to assess this.
7. “Money income”:
 - a. is calculated before payment of taxes.
 - b. includes income transfers.
 - c. excludes in-kind transfers.
 - d. all of the above**

8. The 2020 poverty line for a family of four is about:
 - a. \$47,500.
 - b. \$37,000.
 - c. **\$26,500.**
 - d. \$7,000.

9. The poverty rate is the highest for:
 - a. whites.
 - b. **African Americans.**
 - c. Asian Americans.
 - d. Hispanics.

10. Public education is an example of:
 - a. an “investment in human capital.”
 - b. a “universal entitlement.”
 - c. a program that improves people’s productivity.
 - d. **all of the above**

11. Our current welfare program is called:
 - a. Aid to Families with Dependent Children (AFDC).
 - b. Help to Stand on Your Feet (HSYF).
 - c. **Temporary Assistance for Needy Families (TANF).**
 - d. Financial Aid for the Needy (FAN)

12. Which of the following groups of people has a poverty rate above the national average?
 - a. **African Americans**
 - b. Asian Americans
 - c. age 65 and older
 - d. all of the above

13. Businesses produce lower output levels and employment drops during an economic:
 - a. **recession.**
 - b. expansion.
 - c. recovery.
 - d. peak.

14. Which of the following is a public assistance program (as opposed to a social insurance program)?
 - a. Supplemental Nutrition Assistance Program (SNAP)
 - b. Medicaid
 - c. The Earned Income Tax Credit
 - d. **All of the above**

15. Which of the following is a general federal guideline for state TANF programs?
 - a. States must contribute matching money to their welfare program.
 - b. Adults must take a job within two years of beginning welfare.
 - c. Assistance generally cannot be provided to someone for over five years in his or her lifetime.
 - d. **All of the above.**

16. Welfare programs have been controversial due to:
- possible work disincentives.
 - possible disincentives for family stability.
 - possible long-term dependency.
 - all of the above**
17. The benefits of economic growth eventually reach everybody, according to:
- the author of the text.
 - the economic studies in the text.
 - trickle-down philosophy.**
 - the philosophy of all economists.
18. Which of the following is a social insurance program (as opposed to a public assistance program)?
- food stamps (SNAP)
 - Medicaid
 - Earned Income Tax Credit
 - Medicare**
19. Liberals (the economic left) tend to:
- support a federal government response to poverty.
 - support a relatively large government response to poverty.
 - favor a direct approach to addressing poverty rather than trickle-down philosophy.
 - all of the above**
20. Which of the following is not listed in the text as a cause of poverty?
- recession and a poor economy
 - low labor productivity
 - structural changes in our economy
 - All of the above are causes of poverty.**

True / False Questions

- People classified as poor are poor despite any income transfers they might receive from the government. (T)
- The concept of “money income” refers to earnings from working only. (F)
- The poorest fifth of the U.S. population received about 12% of total money income in 2020. (F)
- The richest fifth of the U.S. population received over half of total money income in 2020. (T)
- The 2020 U.S. poverty rate is over 11%. (T)
- The 1960 U.S. poverty rate was over 20%. (T)
- Poverty rates are higher in central cities and the rural sector than in the suburbs. (T)
- Poverty rates for families with a single parent are remarkably similar regardless of whether the family head is male or female. (F)
- Teenage pregnancy is one of the reasons suggested in the text for the “feminization of poverty.” (T)
- Structural changes in our economy include technological advance and a shift away from manufacturing and toward the service sector. (T)

11. The teenage pregnancy rate has skyrocketed over the past 20 years. (F)
12. Macroeconomic policies can serve to reduce poverty, but microeconomic policies cannot provide much benefit. (F)
13. Social insurance programs are targeted to low-income people. (F)
14. Medicare is the government medical program for low-income people. (F)
15. The lower-wage service sector in the United States has recently grown at the expense of the higher-wage manufacturing sector. (T)
16. An “investment in human capital” is spending that improves the productivity of people. (T)
17. Universal entitlements are generally available to all who are eligible, regardless of income. (T)
18. One of the reasons the AFDC program was popular among the public was that it included strong work incentives. (F)
19. A block grant is an amount of money given by the federal government to state governments to meet a broad category of need. (T)
20. TANF assistance is guaranteed for the lifetime of the recipient. (F)
21. Welfare reform under the TANF program emphasizes work requirements. (T)
22. Relative poverty is measured by the poverty line. (F)
23. Social security is a social insurance. (T)
24. Medicaid is a social insurance. (F)
25. Income distribution in the United States has become more equal since 1981. (F)
26. The United States has the most equal income distribution of all the Western industrialized nations. (F)
27. Our welfare programs represent slightly over half of the federal budget. (F)
28. Former President Donald Trump drastically reduced government spending on programs serving the nation’s poor. (T)
29. The 2021 American Rescue Plan was a poverty-fighting initiative that put the most cash assistance into the hands of low-income families since the 1930s New Deal. (T)
30. Trickle-down philosophy was a viewpoint held by Ronald Reagan and Donald Trump. (T)
31. Conservatives generally prefer direct federal government involvement in poverty programs rather than state and local governments and private charities. (F)
32. Most economists believe that poverty is quite straightforward and can be fairly easily addressed by government. (F)
33. Surprisingly, the poverty rate among females is lower than the poverty rate among males. (F)
34. Temporary Assistance for Needy Families (TANF) is a social insurance program as opposed to a public assistance program. (F)
35. One outcome of the 2017 Republican tax bill is that it gives Republicans greater “justification” in reducing budget cuts for poverty programs. (T)

Critical Thinking Questions

1. Our current welfare program (TANF) emphasizes work. What problems exist if 1) our nation is in a recession and jobs are scarce, or 2) people are not able to take available jobs due to mental or physical disability, lack of training and education, or unavailability of reliable childcare and transportation?
2. (*Appendix 2-2*) Is the poverty line an adequate measure of U.S. poverty rates? Why or why not?

3

Racism and Discrimination



NEWS UPDATE

- “These prosecutors are vicious, horrible people. They’re racists and they’re very sick.” This was Trump’s reference to Black prosecutors charging him with attempts to overthrow the 2020 election and engage in real estate fraud (February 2022).
- President Joe Biden announced his nomination of Ketanji Brown Jackson for Supreme Court Justice. She is the first Black woman nominated to the highest court in its 223 years of existence. As President Biden introduced Jackson at a White House event, he noted that “for too long, our government and our courts haven’t looked like America.” Previously, Jackson was serving on the influential U.S. Court of Appeals for the D.C. Circuit (John Wagner, et al., *Washington Post*, February 25, 2022).
- Hundreds of Native American tribes that have suffered disproportionately high addiction rates and death rates amid the opioid epidemic have reached a tentative settlement with Johnson & Johnson and the three largest drug distributors for \$665 million. Additional money has also been committed from Purdue Pharma. According to the top attorney for the tribes, “We are not solving the opioid crisis with this settlement, but we are getting critical resources to tribal communities to help address the crisis.” (Jan Hoffman, *The New York Times*, Feb. 2, 2022)

PURPOSE

This is the second chapter to focus on the issue of inequity, and it presents the second pillar underlying our economy: racism. Students will learn about the diversity of our population and how this diversity is increasing over time. Racism is discussed, as is discrimination. While the focus of discrimination is the labor market, discrimination in education, residence, voting rights, and the criminal justice system are also discussed. Students should come to understand that racism and discrimination are not limited to overt acts and racist words, but also include policies and behaviors that protect white privilege in ways inimical to people of color.

WHAT’S NEW?

1. Racism and discrimination have always been discussed in this textbook, just as they have always been present in our society. The difference is that now, for the first time in our students’ lives, we’ve had a president who was openly racist and a political party that continues to support him in cult-like fashion. (Perhaps that will change by the time you teach from this text.) Nevertheless, racism is far more openly expressed now than it ever has been in our students’ lifetimes.
2. This edition of the text was written amid the first year of the Biden administration and the second year of the coronavirus pandemic. It was written when “the big lie” was promulgated and the January 6, 2021, insurrection was investigated. *It feels like everything in this chapter is new!*
3. The coronavirus pandemic disproportionately harmed people of color due to their work in unsafe “essential” jobs and because of long-standing structural inequities.

4. While hate crimes are increasing, these crimes have especially increased against Chinese Americans (indeed, all Asian Americans) due to racism associated with the coronavirus pandemic. Hate crimes reveal a profound contempt harbored by those committing the crimes.
5. New material addresses topics including U.S. government treatment of Puerto Rico, the first Native American woman appointed to a cabinet position, land rights and a history of forcing Native American children into dangerous boarding schools, voter suppression, and immigration from the Central American Northern Triangle area, Haiti, Cuba, and elsewhere.
6. President Biden proposed three monumental bills (two were approved by Congress) and two voting rights bills (both unapproved by Congress). Nevertheless, these bills were unprecedented in addressing COVID-19, improving our safety net, and seeking greater equity for racial and ethnic minorities.
7. Critical race theory has suddenly become an issue for people who do not understand what it means and do not realize it isn't being taught in K–12 public schools. Yet it is important that in this college class, students learn the ways in which our government perpetuates and reinforces racism by its policies and practices, ranging from voting rights to how we fund public education. Racism runs far deeper than confederate statues and the n-word. It is fundamental to our economy.
8. Once again, the *Viewpoint* section is especially important, as it not only presents the views of those on the economic left and the economic right, but also the populist ideology, which is linked to white supremacy. You may want to discuss this with your students.

TEACHING SUGGESTIONS

► *Student Interest*

- One way to stimulate discussion about discrimination is to ask students if they are aware of any nonlabor market discrimination in their town or university. For example, in my town and campus, merchants often watch young people (and follow them around) in their stores and require them to place their backpacks on a shelf before entering. (They never ask me to place my bag there.) Police officers in town will occasionally charge students with loitering in public parks. (Doesn't loitering in a park seem like an oxymoron?) My students tell me that their pierced eyebrows and tongues often mean that they are not hired by employers and that blue or orange hair is often grounds for being fired. Others have experienced more clear-cut discrimination based on their race, ethnicity, gender, nationality, religion, or LGBTQ status.
- Students often come to my class under the assumption that labor market discrimination no longer exists. They are shocked to see the earnings differentials between men and women and between whites and minorities. Young women are especially alarmed to see that, upon graduation, they are likely to receive much lower earnings than young men with similar education. This presents a good opportunity to discuss the reasons for the earnings differentials.

► *Controversy*

- Just as students may believe that discrimination does not exist, they are often very wary of affirmative action, believing it amounts to reverse discrimination and rigid quotas. This presents a good opportunity to discuss the value of a diverse student body and faculty at institutions of higher learning. You can also discuss white privilege in higher education, which will be addressed more fully in Chapter 5.

- In this age of social media, the racist comments of politicians, actors, and other celebrities come to the fore. If we pay attention to these and cite them to our students, our students will see more clearly that racism is alive and well. You will have to decide how to discuss Donald Trump and his racism, especially in the context of the January 6 insurrection. I would address it openly and honestly. The facts are what they are.
- You may have students who are overtly racist in your classroom, so you should think about how to handle it ahead of time. Also think about how to manage discussions about racial, ethnic, national, religious, and LGBTQ minorities without increasing the discomfort of these students in the classroom. Nor should we expect them to be especially knowledgeable or representative of their minority group.
- Ask students if they have seen racist graffiti, confederate flags, or other racist expressions on campus. Are there buildings named after racist leaders, or statues that commemorate them on your campus? If so, all these topics may create interesting discussions.

➤ *Economic Theory and Models*

- Occupational crowding presents a very interesting and undoubtedly relevant explanation for some earnings differentials. Students have not yet considered models of demand and supply for labor, so you will want to carefully explain these graphs carefully before using them.
- Students will revisit the production possibilities curve to recognize that discrimination results in inefficient outcomes, shown as a point below the production possibilities curve.

➤ *Data and Terminology*

- Once again, alert students to the importance of using precise terminology, such as earnings versus income and mean versus median. Similarly, explain why we look at the earnings of *full-time workers* (to remove the effects of part-time employment).
- Most people define *minority* based on numbers rather than power or privilege. Present the sociological definition of minority as a better way of defining the term.
- While this isn't the place for a lengthy discussion of the unemployment rate, it is nevertheless important that students understand that to be classified as unemployed, a person must be actively seeking employment. Otherwise, students will not understand that unemployment isn't due to laziness or a choice for full-time homemaking.
- You may need to reinforce the textbook discussion of terminology for racial and ethnic minorities, including non-Hispanic whites, African Americans, and Indigenous people. They will also want to know why terms are capitalized except for whites.
- Last but not at all least, we've noted that updated data reveals the diversity of our population is increasing. This certainly is one of the reasons that racism is on the rise.

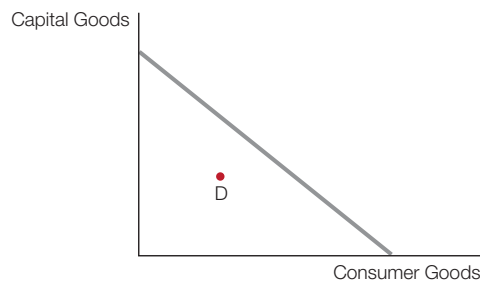
➤ *Fundamentals*

- Explain to your students that anecdotes are not hard evidence and stereotypes often fail to hold up in the statistics. Explain that to hold on to stereotypes despite evidence to the contrary is the essence of racism.
- Widely disparate statistics, such as those for median earnings, are not solely due to discrimination. Discuss some of the other explanations. I emphasize the difficulty in measuring the extent of discrimination versus other factors when contrasting statistics for different groups of people.

- Systematic racism is evident in disparate statistics of well-being and in government policies and practices that protect white privilege at the expense of minorities. Examples include the race to reduce voting rights of minorities by Republican state legislators, disparate sentencing and arrests in our criminal justice system, property tax financing of public education, zoning restrictions and redlining, and many more.

CLASSROOM EXERCISES

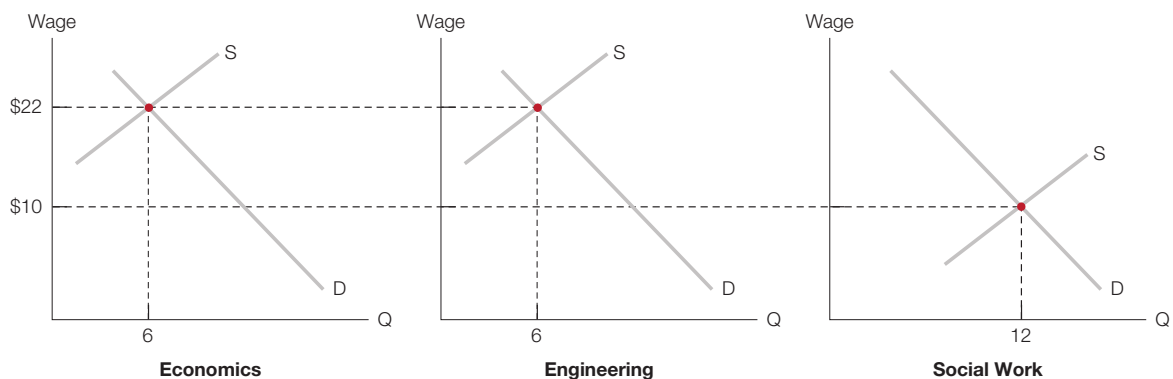
1. Indicate the effect of labor market discrimination on the production possibilities curve graph below. [Point D] What would happen if labor market discrimination were eliminated? [We would move from a point below the curve to a point on or closer to the curve.]



2. Assume there are 24 teachers applying for jobs at your educational institution. Half are men and half are women. Assume there are openings in only three areas: economics, engineering, and social work. Assume that the first two are “men’s” fields (only men apply) and the third is a “women’s” field (only women apply). The demand schedule for workers is the same in each area and is shown as follows:

<u>Wage Rate</u>	<u>Workers Demanded</u>
\$22	6
\$18	8
\$14	10
\$10	12
\$ 6	14
\$ 2	16

- a. Assuming half the men are qualified in economics and the other half are qualified in engineering, what will be the men’s wage? [\$22] Assuming all the women are qualified in social work, what will be the women’s wage? [\$10] Show graphically. (Q is the quantity of workers, D is the demand for workers, and S is the supply of workers.)



- b. In simple terms, what would be the way to ensure equal wages to men and women? [All men and women should apply in equal numbers to the three disciplines.]
- c. Is it really this simple? Of course not. Men and women are encouraged by society to prepare for certain fields and not for others. Employers might only hire people of the “appropriate gender” for certain jobs. It may take years for a person to switch fields and enter a profession that pays a higher wage.

SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. Which group represents the smallest share of the U.S. population?
 - a. Hispanics
 - b. African Americans
 - c. Asian Americans
 - d. Native Americans**
2. Which group represents the largest share of the U.S. population?
 - a. Hispanics
 - b. African Americans
 - c. Whites**
 - d. Non-Hispanic whites
3. Blacks and Hispanics have had disproportionately high COVID-19 death rates because:
 - a. they have comorbidities.
 - b. they are more likely to be poor.
 - c. they face discrimination in healthcare.
 - d. all of the above**
4. Which of the following is true about Asian Americans?
 - a. They represent about 6% of the U.S. population.
 - b. Their largest single origin is China.
 - c. They include U.S. Puerto Ricans.
 - d. All of the above**
5. Which of the following is clearly an instance of discrimination?
 - a. A male orthopedic surgeon earns more than a female pediatrician.
 - b. The chancellor's secretary earns more than the Economics Department secretary, even though their work is quite similar.
 - c. A male factory worker earns more than a female worker doing the same job and with identical qualifications.**
 - d. A nurse practitioner earns less than the doctor who supervises her.

6. Statistical discrimination:
 - a. is clearly illegal and almost never practiced.
 - b. involves judging prospective employees based on their group rather than as individuals.**
 - c. clearly increases the immediate wage costs of the discriminator.
 - d. all of the above
7. Among the effects of discrimination are:
 - a. national output is less than it could be.**
 - b. ethnic minorities, but not women, have lower earnings.
 - c. men have lower earnings than women.
 - d. women have vastly higher unemployment rates than men.
8. Among the problems in measuring the extent of discrimination is:
 - a. there is very little data available on the income of various groups.
 - b. some income differences are the result of choice and cultural factors, not discrimination.**
 - c. discrimination is illegal and therefore we have no information on earnings.
 - d. all of the above
9. Government data indicate that if we control for level of education:
 - a. men and women have roughly equal earnings.
 - b. men have much higher earnings than women.**
 - c. discrimination on the basis of gender no longer exists.
 - d. men's earnings increase with more education but not women's.
10. The government act that forbids racial, gender, color, religious, or national origin discrimination in the workplace is the:
 - a. Civil Rights Act of 1964.**
 - b. Equal Opportunity Act.
 - c. Equal Employment Opportunity Commission.
 - d. Equal Pay Act of 1963.
11. Affirmative action programs were begun as a result of:
 - a. the Equal Pay Act of 1963.
 - b. the Civil Rights Act of 1964.
 - c. executive orders in the 1960s.**
 - d. the Kerner Commission report.
12. The Supreme Court ruled that affirmative action in college admissions:
 - a. is constitutional as long as it is one of several criteria in admissions decisions.**
 - b. is constitutional if it means quotas.
 - c. is constitutional if it means that anyone can be admitted, regardless of academic achievement.
 - d. all of the above
13. Discrimination that segregates qualified women into lower paying jobs is called:
 - a. occupational crowding.**
 - b. wage discrimination.
 - c. discrimination in human capital.
 - d. employment discrimination.

14. Census data comparing earnings by gender and race:
- provide proof that discrimination exists.
 - provide proof that no discrimination exists.
 - must be interpreted cautiously because culture and individual choice may explain some of the observed differentials.**
 - must be interpreted cautiously because they are politically sensitive.
15. Conservatives often argue that current antidiscrimination policies, such as affirmative action:
- amount to reverse discrimination.
 - create tokenism.
 - are unnecessary because antidiscrimination laws have ended discrimination.
 - all of the above**
16. Full-time women earn about what share of the earnings of male full-time workers?
- 116%
 - 99%
 - 81%**
 - 52%
17. The African American unemployment rate is about how much more than that of whites?
- the same as
 - twice**
 - four times
 - six times
18. Women have unemployment rates that:
- are vastly higher than men.
 - are somewhat higher than men.**
 - are exactly the same as men.
 - are vastly lower than men.
19. Redlining:
- makes it difficult for racial minorities to obtain loans to buy homes.
 - prevents Blacks from building up wealth.
 - reduces the likelihood that African Americans can make it through tough times with home equity loans.
 - all of the above**
20. Most hate crimes are committed on the basis of:
- race, ethnicity, and ancestry.**
 - religion.
 - sexual orientation.
 - gender identity.

True / False Questions

1. The number of people checking the census category of “two or more races” has increased dramatically since 2010. (T)
2. Over half of Puerto Rico’s children are classified as poor. (T)
3. Most U.S. Hispanics are of Mexican background. (T)
4. African Americans are the largest minority *race* in the United States. (T)
5. The problems described by the Kerner Report have all been largely resolved. (F)
6. Our country’s “first people” have one of their own as Secretary of the Interior under President Biden. (T)
7. In sociology, a *minority* is considered a group that has less access to status, prestige, and positions of power when compared to other groups in that society. (T)
8. Labor market discrimination clearly has been eliminated in the United States. (F)
9. It is easy to separate out the effects of discrimination and the impact of personal choices and culture when looking at earnings statistics. (F)
10. Human capital discrimination occurs when some groups arbitrarily receive more or better education than others. (T)
11. Women have higher unemployment rates than men because they often prefer to be stay-at-home moms. (F)
12. Some people are classified as unemployed because they are too lazy to look for a job. (F)
13. You cannot be part of a minority unless you belong to a group whose numbers are smaller than the dominant group. (F)
14. Labor market discrimination means treating equally productive workers differently based on some arbitrary characteristic. (T)
15. Occupational crowding can mean that there are “men’s” jobs and “women’s” jobs, or jobs traditionally held by whites while others are held by African Americans. (T)
16. Hispanic people may be of any race. (T)
17. The U.S. population is becoming more diverse over time. (T)
18. Discrimination decreases the national output. (T)
19. A goal of affirmative action in employment is to have a firm’s workforce reflect the characteristics of the labor pool. (T)
20. Differences in education explain all the earnings differences between men and women. (F)
21. The term *mean* refers to “middle,” whereas the term *median* refers to “average.” (F)
22. Promoting a healthy economy with low unemployment is an antidiscrimination policy. (T)
23. A criticism of affirmative action is that it results in tokenism. (T)
24. Transportation can be a civil rights issue. (T)
25. The largest single share of U.S. Hispanics is of Mexican origin. (T)
26. The liberal viewpoint upholds that affirmative action policies are necessary and should be continued. (T)
27. Residential segregation and educational segregation no longer exist. (F)
28. Donald Trump believed that college admissions should be “race-neutral.” (T)
29. Joe Biden believes in affirmative action in education. (T)
30. The belief that affirmative action is no longer necessary is not supported by the data. (T)

Critical Thinking Questions

1. Explain the complex relationship between culture, individual choice, and discrimination. Can knowledge of the existence of discrimination influence the choices made by members of a minority group? If so, explain how.
2. Which factors besides discrimination influence women's wages? [Occupational choice, education, and experience.] What about racial and ethnic minorities? [Occupational choice, education, residence, transportation, and experience.] (Note: Even though disparities in earnings occur for men and women of the same educational level, and the same is true for minorities, educational preparation may be different depending on gender and race/ethnicity.)

4

Violence and Crime



NEWS UPDATE

- Three white vigilantes who were convicted of killing unarmed Black man Ahmaud Arbery were convicted of hate crimes two years after the first trial. To support the charge of a hate crime, prosecutors showed the jury about two dozen text messages and social media posts in which the men used racial slurs and made derogatory comments about Black people. Their contempt for Blacks is unnerving. (February 22, 2022)
- The governor of California, who placed a moratorium on executions three years ago, is dismantling the nation's largest death row by moving condemned prisoners to other prisons. According to the Corrections Department spokeswoman, "We are starting ... to repurpose and transform the current housing units into something innovative and anchored in rehabilitation" (*Minneapolis Star Tribune*, February 23, 2022).
- The study based on World Health Organization data and published by the medical journal *Lancet* reported that 27% of the world's women and girls ages 15–49 have experienced domestic violence by an intimate partner over the time period 2000–2018 (February 19, 2022).
- According to the Centers for Disease Control, opioid overdose deaths tripled among U.S. teens overall and increased by five times for Black teens in particular over the last two years (Madison Muller and Ella Ceron, Bloomberg News, February 23, 2022).
- At least 30 Historically Black Colleges and Universities have received bomb threats during January and February 2022, perhaps in response to Black History Month.

PURPOSE

Your students will be especially interested in the topics of this chapter, beginning with the violent insurrection on January 6, 2021, and ending with drug abuse, the overdose deaths of their favorite musicians, and the policies used to address drug abuse. In fact, violence is presented as “enabling and perpetuating our nation’s structural foundations of inequality and racism.” And while students will find the topics quite timely and interesting — including the issues of Black Lives Matter, #MeToo, hate crimes, and mass shootings — they will also find the use of economic theory and tools quite interesting in these contexts. These include the concept of public goods and services, social cost-benefit analysis, the price elasticity of demand (and extended elasticity topics in Appendix 4–1), and the use of excise taxes as a policy tool. You’ll note I’ve avoided the “marginal benefits equal marginal cost” framework for policy evaluation, as it is abstract and unnecessarily technical at this course level. See if you agree that social costs and benefits are still managed well.

WHAT'S NEW?

1. Updated data reveal that while violent crimes rates have largely fallen since 1990, they rose in 2020 and may have been rising since. (You can look this up at www.fbi.gov.) There are indications that gun murders are occurring in our major cities at record levels.
2. Black Lives Matter has been discussed in several previous editions to this textbook, but the movement took on greater urgency after the killing of unarmed Black man George Floyd in Minneapolis in May 2020 by a white police officer. The scene was videotaped and streamed around the world with Floyd repeatedly saying, "I can't breathe," triggering a global resurgence of Black Lives Matter and anti-racism protests. The intensity of the anti-racism moment is new. Beware of responses like "All Lives Matter," which are the conceptual equivalent of "race neutral" policies. They do not address the issue of white privilege.
3. New material addresses prison and criminal justice reform.
4. As mentioned in Chapter 3, hate crimes are not new, but they are increasing in number, and they are increasingly targeted against Asian Americans amid the coronavirus pandemic. Also new is that people are assaulting flight attendants, healthcare personnel, teachers, school board members, politicians, and government officials over the coronavirus and racism.
5. Former President Donald Trump displayed his racism, over and over, whether it was in his Muslim travel ban, his disparagement of immigrants and developing countries, or his support for white supremacists that ranged from neo-Nazis in Charlottesville to the Proud Boys in the Capitol on January 6, 2021. This type of racism has persisted for generations, but what is new is that it is now out in the open and seems to be far more acceptable than in the past. Indeed, it seems rampant among politicians, federal and state legislatures, and public figures. The violence that coincides with racism seems to be justified by some and trivialized by others. It is difficult to comprehend how the violence we all witnessed with horror before our own eyes in our nation's Capitol is being retold as if it were insignificant.
6. Of course, material on the coronavirus pandemic is new. This is especially relevant to the discussion of drug abuse, as the stress associated with the pandemic, the increased isolation, and the shutdown of some support groups has raised the dangers of drug abuse.
7. Once again, the *Viewpoint* section is especially important, as it not only presents the views of those on the economic left and the economic right, but also the populist ideology, which is linked to white supremacy, authoritarianism, and therefore, violence.
8. Finally, the *Viewpoint* section is also important because it distinguishes between economic and social viewpoints on the left and the right, especially with regard to the legalization of drugs. An economic conservative will theoretically prefer that the government stay out of the market for illegal drugs (or simply legalizes them), whereas a social conservative will want the government to keep them illegal. The economic conservative may also prefer market-oriented policies to limit drug use, such as excise taxes.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Ask the students if they participated in any antidrug programs in high school. Then ask if they think the programs were effective. Do they have better ideas? This and other topics of student interest in this chapter are great ways to stimulate discussion early in the course. The entire chapter may serve this role.
- The material on the legalization of drugs is controversial. I am careful not to discourage a variety of views on the subject. (For example, some students might suggest that legalization would reduce the demand for drugs because the allure of the “badness” is gone. Reinforce their use of logic by recognizing that this is indeed a possibility.)
- The legalization of marijuana is of special significance to students, especially as more and more states make recreational use legal. Research is being conducted to determine the degree to which marijuana impairs driving.
- Ask your students to read the police reports on their local news sites to see what crimes are being committed. In my small college town, underage drinking, marijuana possession, shoplifting, public urination and vomiting, and domestic abuse seem to dominate. My university charges students for the harassment of squirrels!
- Discuss the statement made by lawyer Bryan Stevenson: “I believe that each person is more than the worst thing they’ve ever done.” How does this apply to incarceration and even the death penalty?
- There has been a rash of politicians and other leaders stepping down after being accused of insider trading when they first learned of the severity of the coronavirus before the rest of the population. Students may be interested in the definition of insider trading and why it is harmful. Ask your students whether they perceive white-collar crime to be less serious than the other forms of crime they’ve considered.
- Ask your students whether there is truly such a thing as a “victimless crime”?
- Students will appreciate the “extras” in the text, including a poem about George Floyd’s murder, an essay by a young Black man about gun violence, and the list of musicians and actors who have died of drug overdoses.
- The section *To the Student* can assist students in finding treatment for themselves or a friend.

➤ *Controversy*

- It’s difficult to present material on global, racial, and ethnic diversity without risk of embarrassment to some students, especially if those students are in a small minority within the class. As in Chapter 3, we need to be careful not to single out individual minority students and not to assume they represent all students within their group.
- It is also difficult to address white supremacy in the Trump and post-Trump era without triggering strong emotions and potential conflict among our students. The same is true as the Republican party increasingly reveals itself to be the party of white supremacy. It may be helpful to shift the focus from overt racist behavior (such as hate crimes and use of the n-word) to activities and policies that promote and protect white privilege (such as the use of redlining and zoning restrictions to keep African Americans from moving into white neighborhoods). Institutional racism (and overt statistics) is less likely to create defensiveness among our students.

- In March 2021, Governor Ralph Northam signed a bill banning the death penalty, making Virginia the first of the old Confederate states to do so. Northam cited a long history of racial disparity in the way the death penalty had been applied in the state, with Black defendants far more likely to be executed than white ones. Virginia Senator Scott Surovell stated that the connection between the lynching of Black men and the advent of the death penalty was “undeniable.” Discuss with your students what he means by this.
- Supporters of the death penalty argue it deters others from capital crimes. However, the experts reject this argument. What do your students think about this? Ask them what they think about the moral, ethical, and economic considerations of the death penalty?
- In January 2022, former President Donald Trump announced at a rally that “the left is now rationing lifesaving therapeutics based on race, discriminating against and denigrating ... white people to determine who lives and who dies. If you're white, you don't get the vaccine or if you're white, you don't get the therapeutics.” This, of course, is untrue and racist. There are plenty of vaccines, though too many people are choosing not to get vaccinated. The one case where race is allowed as one of many considerations is with a New York state policy that targets limited oral antiviral treatments toward those at greatest risk, which in many cases includes racial and ethnic minorities due to long-standing health and social inequities. You might want to ask your students why Trump would make a statement such as this.
- Ask your students about the case of the unarmed Black man Ahmad Arbury, who was killed by three white men who observed him jogging and believed he was a robber. Arbury's killers were charged and convicted of murder. How is this a modern-day version of the widespread “vigilante justice” in the era that followed slavery?
- Similarly, what do your students think about the acquittal of Kyle Rittenhouse, who was among other counter-protesters who swarmed into the city of Kenosha, Wisconsin, following the police shooting of a young Black man. Rittenhouse openly carried his military-style semi-automatic rifle through the city and was charged with the intentional shooting of two demonstrators.
- The late Gwen Ifill, a Black newscaster with the PBS Newshour, coined the phrase “missing white women syndrome.” I added this to the text at a time when the nation seemed riveted on the news of a missing white woman. It struck me as particularly relevant after I'd been reading about the frequency with which Indigenous women go missing and the lack of publicity they receive. You may want to discuss this with your students.

► *Economic Theory and Models*

- When we describe public goods and services as being non-rivalrous, indivisible, and non-excludable, we know that in the extreme sense, these characteristics do not hold. For example, if I sit in a library, it doesn't stop you from being there as well. But if hundreds of us sit in the library, well then, it really is too bad for you. You can discuss this with students.
- The chapter utilizes social cost-benefit analysis, both for crime prevention activity and for the death penalty. We can explain to our students that even if we cannot place monetary values on many social costs and benefits of crime prevention activity, we should nevertheless be aware of them. For example, the social cost of capital punishment in the case of wrongful convictions, or the social cost of an assault on a young man in prison, may be more important than many of the costs we are able to monetize.
- This chapter presents a good opportunity to reinforce student understanding and application of production possibilities and opportunity costs, where increased spending on prisons is crowding out state funding for education, healthcare, and other goods and services.

- Students also have the opportunity to practice using demand and supply and the concept of price elasticity of demand in relation to the use of illegal drugs. The subject matter will make this interesting to students.
- Students will also likely be interested in government policy with respect to illegal drugs, including everything from the war on drugs to clean-needle programs and proposals that drugs be legalized and dispensed at pharmacies.
- Your students may enjoy the discussion of additional elasticity concepts in the appendix to the chapter, including the concepts of perfectly elastic and inelastic demand and supply curves.
- Please encourage your students to re-draw all the graphs from the chapter so they can be confident in their understanding of these models.

► *Data and Terminology*

- Be sure to clarify that a public good or service can be provided directly by the government or can be paid for by the government and provided by a private entity. For example, the government can issue food stamps, but the purchases come from a private grocery store. You might want to consider a public prison versus a private prison. What are some of the concerns about private prisons, especially “for profit” ones? What about public schools versus private ones?
- Students may need an explanation from you about the age-adjustment of data and why this is necessary in assessing violent crime rates.
- Please continue to encourage your students to review their class notes on a daily basis and to learn the definitions in the margins.

► *Fundamentals*

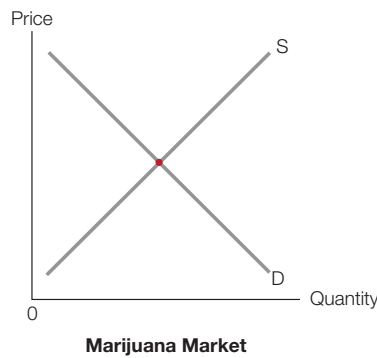
- It is stated in this chapter that violence enables and perpetuates our nation’s structural foundations of inequality and racism. You may wish to discuss this with your students.

CLASSROOM EXERCISES

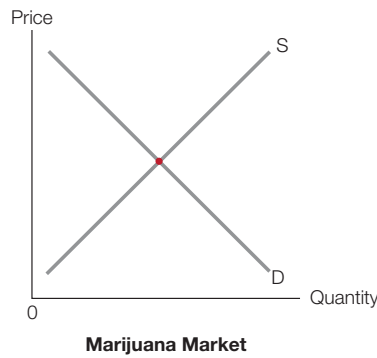
1. Consider the following production possibilities curve, and show the change that has occurred over time in state government purchases. [A movement from A to B.]



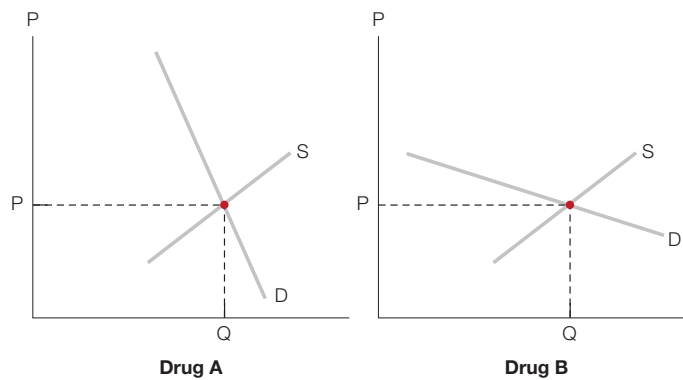
2. In the graph of the market for marijuana below, shift the curve to show what happens if government efforts to reduce demand are effective. [A backward shift in the demand curve.] What would happen to usage? [Decrease] To price? [Decrease]



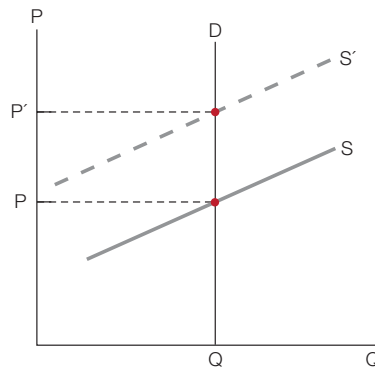
3. In the graph of the market for marijuana below, shift the curve to show what happens if government efforts to reduce supply are effective. [A backward shift in the supply curve.] What would happen to usage? [Decrease] To price? [Increase] Since we get different results in the graphs in questions #1 and 2, what can we say about the overall change in usage when both types of policy are effective? [It decreases.] What can we say about the change in price? [It depends on the relative shift of each curve]



4. Which of the demand curves below is likely to be the demand curve of a casual drug user [B], and which is likely to be the demand curve of an addict? [A] In which case would legalization (represented by an increase in supply) result in the greatest increase in usage? [B]



5. (*Appendix 4-1*) Shift the curve that would occur in the following market for opioids if demand were perfectly inelastic and the government imposed an excise tax on opioid sales. [Supply would shift backward, as shown.] What is the effect on the equilibrium price of opioids? [Increase] On the equilibrium quantity bought and sold? [No change]



SAMPLE TEST QUESTIONS

Multiple Choice Questions

- Which of the following is an example of a public good?
 - car insurance
 - a private hospital
 - national defense**
 - mobile phone
- A neighborhood group initiates a “neighborhood beautification” program of planting flowers and trees. Ella doesn’t take part in the program, but she enjoys the greater beauty the program provides. The economic term for Ella is a:
 - smart consumer.
 - free rider.**
 - busy person.
 - economic citizen.
- A characteristic of a public good is that it is:
 - indivisible.
 - non-rivalrous.
 - nonexcludable.
 - all of the above**
- A so-called victimless crime is defined as one that is:
 - not particularly violent.
 - only against property.
 - the result of consensual dealings between responsible adult persons.**
 - the result of coercion of a weaker person by a stronger one.

5. Which of the following is considered by some people to be a victimless crime?
- pornography**
 - arson
 - rape
 - murder
6. “The use of a good by one person doesn’t prevent its use by others” describes:
- indivisible.
 - non-partisan.
 - nonexcludable.**
 - none of the above
7. The best way of evaluating crime prevention programs from an economic perspective is to look at their:
- deterrent effects.
 - benefits and costs.**
 - number of prosecutions.
 - popularity with the public.
8. Which of the following countries has the highest incarceration rates?
- the United States**
 - Cuba
 - Russia
 - Thailand
9. Drug addicts are likely to have a highly _____ demand while recreational users are more likely to have a _____ demand.
- elastic, inelastic
 - inelastic, elastic**
 - flat, steep
 - flexible, rigid
10. Which of the following movements on the production possibilities graph might represent changes in U.S. choices between crime prevention and other goods and services over recent decades?



- from A to B**
- from B to A
- from C to D
- from D to C

11. A decrease in the supply of illegal drugs will cause a very small reduction in equilibrium quantity (usage) if demand is:
 - a. horizontal.
 - b. elastic.
 - c. inelastic.**
 - d. none of the above

12. Approximately which share of people ages 12 and over used marijuana within the last year, according to the government survey cited in the text?
 - a. about 10%
 - b. about 33%
 - c. about 50%
 - d. about 18%**

13. Most of our expenditures for the War on Drugs are on:
 - a. programs to educate young people about the dangers of drug use.
 - b. programs to decrease the supply of drugs.**
 - c. drug rehabilitation.
 - d. "safe-needle" programs.

14. According to the text, most hate crimes occur in the category of:
 - a. race, ethnicity, and ancestry.**
 - b. sexual orientation.
 - c. religion.
 - d. disability (usually mental illness).

15. Until recently, violent crime rates have:
 - a. fallen steadily.**
 - b. risen steadily.
 - c. remained remarkably constant.
 - d. been highly variable, rising and falling greatly from one year to the next.

16. Among crime prevention activities, the area with the most rapidly rising spending is:
 - a. police protection.
 - b. the judicial system.
 - c. the prison system.**
 - d. drug education and rehabilitation.

17. Which of the following countries has the highest incarceration rate?
 - a. Russia
 - b. Cuba
 - c. Belarus
 - d. the United States**

18. The text discusses violence in the context of:
- hate crimes.
 - politics.
 - the coronavirus.
 - d. all of the above**
19. An editorial in the text describes how Minneapolis:
- is becoming a peaceful city.
 - b. is becoming a “graveyard.”**
 - has entirely defunded the police.
 - has never experienced the death of an unarmed Black man at the hands of police.
20. A poem in the text describes how the poet is upset by:
- the police officer’s hand in his pocket.
 - the police officer’s knee on the victim’s windpipe.
 - a Black man calling for his mother.
 - d. all of the above**
21. In a study cited in the text, the share of American and Canadian women that have been physically or sexually assaulted by a current or former partner is about:
- 10%.
 - b. 25%.**
 - 50%.
 - 87%.
22. “Missing white women syndrome” especially ignores:
- white women who go missing.
 - b. Native American women who go missing.**
 - the needs of the children of white women who go missing.
 - the role of white men.
23. People seeking criminal justice reform have made suggestions for:
- police policy changes.
 - retail policy changes.
 - prison policy changes.
 - d. all of the above**
24. Which of the following would be considered “white-collar crime”?
- financial mismanagement and corruption
 - illegal lobbying of corrupt politicians
 - insider-trading
 - d. all of the above**
25. Afghanistan has a relatively high rate of:
- business bribery.
 - business theft.
 - white-collar crime.
 - d. all of the above**

26. What do the following have in common: Chris Cornell, Scott Weiland, Prince, Kurt Cobain, and Jimi Hendrix?
- They are musicians who ran for political office.
 - They were unarmed and killed by police.
 - They were victims of “vigilante justice.”
 - They died of drug/alcohol overdoses.**
27. Those on the economic right:
- support the legalization of drugs.
 - favor market-oriented approaches to drugs, including excise taxes.
 - support less government involvement than those on the economic left.
 - all of the above**
28. (*Appendix 4-1*) A perfectly inelastic demand curve is:
- perfectly vertical.**
 - perfectly horizontal.
 - downward sloping but not perfectly vertical or perfectly horizontal.
 - a concave curve to the origin.
29. (*Appendix 4-1*) The coefficient of the price elasticity of demand is calculated as:
- the percentage change in quantity demanded from a percentage change in price.
 - the percentage change in quantity demanded from a percentage change in income.
 - the percentage change in quantity demanded and supplies from a percentage change in the costs of production.
 - all of the above**
30. (*Appendix 4-1*) A perfectly inelastic demand curve:
- has a price elasticity of demand equal to zero.
 - is more likely to apply to a highly addictive drug than one that is less addictive.
 - shows a price increase with an excise tax, but no change in quantity.
 - all of the above.**

True / False Questions

- The War on Drugs is universally thought to be a success. (F)
- All experts agree that pornography is a victimless crime. (F)
- The legalization of drugs could be accompanied by ways to increase their safety. (T)
- Carefully conducted studies reveal that our policies to reduce the supply of drugs are quite effective. (F)
- The legalization of drugs could reduce the role of organized crime in the drug trade. (T)
- Surprisingly, the COVID-19 pandemic reduced mental illness and drug abuse. (F)
- Violent crime rates have been largely decreasing in recent decades. (T)
- Spending on criminal justice system has increased in the last several decades. (T)
- The largest increase in spending on the criminal justice system is on prisons. (T)
- Theft is usually considered a victimless crime. (F)
- Most of the individuals in jail on drug charges are violent members of organized crime syndicates. (F)

12. Economists argue that crime prevention activities should be evaluated by cost-benefit analysis. (T)
13. When the data are adjusted for the age distribution of the population, results indicate a relatively small amount of crime is reduced by “get-tough” policies. (T)
14. Expenditures on the criminal justice system have been an increasingly large percentage of state budgets over time. (T)
15. The limitations associated with provision of a public good or service is an example of a market failure. (T)
16. The U.S. incarceration rate is not high by international standards. (F)
17. Donald Trump was the first president to declare a “war on drugs.” (F)
18. The so-called victimless crimes are the result of consensual transactions between responsible adults. (T)
19. It is impossible to be simultaneously a social liberal and an economic conservative with regard to so-called victimless crimes. (F)
20. Economic conservatives are more likely to favor the legalization of drugs than are economic liberals. (T)
21. All benefits of crime prevention activities are easy to quantify. (F)
22. Economists agree that it is efficient to spend any amount on crime prevention activities so long as we decrease the crime rate by doing so. (F)
23. Russia has the highest incarceration rate in the world. (F)
24. Most hate crimes in the United States are committed on the basis of religion. (F)
25. Studies mentioned in the text demonstrate that it is cheaper to utilize the death penalty than a life-sentence in prison. (F)
26. According to the text, white-collar crime is relatively minor and decreasing steadily in the United States. (F)
27. Criminal justice reformers advocate for guardian training over warrior training. (T)
28. Studies have shown that it is very easy to prevent illegal drugs from entering the United States; the problem is that we haven’t tried very hard. (F)
29. Longer prison sentences for the use of crack cocaine than for powdered cocaine have negatively affected the sentencing of Blacks. (T)
30. If policy effectively reduces both the supply of and the demand for illegal drugs, we know the outcome will be lower quantities (usage) and lower prices. (F)
31. According to the text, convicts and guards have a very personal and supportive relationship that assists the convict once released from prison in Sweden. (F)
32. (*Appendix 4-1*) A complementary good is one that is used to substitute for another good. (F)
33. (*Appendix 4-1*) An excise tax imposed in the case of a perfectly inelastic demand curve will cause a very large reduction in equilibrium quantity (usage). (F)
34. (*Appendix 4-1*) The income elasticity of demand refers to the responsiveness of consumers to any change in income. (T)
35. (*Appendix 4-1*) The cross-price elasticity of demand refers to the responsiveness of consumers of one good to any change in the price of another good. (T)

Critical Thinking Question

Critically evaluate the argument for decriminalizing marijuana. Will your analysis be different if you uncover evidence that marijuana is a “gateway drug”? What if it is shown to cause birth defects or miscarriages? What if it is shown to cause increased automobile accidents?

5

Education and Equity



NEWS UPDATE

- The Supreme Court has announced it will decide on a challenge to affirmative action college admissions in October 2022. This has the potential to upset the previous Supreme Court ruling in favor of the University of Michigan’s standard of using an applicant’s race or ethnicity as one of their criteria for admission.
- America’s elite colleges are rethinking their decades-old tradition of admitting students on a legacy basis. Yale, Harvard, and hundreds of students and alumni of 30 colleges oppose using a parent’s alumnus status and/or financial contributions to the college as one criterion for admission. Critics of the policy believe it is racist and unfair (Collin Binkley, Associated Press, February 13, 2022).

PURPOSE

This chapter is the first of four chapters that focus on U.S. social issues and government social services, including education, housing, healthcare, and social security. We look at both K–12 and higher education, which should be interesting topics to our students (they’ve been there, done that, and are doing it). We particularly pay attention to issues of financing and equal opportunity in K–12 education, and the access of low-income and minority students to higher education. Matters are more complex than students might think. We also address the positive externalities of education, and we use the tools of the production possibilities curve, demand and supply model, and cost-benefit analysis to address these topics. We end with an analysis of the approaches to education by the economic left and right, and we include populist demands about racial content in school curriculum.

WHAT’S NEW?

1. As our students and population in general are bombarded with social media, right- and left-wing news sources, a great deal of falsehood, and the adamant opinions of people everywhere, we recognize the need for a K–12 curriculum that teaches media literacy and civic education and fosters analytical and critical thinking.
2. Similarly, as our nation comes to grips with the reality of racism, we need a K–12 curriculum that incorporates racial and cultural diversity perspectives. These include a realistic version of U.S. history that incorporates the slavery of Africans and the oppression of Indigenous people (“woke education”) and the impact of these on continued inequities today.
3. As noted previously, the Supreme Court has agreed to settle two affirmative action cases in higher education in October 2022. You may want to watch for the decision and talk about it with your students.
4. We expand on a few topics from former President Trump’s educational policy, including the use of vouchers, “color-blind” admissions policy, the 1776 Commission for patriotic education, and conservative harassment of transgender girls. Many of these continue in the context of policies of state legislatures and local school boards.

5. The educational policy of President Joe Biden is new to the text, and it includes his proposals for greater funding of education and for an investment in human capital in the form of an offer of two years of tuition-free pre-Kindergarten education for all children and two years of tuition-free community college education for all adults. Pre-K education is especially cost-effective and has never been adequately funded in our country.
6. We continue to discuss how free community college, student loan forgiveness, and Pell Grants are well-intended but may not reach low-income and minority students if they received a poor-quality education at lower levels of education that failed to prepare them for college admission and success.
7. The discussion of college admission scandals is new (and interesting to students), but it is really just a continuation of the topic of white privilege in college admissions. In this respect, it raises the important issue of affirmative action.
8. One other new feature is the discussion of school violence, including mass school shootings. Students will have opinions on these.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Anything you can do to make the textbook issues personal to your students will get their attention. Begin by asking them, “Why are you in college?” Steer the conversation to the concept of an investment in human capital.
- Ask students why they chose a public or private college over the alternative.
- Ask your students about any negative experiences they wish to share about their experience receiving reduced-price school lunches in K–12 education. Many students are ridiculed for this.
- Many of my students are education majors. They are especially aware of government policies toward public K–12 education and pre-K education. You can ask your education students about these.

➤ *Controversy*

- If issues of racism cause discomfort among students, you may wish to focus on the institutional aspects of racism rather than personal aspects. Do not permit any racist or derogatory language from your students.
- Studies have found that poverty in itself reduces the likelihood of academic success and educational attainment, even if schools are of identical quality. Obviously, the real solution is the alleviation of poverty.
- Woke education is controversial! So is critical race theory, affirmative action, media literacy, vouchers, transgender bathrooms, masking and vaccination policy, and oh so much more!
- Some people argue that college-educated people are less likely to commit crimes. Do you agree? Does it matter whether they are property crimes? Violent crimes? Drug crimes? White-collar crimes?

➤ *Economic Theory and Models*

- The role of positive externalities is addressed with a demand and supply model in the text, along with a discussion of the inequity and inefficiency that occur when externalities are present and not appropriately addressed by government. Positive externalities are especially important in the context of K–12 education in the United States and the education of both girls and boys in poor developing countries. Your students may wish to discuss these externalities. Ask if they think they will have more to offer to society due to their higher education. Do they intend to provide social benefits?
- Cost-benefit analysis of a college education is discussed within the text and is presented in the form of a graphical and numerical model in Appendix 5–1. Students should be encouraged to consider the non-monetary benefits of their education, as well as the monetary ones. (They may be unaware of many non-monetary benefits until later in life.) Warn students that those who eventually drop out of college or fail to find a job will not experience the benefits we describe. In other words, we should include some discussion of risk.
- Your students will likely find the discussion of differential college tuition interesting. Graphs are presented in Appendix 5–2.

➤ *Data and Terminology*

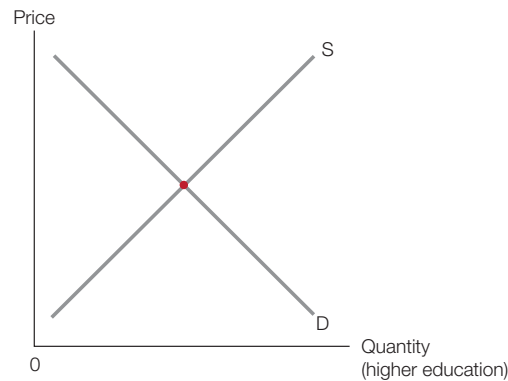
- Statistics are updated for global comparisons of inputs into education (spending and pupil-to-teacher ratios) and outcomes of education (literacy rates and new material on student proficiency in standardized tests). Students will find the discussion of standardized tests interesting, as they probably have strong opinions about their own experiences.
- As always, the terminology in the updated data tables is precise and important. Without too much detail, make sure students understand the meaning of unemployment rates, as well as earnings, educational attainment, and high school dropout rates. Statistics are also updated for the sources of financing for education.

➤ *Fundamentals*

- The fundamental problem of inequality is displayed when different school districts have vastly different property values, and low-income students in low property-value school districts receive a poorer quality education than those in higher property value school districts. Poverty is thereby repeated over generations.
- The fundamental problem of racism is also related to property tax funding of public education (since Blacks and other minorities have lower median incomes and higher poverty rates than whites), as well as discrimination in private education, the use of school vouchers, and “color-blind” admissions.
- Middle-class students sometimes feel they are treated unfairly in higher education. “The rich can afford it, and the poor get the grants.” Remind them that many poor families still cannot afford a college education because of the opportunity cost of foregone full-time income while in school.
- Ask your students what they think about President Biden’s proposal to make two-year community college tuition free. What do they think about student loan forgiveness? Who benefits from these?

CLASSROOM EXERCISES

- The supply and demand graph below is for a college education in a free market (without government intervention), and we assume a college education has spillover benefits for society. The demand curve D is the private market demand. Label the equilibrium point E within the graph, and label the equilibrium price and quantity along their respective axes. Now draw the social demand curve and explain how the presence of spillover benefits means there is an under-allocation of society's resources toward higher education. How can this problem be addressed? [Government support for higher education would enable a higher social demand curve to intersect with supply at a higher quantity of higher education. There would be an increase in the allocation of resources to higher education.]



- Inner City has a property tax base of \$40,000 per student, while Suburb has a property tax base of \$200,000 per student.
 - Show how the amount of money allocated per student will differ if the property tax rate is 4% for both schools. [The amount per Inner City student = $0.04 \times \$40,000 = \$1,600$; whereas the amount per Suburb student = $0.04 \times \$200,000 = \$8,000$.]
 - Show how the tax rate of Inner City must increase to 20% to provide the same level of funding per student as Suburb. [$0.20 \times \$40,000 = \$8,000$. Note that low-income residents of a low-property value school district must pay a very high property tax.]

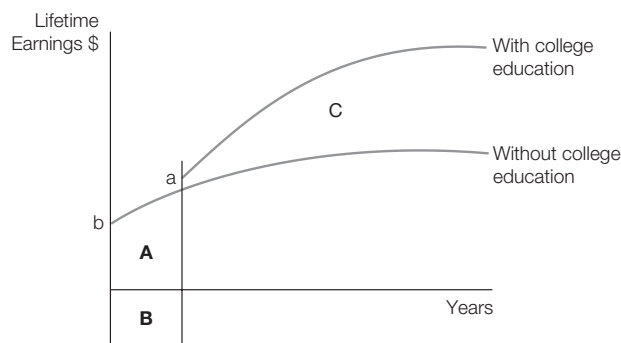
SAMPLE TEST QUESTIONS

Multiple Choice Questions

- What is the best example of the indirect (opportunity) costs of a college education?
 - tuition
 - room and board
 - forgone earnings from attending school instead of working**
 - books, lab fees, and other such items

2. State government spending on public universities:
 - a. benefits mainly low-income students.
 - b. benefits students of all income levels equally.
 - c. benefits mainly middle- and high-income students.**
 - d. has been increasing dramatically as a percentage of state budgets.
3. A major source of financing for public K–12 education is:
 - a. the federal property tax.
 - b. the federal income tax.
 - c. the local property tax.**
 - d. the local income tax.

The next three questions refer to the following graph (*Appendix 5–1*):



4. What is true about the curves showing lifetime earnings with a college education (top curve) and lifetime earnings without a college education (bottom curve)?
 - a. Earnings are higher with a college education.
 - b. Earnings rise more quickly with a college education.
 - c. Earnings occur in the first four years for a student without a college education.
 - d. All of the above**
5. Area A represents:
 - a. The indirect (opportunity) cost of a student attending college.**
 - b. The indirect (opportunity) cost of a student not attending college.
 - c. The direct cost of a student attending college.
 - d. The direct cost of a student not attending college.
6. What area represents the excess of lifetime earnings for the college student compared to the lifetime earnings of the non-college student?
 - a. Area A
 - b. Area B
 - c. Area C**
 - d. Area A+B+C

7. Because education has spillover benefits, the private market by itself will:
- underallocate resources to education.**
 - overallocate resources to education.
 - produce too much education.
 - produce the socially optimum amount of education.
8. John lives at home and is a freshman in junior college. He quit a job that would have paid him \$9,000 per year so he could attend school full time. His tuition and fees were \$2,000 per year, and his books cost \$200 per year. What was the full cost of his first year of school?
- \$2,700
 - \$11,200**
 - \$2,500
 - none of the above
9. Proposals to charge higher tuition for more popular college majors are based on the argument that:
- the higher tuition would enable the school to hire more teachers and offer more sections of courses in those majors.
 - some students would switch to other, less popular, majors rather than paying higher tuition.
 - the school's resource allocation would improve.
 - all of the above**
10. Which country in the Western industrialized world spends the largest share of GDP on education?
- The United States
 - Norway**
 - Denmark
 - Israel
11. Many of the African countries have:
- relatively low literacy rates.
 - lower literacy rates for women than for men.
 - the need for education for women in order to achieve economic development.
 - all of the above**
12. What do private schools, magnet schools, and charter schools have in common?
- They all increase competition in K–12 education.**
 - They all involve transferring finances from private to public K–12 schools.
 - They are all supported by economic liberals.
 - They are all opposed by economic conservatives.
13. The principal problem with financing K–12 education by means of the local property tax is that:
- it causes wasted resources.
 - educational quality is not equal throughout the state or country.**
 - the tax base is adequate, but the tax rate is not.
 - low-income children cannot attend school.

14. Which of the following countries does not have relatively high literacy rates?
 - a. The United States
 - b. Cuba
 - c. Russia
 - d. Chad**

15. The federal government finances approximately what share of public K–12 education?
 - a. 1%
 - b. 9%**
 - c. 40%
 - d. 60%

16. Theoretically, state contributions to public K–12 education are intended to:
 - a. take control over hiring decisions in public schools.
 - b. take control over curriculum in public schools.
 - c. assure more equal funding among public schools.**
 - d. reduce the authority of local school boards.

17. Unless there is government intervention, the existence of positive externalities means there is:
 - a. inefficiency.
 - b. inequity.
 - c. misallocation of resources.
 - d. all of the above**

18. The classic example of a negative externality is:
 - a. education.
 - b. vaccinations.
 - c. pollution.**
 - d. a public good or service.

19. The largest share of 15-year-old students achieving proficiency on standardized math tests is in:
 - a. the United States
 - b. Norway.
 - c. Denmark.
 - d. Costa Rica.**

20. Economic conservatives generally support:
 - a. competition among different kinds of schools.
 - b. tuition vouchers for private education.
 - c. deregulation (of government control of education)
 - d. all of the above**

True / False Questions

1. Data reveal that earnings increase as the level of educational attainment increases. **(T)**
2. Most American college students attend private schools. **(F)**
3. The average U.S. high school dropout rate is close to 6%. **(T)**

4. The United States spends the largest share of GDP on public education among the Western industrialized countries. (F)
5. Some developing countries, such as Costa Rica and Cuba, have lower (better) pupil-to-teacher ratios than the United States. (T)
6. A major reason that inner-city schools are under-financed is that they do not have an adequate property tax base. (T)
7. Property tax financing of K–12 education results in relatively equal spending per public school student throughout the United States. (F)
8. Public K–12 education has substantial spillover benefits. (T)
9. Magnet schools increase the choices for students and their families. (T)
10. The use of private school tuition vouchers can harm the quality of our public schools. (T)
11. There is a positive relationship between income and years of education for both men and women. (T)
12. The federal government provides over 25% of the funding for our public K–12 schools. (F)
13. Government support for public education can be justified by education's spillover benefits to society. (T)
14. The private market overallocates resources to products with substantial spillover benefits. (F)
15. An important opportunity cost of higher education is the forgone earnings from employment while in school. (T)
16. State spending on public university systems mainly benefits low-income students. (F)
17. Because of U.S. law, racial and ethnic minority students receive the same quality of education as nonminority students. (F)
18. Both men and women receive approximately equal earnings for equal levels of education. (F)
19. All forms of affirmative action in higher education admissions have been ruled unconstitutional by the courts. (F)
20. Non-Hispanic white people have the highest attainment of bachelor's and Ph.D. degrees among all U.S. races and ethnicities. (F)
21. African Americans have the highest high school dropout rates among all U.S. races and ethnicities. (F)
22. Donald Trump proposed large increases in educational spending on public schools. (F)
23. President Joe Biden proposed large increases in educational spending on public schools. (T)
24. Donald Trump opposed school vouchers. (F)
25. President Joe Biden supports affirmative action. (T)
26. The 1776 Commission was created by Donald Trump to foster patriotic education. (T)
27. In the quote that opens this chapter, President Joe Biden speaks of leaving our children a nation and a world that is better than the ones we inherited. (T)
28. The Supreme Court ruled in the University of Michigan case that a diverse student body has its own benefits. (T)
29. Investment in human capital theory concludes that high school graduates should go to college if the increased lifetime earnings from a college education are greater than the sum of the direct and indirect costs of college education. (T)
30. Malala Yousafzai was shot by the Taliban in northwest Pakistan for her vocal support of girls' education; and after recovering, she became a global advocate for girls' education and received the Nobel Peace Prize. (T)

Critical Thinking Questions

1. We often talk of U.S. public education as a means of achieving equal opportunity for all. Do you think this is true? Why or why not? What do you think is the impact of our educational system on income distribution? On systemic racism?
2. Why is the education of girls and mothers important in the developing countries of the world?
3. How do you feel about affirmative action? Do you believe it amounts to quotas? (It does not.) Do you believe it is reverse discrimination? Do you believe that a diverse student body and faculty has benefits in itself?
4. What do you think about discrimination by private schools on the basis of race and ethnicity? On the basis of gender? On the basis of LGBTQ status? Keep in mind that most private schools are religious ones. What about vouchers that transfer funding away from public to private schools. What about the separation of church and state?
5. What do you think about “woke education” and critical race theory? Are you aware that this text includes aspects of critical race theory? What government policies institutionalize racism in our educational system?

Housing, Homelessness, and Segregation



NEWS UPDATE

- The last year has seen a spike in violence against the homeless: a beheading; a sleeping man lit on fire in the staircase of an apartment complex; an attack by four youths on a sleeping woman. Beyond these, however, are dozens of daily acts of violence. What they have in common is that the victims are homeless. Advocates for unhoused people say violence against them is increasing (Kyle Swenson, *The Washington Post*, January 24, 2022).
- Wood Street Commons is a community of homeless people in Oakland, California. For many who live there, the camp has become a place where people help each other, feel accepted, and are able to progress in life at their own pace. “I came here to kill myself,” said one camp resident. “But instead, I found community. I found love. I found hope.” Yet the community has its detractors, including those who view the unhoused with unabashed contempt. They don’t like the idea that these people, including many who may have once made bad choices, should get to plan out their lives and their residences. The solutions are complicated, but their voices must be heard (Amelia Rayno, “The Unhoused Ought Not be Left Unheard,” Editorial, *Minneapolis Star Tribune*, February 6, 2022).

PURPOSE

This chapter continues our focus on topic of equity, and it is the second among the chapters on social issues and government social programs. Unlike other Western industrialized countries, our nation does not have an adequate safety net for the poor, and housing is no exception. This chapter will help students understand that our housing programs are underfunded and insufficient to meet the needs of the poor; and homelessness, high rental payments as a share of income, overcrowded and substandard housing, and foreclosures and evictions are the outcomes. And, since inequality in wealth distribution is inimical to the well-being of African Americans who have been the victims of redlining and other racist housing practices, vast differentials in home-ownership rates perpetuate poverty and inequality. Segregation itself has negative ramifications in terms of educational quality, healthy food, transportation, employment, crime, air and water quality, and a host of other issues. Appendix 6–1 presents information on the mechanics of buying a house, Appendix 6–2 assesses a simultaneous increase in demand and decrease in supply of housing in a single graph (something avoided in the main text), and Appendix 6–3 follows up text material on rental ceilings with other examples of price ceilings.

WHAT'S NEW?

1. Housing activists and style guides are now suggesting we avoid the term “the homeless,” as it is considered derogatory. I’ve used other terms, including “houseless,” “unhoused,” and “people without a home.” I am comfortable referring to homeless people but not “the homeless.” You may wish to explain this to your students.
2. The coronavirus brought forth new challenges for housing, including the closure of shelters and the evictions and foreclosures upon those who lost their jobs and incomes. The opening statement provides a stark description of the homeless crisis that ensued. The 2020 housing crisis was much different from the housing crisis of 2007–2008, and the federal moratorium on evictions and foreclosures and other housing policies during the pandemic were limited in their effectiveness.
3. There is an extended discussion of the implications of unequal distribution of wealth (homes and property), and how this impacts racial and ethnic minorities; and there is renewed discussion of the relation between segregated housing and low standards of living.
4. The housing policies of former President Trump consisted of spending cuts and ending the affirmative action enforcement portion of the Fair Housing Act. In announcing the latter, Trump used racist rhetoric to suggest that low-income people (code for Blacks) would move into low-cost housing, thereby lowering housing values and increasing crime. He also used racist language against refugees hoping to settle in various U.S. communities.
5. The new housing policies of President Biden consist of spending increases and resumption of the affirmative action component of housing policy just referenced. Biden sought to address housing needs in the American Rescue Plan, the bipartisan physical infrastructure bill, and the human infrastructure bill (Build Back Better).
6. Once again, the *Viewpoint* section reveals recent policy perspectives of the economic left and the economic right. These policies address government housing programs, homeless shelters, rental ceilings, affirmative action, and the mortgage interest deduction of the federal personal income tax.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Our students seem quite concerned about homelessness, though they may think in simplistic terms of merely providing more shelters. Explain how more stable long-term policies are important, especially if homeless people are to overcome other impediments besides homelessness. Remind your students that the multifaceted problems experienced by many of our citizens (mental illness, disability, addiction, ...) cannot be effectively addressed until the person has stable housing.
- You may want to encourage your students to watch the movie *The Pursuit of Happyness*, which portrays a somewhat realistic example of homelessness (but a fairly unrealistic outcome). Please don't let students place too much faith in the happy outcome of the movie, since despite being accurate, it is quite unlikely.

➤ *Controversy*

- Students may harbor stereotypes about homeless people: they choose to be homeless; they are happier being homeless; they are alcoholics, addicts, or mentally ill; and they are older people. Are there other stereotypes? Please stress the rising significance of homeless families with children.

- Our students might be surprised to learn the extent of housing segregation that exists in the U.S. today. In this, they are no different from much of our society in thinking that discrimination and segregation were eliminated during the Civil Rights period. Please stress the ramifications of segregation for education, employment, and healthy lifestyles.

➤ *Economic Theory and Models*

- The supply and demand model is used in multiple ways in the text and in two of the appendices. The text models include 1) different increases in demand in two counties in the Twin Cities, resulting in differing housing price increases, 2) a long-term trend of a decreasing supply of low-cost rental housing, and 3) a long-term trend of a rising demand for low-cost rental housing. The latter two trends have occurred together, but we've avoided the practice of shifting more than one curve per graph in the text. It is clear the rental price will increase, but the change in the quantity of rental housing is ambiguous and depends on the relative shifts of the two curves. Appendix 6–2 presents a single graph with the simultaneous shift in both demand and supply.
- Our students, like the rest of the public, do not understand the ramifications of rental ceilings. They view them as useful tools for keeping rents from rising too high. Reinforce the key aspects of the graph: 1) do not shift any curves, 2) label the equilibrium (E) within the graph and the equilibrium price (P_0) and equilibrium quantity (Q_0) along the respective axes (the text uses numerical examples), 3) place a price ceiling (P_C) below the equilibrium price on the price axis, and 4) label the resulting quantity demanded (Q^D) and quantity supplied (Q^S) along the quantity axis. Explain how the outcome is a shortage of rental housing, and that the poor and minorities may well be the ones who suffer most as a result.
- The procedures and ramifications of rental ceilings are useful for generalizing about the impact of price ceilings in other markets. You and your students will probably find Appendix 6–3 on price ceilings very useful in the real world, especially with current issues involving high drug prices and gasoline prices.

➤ *Data and Terminology*

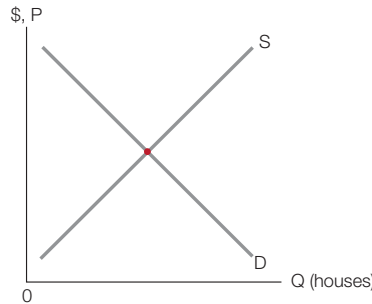
- As the text went to print, most housing data were available through 2019 only, and did not yet include the impact of the 2020 housing crisis and pandemic. You may wish to check with the Census Bureau at www.census.gov to see if 2020 and subsequent data are available, and if so, whether the percent of owner-occupied housing continues to rise and home ownership remains widely disparate for people of different races and ethnicity.
- Data are updated for median housing prices and median gross rents, both as shares of median household income. Both have increased dramatically, making housing less affordable.
- Data are shown for the index of dissimilarity, and students are taught how to calculate this index.

➤ *Fundamentals*

- Inequality and poverty are perpetrated by the lack of wealth in the form of home ownership.
- Racial inequity is also perpetrated by practices of zoning, redlining, other forms of housing discrimination, and the lack of wealth in the form of homeownership. Remember that wealth begets wealth.

CLASSROOM EXERCISES

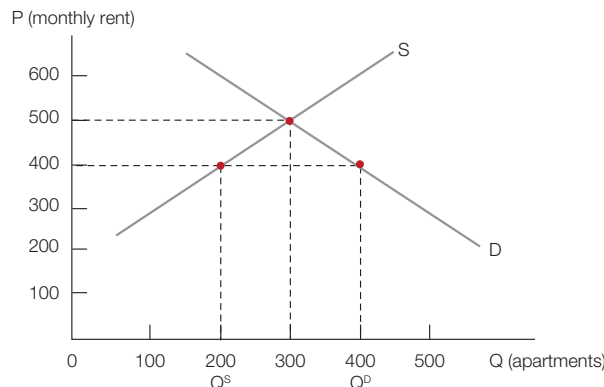
1. Consider the local market for housing below and label the equilibrium point E within the graph. Label the corresponding equilibrium price (P) and quantity (Q) along their respective axes. Shift the curve to show what happens if a major employer closes its factory in this town. [Shift the demand curve backward.] Label the new equilibrium point E' within the graph and label the new equilibrium price (P') and quantity (Q') along their respective axes. What will be the effect on the equilibrium price of housing? [Decrease] On equilibrium quantity of housing? [Decrease].



2. Use supply and demand to assess the implications of the arrival of a new big box store in the town. (The impact of big box stores is controversial, with some saying they drive out local business and others saying they bring in shoppers.) What do your students think?
3. What is the equilibrium rent in the rental market described below? [\$600] How does a rental ceiling of \$400 interfere with the rationing function of price? What is the quantity of rental units demanded [$Q^D = 800$] and supplied [$Q^S = 500$] at the price ceiling?

<u>Quantity Demanded</u>	<u>Monthly Rent</u>	<u>Quantity Supplied</u>
200	\$1,000	800
400	\$800	700
600	\$600	600
800	\$400	500
1,000	\$200	400

4. Assume a rental ceiling of \$400 is imposed on the rental market below. Label the quantity demanded (Q^D) and quantity supplied (Q^S) along the quantity axis. [$Q^D = 400$ and $Q^S = 200$.] What is the effect of the rental ceiling? [There is a shortage of 200 units.] Explain how the rental ceiling interferes with the rationing function of price. [If rent could increase to \$500, quantity supplied would increase to 300 and quantity demanded would decrease to 300. The shortage would disappear, and the market would clear.]

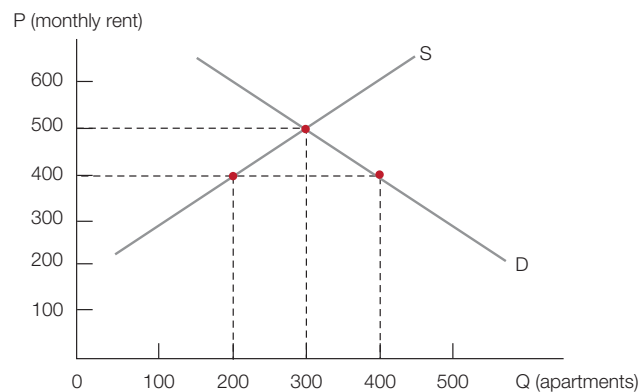


SAMPLE TEST QUESTIONS

Multiple Choice Questions

- Which of the following is true of home ownership?
 - About 65% of housing units are owner-occupied.
 - Home ownership rates have generally been increasing since 1960.
 - Home ownership varies considerably by race and ethnicity.
 - All of the above**
- Which of the following is true about the sales price of a house relative to household income?
 - It has largely risen since 1970.**
 - It dropped dramatically in 2007 amid the housing crisis.
 - It dropped dramatically in 2020 amid the coronavirus pandemic.
 - All of the above
- Which of the following is true about the rental price of a home relative to household income?
 - It has largely risen since 1970.**
 - It dropped dramatically in 2007 amid the housing crisis.
 - It dropped dramatically in 2020 amid the coronavirus pandemic.
 - All of the above
- The city council of College Town imposes rent controls to stop the increase in rent that has occurred over the past year. The likely results of this are a:
 - decrease in discrimination.
 - shortage of rental units.**
 - rapidly growing surplus of rental housing
 - rising rent on rental units.
- The government provides housing subsidies to middle- and upper-income families by:
 - allowing them to live in public housing projects.
 - allowing families to deduct mortgage interest payments from income assessed for income tax purposes.**
 - issuing rental vouchers to them.
 - providing them zero-interest loans.
- Which of the following is true of public housing programs?
 - Management is usually better than in the private sector.
 - They often result in a high concentration of low-income individuals within certain areas.**
 - They are generally better maintained than private sector units.
 - All of the above
- Critics of public housing argue that it:
 - often concentrates poverty into certain areas of a city.
 - benefits the construction industry at least as much as low-income families.
 - is difficult for poor families to move into because waiting lists are so long.
 - all of the above**

8. Assume that the fair market rent on a modest apartment in River City is \$500. A low-income family that earns \$1,000 a month and qualifies for the housing (rent) voucher program must spend 30 percent of its income on rent. If the family rents a two-bedroom apartment for \$500, what would its subsidy be?
- \$210
 - \$240
 - \$200**
 - \$150
9. Suburb A has an index of dissimilarity of 20, while City A has an index of dissimilarity of 75. This means that:
- City A is less racially segregated than Suburb A.
 - City A is more racially segregated than Suburb A.**
 - Neither the city nor the suburb is segregated.
 - Both the city and the suburb are extremely segregated.
10. Assume the local government puts a rental ceiling of \$400 on the housing market below. What would be the effect?



- More poor families can rent apartments.
 - A surplus of 200 apartments.
 - A shortage of 200 apartments.**
 - A shortage of 100 apartments.
11. Rapidly growing economies tend to affect housing markets in which of the following ways?
- Supply decreases, and the price of housing plummets.
 - Demand increases, and the average price of a house rises.**
 - Demand increases, but the average price of housing decreases.
 - Supply may shift, but not demand.
12. Rental ceilings:
- cause housing shortages.
 - increase the likelihood of discrimination.
 - can cause landlords to decrease maintenance of rental units.
 - all of the above**

13. Assume your city has the following two districts. The percentage of African Americans and white Caucasians are as shown. What is the index of dissimilarity?

<u>District</u>	<u>% African American</u>	<u>% Caucasian</u>
A	40	60
B	80	20

- a. 10
 b. 20
 c. **40**
 d. 60
14. In the text discussion of two counties in the Twin Cities area:
- a. demand for housing in the two counties is remarkably identical.
 b. **demand for housing in the county near Prince's estate (Paisley Park) is relatively high.**
 c. the price of housing is identical.
 d. all of the above
15. In 2020:
- a. **the median price of housing increased greatly.**
 b. median income increased greatly.
 c. the median price of housing relative to median income dropped considerably.
 d. all of the above
16. During the 2007–2008 housing crisis,
- a. abundant credit encouraged mortgage lenders offer subprime mortgages.
 b. lenders increased their use of adjustable-rate mortgages (ARMs).
 c. many homeowners suffered foreclosure of their homes.
 d. **all of the above**
17. During the early years of the coronavirus pandemic:
- a. many people sought to buy larger or nicer homes.
 b. many foreclosures were avoided due to a federal ban.
 c. shortages of materials and tradespeople slowed the construction of new houses.
 d. **all of the above**
18. Segregation can occur due to:
- a. redlining.
 b. zoning restrictions.
 c. restrictive housing covenants.
 d. **all of the above**
19. The American Rescue Plan:
- a. **was intended to help people amid the coronavirus pandemic.**
 b. was enacted with an almost equal number of Republican votes as Democratic votes.
 c. restored our economy from the 2007–2008 housing crisis.
 d. all of the above

20. President Biden:
- added an equity leadership team at the Department of Housing and Urban Development.
 - reaffirmed support for homeless services for LGBTQ people.
 - provided funding for housing in Tribal communities.
 - all of the above**
21. An effective housing policy would:
- place limits on subprime lending.
 - avoid rental ceilings
 - expand Section-8 housing or similar types of policy
 - all of the above**
22. Those on the economic right:
- generally oppose affirmative action in housing.
 - generally support only minimal government involvement in housing programs.
 - support market-oriented interventions, such as vouchers, over more extensive government involvement.
 - all of the above**
23. (*Appendix 6–2*) A simultaneous increase in the demand for houses and a decrease in the supply of houses will always cause a:
- rise in price.**
 - rise in quantity.
 - fall in quantity.
 - shortage.
24. (*Appendix 6–3*) An interest rate ceiling:
- is a form of a usury law.
 - is a form of a price ceiling.
 - causes a shortage of loanable funds.
 - all of the above**
25. (*Appendix 6–3*) A perfectly inelastic supply curve means that:
- the quantity available does not change regardless of price.**
 - the price of a good doesn't change, regardless of what happens to the quantity supplied.
 - a price ceiling will result in a surplus.
 - all of the above

True / False Questions

- Non-Hispanic whites have the highest homeownership rate. (T)
- African Americans have the lowest homeownership rate. (T)
- Redlining occurs when mortgages are unfairly denied to minorities in certain neighborhoods. (T)
- A proper way to assess the real price of homes is to consider the sales price relative to median household income. (T)
- A subprime mortgage is a mortgage for someone who doesn't meet the standard borrowing requirements. (T)
- An adjustable-rate mortgage is defined as one with changing borrowers. (F)

7. President Obama used economic policy to take our economy from recession to the longest expansion in U.S. history. (T)
8. By 2021, housing was scarce and prices were high. (T)
9. The price of rental housing relative to median annual income has steadily declined since 1980. (F)
10. Gentrification refers to the purchase of housing largely by older men (gentlemen) with high levels of income. (F)
11. The median price of new housing has generally risen less rapidly than median household income since 2000. (F)
12. Rental ceilings cause shortages of housing. (T)
13. Rental ceilings decrease the likelihood of discrimination in housing markets. (F)
14. A criticism of public housing is that it displaces private housing. (T)
15. The extent of housing segregation is measured by the index of dissimilarity. (T)
16. A housing (rent) voucher pays the difference between the fair market rent on an apartment and 30% of the low-income family's income. (T)
17. An advantage of demand-side, rather than supply-side, housing subsidies is that they serve to increase the private supply of low-income housing. (T)
18. Housing segregation has been virtually eliminated in the United States. (F)
19. The mortgage interest deduction is a subsidy that goes mainly to low-income families. (F)
20. The introduction to the chapter is about the death of homeless people who were ordered to shelter in place during the coronavirus pandemic. (T)
21. Urban renewal and gentrification have decreased the supply of affordable housing for low-income U.S. families. (T)
22. Large shares of African Americans live in central cities, yet they make up small shares of the population in suburbs. (T)
23. Residential segregation contributes to problems of unequal access to good jobs and education. (T)
24. The amount the government spends on housing assistance for low-income people is larger than the value of the mortgage income deduction. (F)
25. A major U.S. housing problem is unaffordability. (T)
26. The share of owner-occupied housing is now higher than in 1960. (T)
27. The homeownership rate of African Americans is well below the national average. (T)
28. Redlining" is the practice of denying mortgages in certain minority neighborhoods. (T)
29. "Gentrification" is the conversion of low-cost apartments into middle- and upper-middle-income housing. (T)
30. Economists generally conclude that rental ceilings are an ideal policy to help low-income renters. (F)
31. Donald Trump sought to increase government funding for low-income housing assistance. (F)
32. Donald Trump sought to extend the "affirmatively furthering" aspect of the Fair Housing Act. (F)
33. The poor are probably those harmed most by rental ceilings. (T)
34. Section-8 housing, like public housing, is inadequately funded to meet the needs of the poor. (T)
35. (Appendix 6-1) Mortgage insurance protects the lender if the borrower defaults on the mortgage loan. (T)
36. (Appendix 6-1) Expenses paid at the time a loan is finalized and the title is conveyed to the buyer are called closing costs. (T)

37. (*Appendix 6-1*) An ARM is an associated retirement mandate. (F)
38. (*Appendix 6-3*) An interest rate ceiling results in a shortage of loanable funds. (T)
39. (*Appendix 6-3*) A ceiling on football tickets cannot cause a shortage because there is a constant number of seats supplied. (F)

Critical Thinking Questions

1. How is housing segregation related to the problems of poverty, unequal access to quality education, unemployment, and a clean and safe environment?
2. How might the existence of the mortgage interest deduction affect the purchase of a home? What about two homes?

Healthcare and the Coronavirus



NEWS UPDATE

- At least 14.5 million Americans are receiving healthcare in 2022, a record number thanks to the Biden administration. President Biden increased the subsidies that go to insurance providers to lower the premiums for their healthcare plans on the ACA marketplace. He also extended the sign-up period. Unfortunately, the higher subsidies will end at the end of the year unless Congress approves the extension in Biden's proposals in his Build Back Better legislation (Ricardo Alonso-Zaldivar, *The Associated Press*, Jan. 28, 2022). You can keep track of Build Back Better on the White House website, www.whitehouse.gov.
- “The left is now rationing life-saving therapeutics based on race, discriminating against and denigrating — just denigrating — white people ... if you're white you don't get the vaccine or if you're white you don't get therapeutics ... if you're white, you have to go to the back of the line to get medical health.” With these incendiary lies (which we've noted in an earlier chapter), former President Donald Trump hit the 2022 campaign trail of white grievance.
- In July 2022, the United States will switch to a new suicide prevention hotline at 988. This number can also be used for any mental health crisis, meaning that the old 911 number (which wasn't specifically geared toward mental health) can be used for other types of emergencies necessitating a police presence. You may wish to share this information with your students.

PURPOSE

This chapter continues our focus on the topic of equity, and it is the third among the chapters on social issues and government social programs. We've noted that our nation lacks the extensive safety net found in other Western countries, but we can acknowledge that with the Affordable Care Act (Obamacare), we are at least much closer to having comprehensive and universal healthcare coverage than in the past. While out-of-pocket healthcare expenses can remain high, and while about 9 percent of our population lacks health insurance (with wide disparities among racial and ethnic groups), we are in a far better place than before the Affordable Care Act (ACA). Nevertheless, our students will learn that while the United States spends by far the largest share of GDP among the Western industrialized countries, our healthcare outcomes are closer to the bottom among the developed and even below some of the less developed countries. Unfortunately, a great deal of inefficiency and inequity remains in our national healthcare system, and we will use the tools of production possibilities and the demand and supply model to assess these. And, of course, the COVID-19 pandemic has made the issue of healthcare, once a bit boring for the relatively healthy age group that includes most of our students, suddenly quite interesting.

WHAT'S NEW?

1. The coronavirus pandemic is new for this generation of students and their teachers. We have not experienced such a widespread, deadly, and disruptive pandemic in our lifetimes. This pandemic heightens the many existing issues of inequality, racial inequity, scarcity, and an inadequate safety net.

2. Data are updated, including healthcare expenditures, life expectancies, infant mortality rates, and insurance coverage; and disparities in access to healthcare and its outcomes among different racial and ethnic groups are addressed.
3. During the 2020 Democratic debates, progressive candidates like Bernie Sanders advocated for Medicare for All, a form of single-payer coverage. Others, including more moderate Joe Biden, argued in favor of expanding the ACA, including a public option so that all Americans would be covered. You may want to discuss some of the new studies in the text that reveal large cost savings with single-payer coverage.
4. President Biden has initiated policies and proposals for expanded healthcare, including those addressing the pandemic, paid sick leave and maternity leave, elimination of lead pipes, and extended Medicaid, as well as expanded Medicare that includes vision, dental, and hearing.

TEACHING SUGGESTIONS

► *Student Interest*

- Even if students were never interested in healthcare before, they have certainly become more interested in the context of the COVID-19 pandemic. Depending on your school's policies, you may want to ask:
 - Are students vaccinated and boosted against COVID-19?
 - Do students wear face masks in public?
 - Do students self-distance in public?
 - Do students avoid crowded indoor facilities?
- I also ask about the students' healthcare coverage, including:
 - Are they covered by health insurance?
 - What kind of coverage does their family have?
 - What kinds of out-of-pocket expenses do their families incur?
 - Does the family's health insurance include a great deal of bureaucracy, especially if the family has more than one form of insurance (such as Medicare and a private supplemental plan)?
- You can personalize some of the characteristics of healthcare by asking questions like:
 - Would you overuse healthcare if it was entirely free?
 - Would you get preventative care if you had to pay some amount for it? What if you had to pay for a lot of it?
 - Does your healthcare provider have physician sovereignty when it comes to your healthcare?

► *Controversy*

- If you ask your students about the quality of U.S. healthcare, many of them will proclaim that our healthcare system is the best in the world! This presents the opportunity to compare expenditures and outcomes of healthcare among the developed countries, forcing students to come to grips with the reasons our healthcare system is not cost-effective.
- I tell my students about the graphic example of the 32-year-old son of my best childhood friend. Lacking health insurance, his diabetes went undiagnosed until his body was filled with gangrene. Even though the hospital admitted him for emergency care and performed one surgery after another, cutting away the rotted parts of his body, he finally died. He died for lack of preventative care, leaving behind a wife and two little girls. Plenty of money was spent to no avail.

➤ *Economic Theory and Models*

- The production possibilities curve is used to show how increased purchases of healthcare means less of other goods and services. It can also be used to show the impact of inefficiencies in our healthcare system.
- The demand and supply model is used to show how the characteristics of healthcare cause a rise in demand, and therefore a rise in price.

➤ *Data and Terminology*

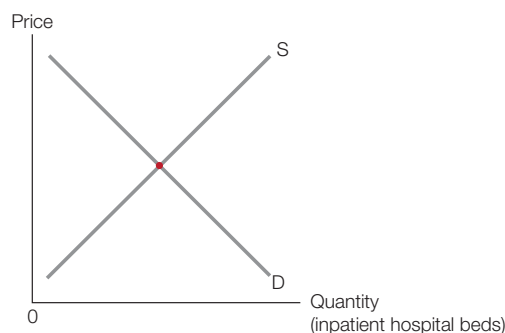
- I like students to memorize “ballpark” numbers for important statistics (such as the share of our population that is uninsured, or the U.S. life expectancy). I think these are important enough that students should have a general idea of the numbers.
- Students are unlikely to know the mechanics of health insurance. You can ask them about deductibles and co-payments, premiums, pharmaceutical drug prices, and so on, and explain these to them if they have difficulty. More details are available in the appendix to the chapter.

➤ *Fundamentals*

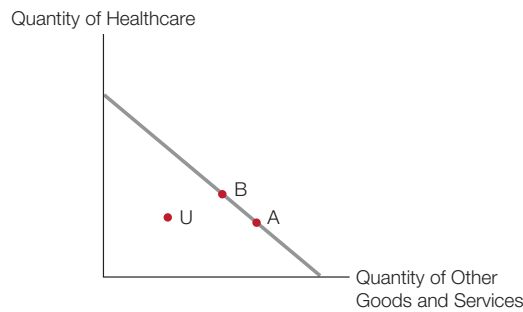
- Just as inequality results in disparate access to quality education and housing, the same is true of healthcare. The poor have less access to health insurance, less opportunity for receiving healthcare, and less healthy lifestyles than higher income people.
- Similarly, racial and ethnic minorities have less access to health insurance and live in segregated residential areas without adequate healthcare and nutritious food. They are more susceptible to violence and polluted air.

CLASSROOM EXERCISES

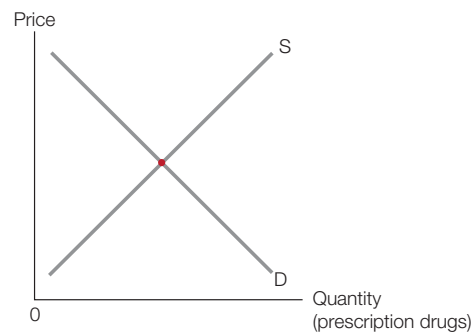
1. Assume the following graph shows the supply and demand for hospital beds. Label the equilibrium point (E) within the graph, and label the equilibrium price (P) and equilibrium quantity (Q) along the appropriate axes. Shift the curve to show what happens if insurance policies change so that a procedure once done in the hospital is now only covered if done on an outpatient basis. Label the new equilibrium (E') within the graph. Label the new equilibrium price (P') and equilibrium quantity (Q') along the appropriate axes. What happens to price? [Decrease] To the quantity? [Decrease]



2. Use the production possibilities model to show the shift in the demand for healthcare over time in the United States. [A movement from point A to point B.] What is the opportunity cost of this shift? [We give up other goods and services.] Label a point U in the graph that would represent inefficiencies in the healthcare system.



3. The following is the demand and supply of a certain prescription drug taken by elderly persons. Label the equilibrium point (E) within the graph and label the equilibrium price (P) and equilibrium quantity (Q) along the appropriate axes. Shift the curve to show what happens if Medicare begins covering the full cost of prescription drugs for those who are eligible. Label the new equilibrium point (E') within the graph. Label the new equilibrium price (P') and equilibrium quantity (Q') along the appropriate axes. What happens to the price of the drug? [Increase] The quantity of the drug? [Increase].



4. Explain how each of the following affects resources allocated to healthcare:
- third-party payment [increase]
 - defensive medicine [increase]
 - physician sovereignty [increase]
 - our tendency to sue for malpractice [increase]
 - our desire for new technology [increase]

SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. About how much money was spent on healthcare per person on average in the United States in 2020?
- \$1,000
 - \$12,000**
 - \$120,000
 - \$250,000

2. Which country spends the most money as a share of GDP on healthcare?
 - a. Austria
 - b. Canada
 - c. the United States**
 - d. Norway

3. Life expectancy is the highest in:
 - a. Japan and Switzerland**
 - b. Canada and the United Kingdom
 - c. the United States
 - d. Germany

4. The infant mortality rate is the:
 - a. number of infant deaths.
 - b. number of infant deaths per 100 births.
 - c. number of infant deaths per 1,000 births.**
 - d. number of infant deaths per 100,000 births.

5. The U.S. group with the highest (worst) infant mortality rate is:
 - a. African Americans.**
 - b. Hispanics.
 - c. Asian Americans.
 - d. non-Hispanic whites.

6. Medicaid and Medicare differ in that:
 - a. Medicaid is funded by a federal tax on wages, but Medicare is funded by the general tax revenues of state and federal governments.
 - b. to be eligible for Medicaid, a household must have a low income.**
 - c. to be eligible for Medicare, a household must have a low income.
 - d. Medicaid is meant only for retirees, but Medicare is meant for people of all ages.

7. What do physicians' sovereignty and third-party payment have in common?
 - a. They both lead to greater efficiency in U.S. healthcare.
 - b. They both decrease the supply of healthcare.
 - c. They both increase the demand for healthcare.**
 - d. They both lead to an under-allocation of resources to healthcare.

8. Among the problems associated with U.S. healthcare is that:
 - a. modern technology is often unavailable.
 - b. significant numbers of people lack access to health insurance.**
 - c. third-party payment leads to under-allocation of resources to healthcare.
 - d. the quality of healthcare is very poor.

9. What factor below encourages an overallocation of resources to health care?
 - a. Physician sovereignty
 - b. Third-party payment
 - c. Rapidly changing technology
 - d. All of the above**

10. Which country has the highest healthcare expenditures (as a share of GDP) in the Western industrialized world?
- Austria
 - Canada
 - Denmark
 - the United States**
11. The major goal of Medicare is to:
- provide healthcare to older, retired Americans.**
 - provide comprehensive healthcare coverage to children.
 - provide healthcare to low-income families.
 - make basic healthcare available to all Americans.
12. The major goal of Medicaid is to:
- provide healthcare to older, retired Americans.
 - provide comprehensive healthcare coverage to children.
 - provide healthcare to low-income families.**
 - make basic healthcare available to all Americans.
13. Compared with 1960, national health expenditures in the United States have:
- decreased greatly.
 - decreased a little.
 - increased greatly.**
 - increased a little.
14. Defensive medicine:
- increases the supply of healthcare.
 - is the same as preventive medicine.
 - increases the demand for healthcare.**
 - occurs because patients are very defensive about their health.
15. U.S. healthcare expenditures amount to about ___ percent of national output.
- 2
 - 5
 - 10
 - 17**
16. About what percentage of Americans are currently without any form of health insurance?
- 26%
 - 9%**
 - 4%
 - 1%
17. The purpose of the SCHIP program is to:
- provide health coverage for the children of low-income families.**
 - provide health insurance for disabled workers.
 - allow workers who lose their jobs to keep their health insurance by paying for it themselves.
 - compensate hospitals for costs not covered by Medicaid or Medicare.

18. The two main types of “managed care” organizations are:
- veterans hospitals and university teaching hospitals.
 - not-for-profit hospitals and preferred provider organizations.
 - skilled nursing facilities and health maintenance organizations.
 - health maintenance organizations and preferred provider organizations.**
19. The most common type of U.S. health insurance is:
- employment-based.**
 - direct purchased.
 - Medicare.
 - Medicaid.
20. Which of the following groups in the United States has the highest infant mortality rate?
- White
 - Native American
 - Hispanic
 - African American**
21. Which of the following groups in the United States is the least likely to have health insurance?
- Caucasian
 - African American**
 - Hispanic
 - Asian American
22. Which of the following proposals is the *least* likely to be supported by conservatives?
- Replace health insurance with medical savings accounts
 - Move to single-payer coverage**
 - Privatize all hospitals and healthcare services
 - Eliminate or curtail Medicare and Medicaid
23. Which of the following is *not currently* a mandate of the Affordable Care Act?
- All people must be covered or pay a fine.**
 - Insurance companies cannot drop or charge higher fees on people with pre-existing conditions.
 - Insurance companies cannot place a lifetime limit on benefits.
 - Young people can remain on their parents' healthcare coverage until age 26.
24. The American Rescue Plan:
- was passed under President Biden to address the coronavirus pandemic.**
 - received widespread support by Democrats and Republicans alike.
 - extended healthcare coverage to everyone in the country.
 - all of the above
25. Medicare for All:
- is promoted by Senator Bernie Sanders.
 - is single-payer healthcare.
 - is considered highly cost-effective.
 - all of the above**

26. Some of the problems associated with the Canadian healthcare system are:
- disparities in healthcare between Indigenous and non-Indigenous populations.
 - disparities in healthcare between low- and high-income people.
 - the costs of the program is rising.
 - d. all of the above**
27. Managed care includes:
- health maintenance organizations.
 - preferred provider organizations
 - incentives for cost-savings.
 - d. all of the above**
28. Among those most vulnerable to COVID-19 are:
- the prison population.
 - immigrants and refugees.
 - victims of mental illness, addictions, and homelessness.
 - d. all of the above**
29. The American Rescue Plan:
- was a \$1.9 trillion plan signed into law by President Biden.
 - included vaccine distribution.
 - included assistance to state and local governments, schools, and small businesses.
 - d. all of the above**
30. (*Appendix 7-1*) A deductible is:
- the payment made on a monthly basis for coverage by insurance.
 - a percent of medical expenses that must be paid by the patient.
 - c. an amount of healthcare charges that the patient must pay before receiving additional medical services at no additional costs.**
 - the tax provision that permits you to pay taxes early if you incur high medical expenses.

True / False Questions

- Since 1960, U.S. healthcare expenditures (per capita) have increased dramatically. (T)
- According to textbook data, U.S. healthcare expenditures per capita are the highest among the Western industrialized countries. (T)
- If Americans cannot afford private health insurance, they are automatically covered by one of the government health plans. (F)
- Medicaid is subsidized healthcare for Social Security recipients. (F)
- Defensive medicine increases the demand for healthcare. (T)
- Cost-shifting occurs when hospitals charge patients with good insurance higher prices to offset the uncompensated costs of uninsured patients. (T)
- New technologies often increase the demand for healthcare. (T)
- Among Americans, the infant mortality rate is the highest for African Americans. (T)
- U.S. life expectancy is the highest in the world. (F)

10. The coronavirus has lowered American life expectancies in ways unseen since World War II. (T)
11. African Americans are more likely to be insured than whites. (F)
12. Japan has the highest (worst) infant mortality rate in the world. (F)
13. The United States has the world's lowest (best) infant mortality rate. (F)
14. Duplication of expensive technology contributes to high costs of U.S. healthcare. (T)
15. Over 90% of the United States population has health insurance coverage. (T)
16. Medicaid is a healthcare program specifically for low-income people. (T)
17. Medicare is a healthcare program specifically for low-income people. (F)
18. Advertising contributes to competition among providers of healthcare. (T)
19. A program is "means tested" if eligibility hinges on having a low income. (T)
20. Economic liberals tend to support greater government involvement in healthcare programs than economic conservatives. (T)
21. The United States does *not* ration healthcare. (F)
22. A medical savings account is held by the government to be used for unexpected medical expenses. (F)
23. Advertising in the healthcare industry can increase competition among healthcare providers. (T)
24. The Affordable Care Act is correctly labelled "socialized medicine." (F)
25. Health maintenance organizations (HMOs) and preferred provider organizations (PPOs) are examples of group practices. (T)
26. Medicare is means tested, but Medicaid is not. (F)
27. U.S. healthcare expenditures per person are over \$10,000 per year on average. (T)
28. An advantage of a single-payer healthcare system is that such a system is much less expensive to administer. (T)
29. An advantage of a single-payer healthcare system is that such a system incorporates extensive competition. (F)
30. We can acquire greater efficiency in our healthcare system by having people pay for their own preventative care. (F)
31. Because of the role states play in administering Medicaid, eligibility and coverage varies by state. (T)
32. A key to efficiency is the preventative care offered by the Affordable Care Act. (T)
33. Under President Biden, Congress dropped the individual mandate that people must be covered by healthcare insurance. (F)
34. Medicaid expansion as part of the Affordable Care Act served to expand healthcare coverage to all low-income Americans. (F)
35. In a single-payer system, government can call forth additional medical services by offering higher compensation to providers. (T)
36. African Americans face a disproportionately high risk of dying from COVID-19 than white people do. (T)
37. The healthcare system of Great Britain is despised by almost all the British population and medical providers. (F)
38. Donald Trump and the Republican Congress were strongly supportive of the Affordable Care Act. (F)
39. (*Appendix 7-1*) With private insurance coverage, the patient pays a portion of the cost through an array of premiums, deductibles, and coinsurance payments. (T)
40. (*Appendix 7-1*) There is regressivity in patient payments for private healthcare. (T)

Critical Thinking Questions

1. What is the significance of the individual mandate? Consider both the pros and cons.
2. What is the significance of lifestyle factors (such as smoking, illegal drug use, poor nutrition, etc.), as well as environmental factors (such as crime and gun violence, air pollution, etc.) in determining healthcare outcomes. What about gang violence and civil conflict in other countries of the world? What about the AIDS epidemic in many southern African countries?
3. What is the significance of COVID-19 in poor countries that have very low vaccination rates? Is it fair that poor countries have far less access to vaccinations than richer countries?
4. Do you think that vaccinations against COVID-19 should be mandatory in the United States? Why or why not?
5. Americans generally do not like the idea of rationing healthcare, but this has become a reality amid COVID-19. How should treatment for COVID-19 be rationed? Note that even before the coronavirus, we rationed healthcare on the basis of access to income and health insurance coverage.

8

Social Security and Other Entitlements



NEWS UPDATE

- 2022 Social Security recipients will receive a boost of 5.9% in benefits as a result of recent high inflation rates. This is the largest boost in 39 years (www.ssa.gov).
- Many eligible families missed out on the 2021 expanded Child Tax Credit because they didn't file federal personal income taxes. Even though the expansion has been terminated, people will have one last chance to request this expanded benefit when they file their 2021 tax returns. The expanded Child Tax Credit was estimated to reduce child poverty by half.

PURPOSE

This is the last of four chapters focused on social issues and government social programs, and we address the Social Security program, Medicare, and a few other entitlements. Terminology is important, insofar as Social Security and Medicare are universal entitlements, as opposed to public assistance programs. We also distinguish between social insurance programs and private insurance programs. As part of this discussion, it is important that students understand that while Social Security is *not* a public assistance program, it does prevent poverty among a lot of people who would otherwise be poor. The stereotype of the elderly poor largely belongs to the past. As we consider additional entitlements proposed by the Biden administration, we realize that many of these can also rightly be considered investments in human capital (or in human infrastructure — a more common term in today's politics). While Social Security is a popular program, our students are worried it may not be there for them when they retire. While this concern has been exaggerated, it is true that the major problem affecting the future of Social Security is the declining worker-to-beneficiary ratio. This problem, along with rising healthcare costs, will challenge the funding of the Medicare program as well.

WHAT'S NEW?

1. The Social Security program hasn't changed, but conservatives have been more outspoken about reducing it (especially in the context of the budget deficits created by the 2017 tax bill).
2. Future inflation will cause an increase in Social Security benefits, so you may want to watch for this.
3. Similarly, the Medicare program hasn't changed, though conservatives also have this program on their radar for reducing it. President Biden, on the other hand, sought to expand this program by adding hearing, vision, and dental coverage, though this met with resistance in Congress.
4. Medicare was addressed by the Democratic candidates for president back in 2020. You (but perhaps not your students) will recall Bernie Sanders's advocacy of "Medicare for All" (single-payer healthcare), and Joe Biden's more moderate call for expanding the Medicaid and the Affordable Care Act instead. This was mentioned in Chapter 7.

5. Upon entering the office of president, Joe Biden proposed three large spending bills, two of which passed by Congress (though the third did not). The American Rescue Plan and the Bipartisan physical infrastructure bill were huge expansions of government spending on items that included new universal entitlements (though some of these programs could not be defined as universal entitlements once an income cap was placed on them). The third bill, a human infrastructure bill, sought universal entitlements and other kinds of assistance programs that would vastly expand our nation's safety net, including items like two years of free pre-kindergarten and two years of free community college, paid sick leave and maternity leave, expanded childcare, continuation of the expanded Child Tax Credit, and others.
6. The text has expanded discussion of topics that have become more popular in recent times, including a universal basic income and various tax credits targeted to low-income households.
7. Finally, the clock continues to tick down as we watch the data and see a continued drop in the ratio of young workers relative to a growing elderly population. This, of course, projects difficulties for the future financing of Social Security and Medicare. Since immigrants tend to be relatively young, increased immigration can help solve this financing problem.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Students worry about whether Social Security will “be there” for them, so they are interested in the sustainability of the program. This presents a good opportunity to talk about our aging population, and perhaps even discuss whether we should undertake efforts to try to turn it around (have more babies?). You can discuss the role played by typically young immigrants paying into the Social Security system, and you might note that illegal immigrants pay into Social Security but will never receive benefits. You can also discuss modifications that could be made to the Social Security system to make it more sustainable. Students may have some of their own ideas.
- Ask your students if they have any family members who rely on Social Security. Is the money they receive adequate to live on?
- Similarly, do your students have family members who receive Medicare? If so, is Medicare adequate for their needs, or do they pay for a supplemental insurance?
- Ask your students if they think there is stigma associated with receiving Social Security? Is there stigma associated with receiving food stamps? Is there stigma for children receiving reduced price school lunches? What is the difference among these? Is this fair?
- What share of the student's paycheck goes to Social Security? Discuss the regressivity of the Social Security tax and ways it could be made less regressive or not at all regressive.

➤ *Controversy*

Ask your students what they think about the following:

- The American Rescue Plan
- The Bipartisan Physical Infrastructure Bill
- The proposed Human Infrastructure Bill (Build Back Better)
- The U.S. safety net in comparison with that of other countries, such as Norway.

➤ *Economic Theory and Models*

- The negative income tax has been discussed among economists for decades. The newer concept of a universal basic income is very similar and is gaining favor among economists.
- Tax credits, including the Earned Income Tax, the Child Tax Credit, and the childcare tax credit can all be highly effective in reducing poverty.
- Investments in human capital, such as the proposed free pre-K and community college education, can be extremely cost-effective in current benefits and enhanced future productivity.

➤ *Fundamentals*

- What is the impact of the regressive Social Security tax on income distribution?
- What would be the impact of eliminating or privatizing Social Security on income distribution?

CLASSROOM EXERCISES

1. The last year Sarah worked, her earnings were \$20,000. Her Social Security retirement benefits are \$10,000 a year. What is her replacement rate? [50%]
2. Suppose the 2025 ceiling on earnings to be taxed for Social Security is \$200,000, the tax rate is 6.2 percent, and two different people have annual work earnings of \$60,000 and \$300,000. Also assume that the higher earner has an additional annual income of \$200,000 in the form of dividends and interest income, but the lower earner has no income other than the \$60,000 in work earnings. How much Social Security tax will be paid by the lower earner? [$0.062 \times \$60,000 = \$3,720$] By the higher earner? [$0.062 \times \$200,000 = \$12,400$] What share of total income will the lower earner pay in Social Security taxes? [$\$3,720 / \$60,000 = 0.062$] What about the higher earner? [$\$12,400 / \$500,000 = 0.025$] Clearly the Social Security tax is highly regressive.
3. Continue with the two earners in #2, but consider what would happen if, instead of a ceiling of \$200,000, a \$200,000 floor is established for the Social Security tax. This means that earnings below \$200,000 are not taxed, but all earnings above \$200,000 are taxed for Social Security. None of the lower earner's earnings would be taxed (it is below \$200,000), but \$100,000 of the higher earner is taxed (this is the excess in earnings above the floor of \$200,000). If we continue to assume non-labor sources of income are not taxed for Social Security, then what share of total income will be paid by the lower earner? [$0 / \$60,000 = 0$] How much Social Security tax will be paid by the higher earner? [$0.062 \times \$100,000 = \$6,200$] What share of total income will be paid by the higher earner? [$\$6,200 / \$500,000 = 0.012$] The tax is now progressive. (It would be even more progressive if non-labor income was taxed in addition to earnings.)

SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. The reason the Social Security tax is regressive is:
 - a. only earnings from working are taxed for Social Security.
 - b. only earnings up to a ceiling are taxed for Social Security.
 - c. a large share of the income of higher income people is not taxed for Social Security.
 - d. all of the above**
2. When we say that the Social Security tax is a matching tax, we mean that:
 - a. the government doubles the amount that each worker pays.
 - b. both workers and their employers pay the Social Security tax.**
 - c. workers pay the tax twice, when they are paid and again when they file their tax returns.
 - d. the benefits a worker will receive are proportional to the taxes they paid in.
3. A major difference between social insurance and public assistance programs is that:
 - a. social insurance covers the entire eligible population, but public assistance covers only the needy.**
 - b. receiving social insurance benefits is widely regarded as shameful, but this is not so with public assistance.
 - c. social insurance is a statutory right, but public assistance is a contractual right.
 - d. social insurance is financed by general tax revenues, and public assistance is financed by earmarked payroll taxes.
4. When we say the Social Security tax is regressive, we mean that the tax takes a larger:
 - a. percent of the income from high-income workers than low-income workers.
 - b. amount of tax dollars from high-income workers than low-income workers.
 - c. percent of the income from low-income workers than high-income workers.**
 - d. amount of tax dollars from low-income workers than high-income workers.
5. The worker's retirement benefits as a percentage of their final working year's earnings is the:
 - a. benefit rate.
 - b. transfer rate.
 - c. entitlement rate.
 - d. replacement rate.**
6. Which of the following is a public assistance program?
 - a. Social Security
 - b. Medicare
 - c. Food stamps**
 - d. all of the above
7. The long-run problem of Social Security is that:
 - a. the system is going bankrupt.
 - b. the ratio of workers to recipients is declining.**
 - c. the trust funds are invested in junk bonds and other risky investments.
 - d. there are too many young people relative to old people in today's economy.

8. The argument that Social Security increases savings by encouraging early retirement is the:
- wealth effect.
 - replacement effect.
 - early retirement effect.**
 - savings effect.
9. The argument that Social Security decreases savings because it decreases the need to save privately for retirement is the:
- replacement effect.
 - early retirement effect.
 - dissaving effect.
 - Social Security wealth effect.**
10. Most of the revenues for Social Security come from the:
- general tax revenues paid to the federal government.
 - payroll taxes paid by workers and their employers.**
 - income tax paid on Social Security benefits.
 - interest on the Social Security trust funds.
11. Which of the following is correct?
- The replacement rate is higher for high-earning workers than low-earning workers.
 - Married workers are given the greater of retirement benefits on their own record or spousal benefits on their spouse's earnings record.**
 - The Social Security program only covers retirement not disability.
 - Public assistance benefits are based on the principle of individual equity.
12. Plans to partially privatize Social Security would reduce the Social Security tax and:
- require that workers establish investment accounts with the taxes saved.**
 - allow the Social Security Administration to invest in common stocks.
 - allow the Social Security Administration to invest in junk bonds.
 - allow workers to use the saved taxes for educational purposes.
13. Jane retires. The last year she worked, she earned \$30,000. Her social security benefits the first year after retirement total \$15,000. Her replacement rate is:
- 40%
 - 50%**
 - 60%
 - 200%
14. A tax takes \$1,000 from Joe, whose total income is \$10,000. The tax takes \$2,000 from James, whose income is \$100,000. The tax is:
- regressive.**
 - proportional.
 - progressive.
 - fair.

15. The idea that a social insurance program should put a minimum floor of income for the entire population is the:
- principle of individual equity.
 - principle of social adequacy.**
 - basis of capitalism.
 - basis of compassionate conservatism.
16. When Social Security is described as a pay-as-you-go system, it means that Social Security:
- cashes in government bonds each month to pay retirement benefits.
 - pays benefits out of the current taxes collected from people who are working.**
 - has to borrow to pay current retirees their benefits.
 - none of the above
17. Our largest social insurance program is:
- unemployment compensation insurance.
 - Medicaid.
 - Social Security.**
 - food stamps.
18. Why are the gaps in survivorship Social Security benefits primarily a women's issue?
- Women tend to live longer than men.
 - Women are still more likely than men to work in the home.
 - On average, men earn more than women.
 - All of the above**
19. Among the changes made to the Social Security program in 1983 was:
- decreasing the normal retirement age.
 - increasing the early retirement age.
 - increasing the normal retirement age.**
 - exempting Social Security benefits from income taxes.
20. The idea that a taxpayer who pays more Social Security taxes should receive higher retirement benefits is the:
- principle of individual equity.**
 - principle of social adequacy.
 - basis of capitalism.
 - basis of conservative philosophy.
21. Which of the following was part of the American Rescue Plan?
- Individual stimulus checks
 - Assistance to small businesses
 - Assistance to state and local governments
 - All of the above**
22. What is true about the bipartisan physical infrastructure bill and the human infrastructure bill?
- The physical infrastructure bill contains more traditional forms of infrastructure, such as roads and bridges.
 - One is an investment in physical capital whereas the other is an investment in human capital.
 - Both are investments intended to increase productivity.
 - All of the above**

23. Donald Trump supported the:
- 2017 tax bill.**
 - 2021 American Rescue Plan.
 - 2021 bipartisan physical infrastructure bill.
 - human infrastructure bill.
24. President Biden supported:
- the 2017 tax bill.
 - the 2021 American Rescue Plan.**
 - a physical infrastructure bill but not a human infrastructure bill.
 - all of the above
25. Which of the following is *not* a universal entitlement?
- food stamps**
 - a universal basic income
 - public education
 - Social Security

True / False Questions

- Since Social Security reduces poverty, it is considered a public assistance program. (F)
- Privatization means the transfer of assets or responsibility from the government to the private sector. (T)
- Social Security is similar to a private insurance program insofar as it is voluntary. (F)
- Social Security is similar to a private insurance program insofar as there is pooling of risk. (T)
- Social Security recipients live on a fixed income. (F)
- Universal entitlements are benefits that eligible people have a right to receive based on U.S. law. (T)
- In addition to retirement benefits, Social Security provides benefits for disabled workers and their dependents, and for survivors of deceased workers. (T)
- Payroll taxes are taken directly from a person's paycheck. (T)
- A "pay-as-you-go" system is one that collects taxes from workers and holds the money in a safe place until the time the worker receives Social Security benefits. (F)
- Although the Social Security payroll tax is regressive, Social Security benefits are progressive. (T)
- Social adequacy is the principle that benefits are sufficient to provide a minimum level of economic security to the population as a whole. (T)
- Social Security is a program for low-income workers only. (F)
- Public assistance programs are financed by earmarked payroll taxes. (F)
- The Social Security tax rate is the percentage of the tax base collected for Social Security. (T)
- To qualify for Social Security benefits, one (or one's spouse) must have worked and paid taxes on one's earnings. (T)
- Workers have a contractual right to Social Security benefits. (F)
- Earnings* refer only to that portion of a person's income obtained through working, whereas *income* includes all forms of money received. (T)

18. Social Security covers the entire eligible population and not just low-income people. (T)
19. Adverse selection is any situation in which the choices of insured persons lead to higher loss levels and costs. (T)
20. Social Security is a fully funded insurance system. (F)
21. Social Security is an entitlement to which eligible persons have a right by law. (T)
22. Because the taxpayer has a statutory right to Social Security benefits, Congress cannot unilaterally change the Social Security program. (F)
23. The purpose of both private and social insurance is the pooling of risk. (T)
24. An argument against making Social Security voluntary is that ultimately the costs per covered person would increase. (T)
25. There is a stigma attached to receiving Social Security benefits. (F)
26. The Social Security tax rate for workers is 6.2%. (T)
27. The combined Social Security tax rate for employers and employees is 12.4%. (T)
28. A public assistance program covers the entire population, whereas a social insurance program covers only the needy. (F)
29. If nothing is done to save it, Social Security will soon go bankrupt. (F)
30. Future retirees will be able to retire at age 60 and collect full Social Security benefits. (F)
31. The tax base for Social Security taxes is earnings from work *above* some specified level of earnings. (F)
32. The long-run problem of Social Security is the aging population. (T)
33. Social Security will likely go bankrupt within a few years. (F)
34. The tax base for Social Security is the maximum amount of an individual worker's earnings subject to the tax. (T)
35. Those on the economic right are more likely to support privatization of Social Security than those on the economic left. (T)
36. The immigration of young people to our country would help support our aging population. (T)
37. Economic liberals are more likely than economic conservatives to favor cuts in Social Security benefits. (F)
38. Medicare is a social insurance healthcare program for Social Security recipients. (T)
39. One problem with Medicare is that it may not provide full social adequacy. (T)
40. Medicare is facing rising healthcare costs as well as an aging population. (T)

Critical Thinking Questions

1. Some people suggest a way to make Social Security financially sound is to make it a means-tested program that would pay benefits only to people with relatively few assets and low income. Do you think this is a good idea?
2. Should Social Security be made voluntary? Why or why not?
3. What are the views of those of the economic left and those of the economic right on the Social Security program?

Global Poverty and Exploitation



NEWS UPDATE

- Madagascar, like other island and coastal countries, is in a precarious position when it comes to climate change and the storms it precipitates. This African nation was hit by its fourth devastating tropical cyclone of 2022 even before the month of February was three quarters over. Storms such as these are even more destructive because of the deforestation Madagascar has endured over the last two decades. Ironically, this African nation is also experiencing a devastating drought. Thousands of people are displaced and facing hunger (Jeff Masters, Yale Climate Connections, www.yaleclimateconnections.org, Feb. 21, 2022).

PURPOSE

This is the first of four chapters focused on global issues. While their international emphasis is a common theme, there are other close links between the four chapters. We see in Chapter 9 that after decades of improving conditions in the developing world, global poverty is once again a major threat, an outcome of the “Three Cs”: climate change, conflict, and the coronavirus. One ramification of poverty is hunger and famine, which is closely linked to the topic of global agriculture in Chapter 10. Global agriculture is threatened by climate change, as addressed in Chapter 11, and one of the outcomes of the climate crisis is conflict over increasingly scarce resources. Global trade and partnerships can address these issues and hopefully bring improvement to the world’s growing dangers. In this chapter, students will become acquainted with the developing countries (countries they may not have thought about much before). And if your college is like mine, there may not be a lot of courses addressing these developing countries. Nevertheless, the four-fifths of the world’s population living in the developing countries of Africa, Asia, and Latin America are important in themselves and increasingly important to the rest of the world. This is why I urge you to cover this chapter in your course, even if you are pressed for time! I also urge you to encourage your students to consider study abroad in a developing country. If no such programs are available, perhaps you can help students arrange independent studies with programs offered by the Council on International Educational Exchange (www.ciee.org).

WHAT’S NEW?

1. A new U.S. president brought a new U.S. attitude toward the developing countries, which was one of respect. This is greatly welcomed, as indicated by the opening statement to the chapter.
2. After decades of improvements in poverty indicators and standards of living in the developing world, matters are once again reversing. There is new material on poverty and extreme poverty, and the causes of poverty and hunger include the three “Cs”: the coronavirus pandemic, climate change, and conflict. These are all linked and discussed in much new detail.

3. The coronavirus pandemic is obviously new, and the absence of vaccinations in much of the developing world is both an example of scarcity and scandal.
 4. There is new data and discussion of conflict-driven fragile situations, as described in terms of 1) numbers of refugees and displaced persons and 2) military spending.
 5. There is greater attention to income distribution and the rights of Indigenous people.
-

TEACHING SUGGESTIONS

➤ *Student Interest*

- Unfortunately, students may have never studied the developing countries of Africa, Asia, and Latin America. This is your opportunity to ignite their interest!
- Students (and Americans in general) are woefully unfamiliar with global maps and the location of various countries of the world. It really isn't possible to envision the countries in this chapter without some idea of where they are located on a map.
- I encourage you to make copies of maps of the three regions of the developing world so students can easily identify countries as their names arise in the classroom.

➤ *Controversy*

- Students may have heard other professors speak to the problem of population growth and the need for developing countries with high population growth rates to develop family planning programs (often very stringent ones). Many students will be challenged by the less intrusive strategy of the text that focuses attention on development rather than population growth *per se*.
- Students, mostly conservative ones, may view the emphasis on “women in development” as biased. It needs to be emphasized that women and men in developing countries often have very different sets of responsibilities and constraints, and that, by addressing gender issues, the well-being of the family and the country is enhanced. The goal is to improve the living standards of everyone.

➤ *Economic Theory and Models*

- This chapter includes the theoretical concepts of investment in human capital, investment in infrastructure, and rural-to-urban migration.
- Students struggle with graphs of price ceilings and price floors. They think “ceilings are high,” so they want to place them high in the graph! Remind them the price ceiling must be below the equilibrium price if it is to be “effective.”
- Students also need to be reminded they should not shift any curves (though they *really* want to) in the context of price ceilings and price floors. Teach them to label the price ceiling along the vertical axis, and label the corresponding quantity demanded and quantity supplied along the quantity axis. (Emphasize they should not place labels within the graph itself!) We still need to remind students to practice drawing and re-drawing the graphs.

➤ *Data and Terminology*

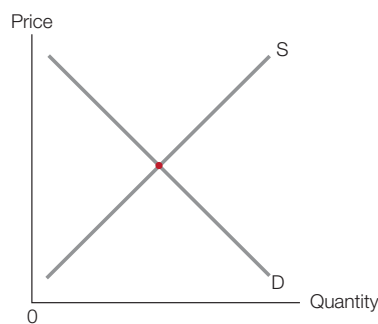
- Students need to become aware of the concepts of GDP, GNP, and GNI; plus GNI per capita (for example) and average annual growth of GDP per capita (for example). They need to know the precise definitions for the various terminology.
- You may wish to point out to the students, as is done in the text, that this chapter focuses on gross national income (GNI) data, where appropriate. The World Bank now uses GNI as its broadest measure of income. It is identical in value to gross national product, but it draws our attention to income as opposed to output.
- In addition to these data, statistics are all updated for income distribution, life expectancies, infant mortality rates, poverty rates, the population of the largest cities, the share of the population in urban slums, access to safe drinking water and sanitation, HIV incidence, as well as the variables mentioned earlier. Regarding standards of living, students should have some sense of which countries are doing well, which are doing poorly, and possible reasons why.

➤ *Fundamentals*

- There are vastly different degrees of income distribution among developing countries, depending on the policies of their governments.
- The distribution of income also depends on the distribution of wealth, and greater attention to the land rights of Indigenous people and group lending to women will in theory improve income distribution.

CLASSROOM EXERCISES

1. Consider the market for sugar cane in Mexico. Label the equilibrium point E within the graph, along with the equilibrium price (P) along the price axis. Now label a price ceiling (P_C) along the price axis, keeping in mind that an effective price ceiling must be below the market equilibrium price. Label the quantity demanded (Q^D) and quantity supplied (Q^S) that correspond with the price ceiling along the quantity axis. What is the problem that results? [A shortage of rice.]



SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. Which of the following is *not* true? The developing regions of the world are defined as including:
 - a. **Eastern Europe.**
 - b. Latin America.
 - c. Africa.
 - d. Asia.
2. GNI per capita is calculated as:
 - a. GNI minus population.
 - b. GNI plus population.
 - c. GNI times population.
 - d. **GNI divided by population.**
3. According to the textbook, what country has the lowest GNI per capita?
 - a. Mexico
 - b. Brazil
 - c. Costa Rica
 - d. **Burundi**
4. Which of the following countries have the greatest inequality in income distribution?
 - a. **Honduras and Brazil**
 - b. Egypt and Indonesia
 - c. Nigeria and Tanzania
 - d. Vietnam and Mongolia
5. Which of the following is the most heavily populated city in the world?
 - a. New York City, New York
 - b. Los Angeles, California
 - c. **Tokyo, Japan**
 - d. Mexico City, Mexico
6. Economic development entails:
 - a. reductions in poverty.
 - b. improvements in standards of living.
 - c. resolving the conditions that lead to fragility.
 - d. **all of the above**
7. If GNI is \$100 million, and population equals 2 million, what is the value of GNI per capita?
 - a. **\$50**
 - b. \$50 million
 - c. \$102 million
 - d. \$200

8. The composition of GDP refers to:
 - a. the distribution of income.
 - b. the distribution of GDP.
 - c. what GDP consists of.**
 - d. how rapidly GDP increases.

9. Which of the following measurements gives the *least* accurate indication of the economic well-being of people?
 - a. Average life expectancy
 - b. GDP growth**
 - c. Distribution of income
 - d. Infant mortality rate

10. The six poorest countries in the world are in:
 - a. Africa.**
 - b. Asia.
 - c. Latin America.
 - d. Eastern Europe.

11. Based on the table in the text, the countries with the greatest equality in income distribution are:
 - a. Haiti and Belize.
 - b. Costa Rica and Zambia.
 - c. Venezuela and Botswana.
 - d. Bangladesh and Burundi.**

12. Which of the following can achieve a more equitable income distribution?
 - a. Eliminating price distortions
 - b. Redistributing assets such as land
 - c. Shifting government resources to programs benefiting the poor
 - d. All of the above**

13. “NICs” refers to:
 - a. newly incorporated countries.
 - b. non-income earnings countries.
 - c. newly industrializing countries.**
 - d. nonincorporated countries.

14. Capital intensive technology:
 - a. utilizes much capital relative to labor.
 - b. has been part of many industrialization strategies.
 - c. may not be appropriate for countries with high levels of unemployment.
 - d. all of the above**

15. The agricultural sector is important in many developing countries because:
 - a. it is where most of the poor live.
 - b. it often offers the greatest potential for development.
 - c. it often offers the greatest potential for employment.
 - d. all of the above**

16. Price ceilings on food products in developing countries contribute to:
- shortages of food.
 - reduced incentives for food production.
 - reduced incomes of farmers.
 - d. all of the above**
17. The text suggests which principle about international food aid?
- Emergency food aid is harmful.
 - Food aid is always beneficial.
 - c. Continuous non-emergency food aid can hinder economic development.**
 - U.S. food aid is very efficient in its distribution.
18. "Social overhead capital" is the definition of:
- industry.
 - b. infrastructure.**
 - education.
 - government.
19. Which of the following is *not* an investment in human capital?
- Education
 - Training
 - c. Industry**
 - Healthcare
20. Women in developing countries often:
- have much lower literacy rates than men.
 - are primarily responsible for production of subsistence food crops.
 - lack access to extension services and credit opportunities.
 - d. all of the above**
21. According to the textbook, what city has the largest population?
- a. Tokyo, Japan**
 - Mexico City, Mexico
 - New York, United States
 - Mumbai (Bombay), India
22. Which of the following is *not* generally a characteristic of informal sector employment?
- Low incomes
 - b. Industrial production**
 - Irregular work hours
 - Service work
23. Variables such as life expectancies and infant mortality rates are good indicators of standards of living because they:
- avoid many of the measurement problems associated with GNI and GNP.
 - are easily conceptualized by all.
 - are not severely hampered by issues of distribution.
 - d. all of the above**

24. Poverty is expected to worsen due to:
- climate change.
 - the coronavirus pandemic.
 - violent conflict.
 - d. all of the above**
25. Formal credit opportunities are often unavailable to women who lack:
- basic literacy.
 - collateral.
 - access to transportation.
 - d. all of the above**

True / False Questions

- The United States has the world's highest GNI per capita. (F)
- Honduras has the greatest inequality, as shown in the table in the text. (T)
- In general, the Latin American countries tend to have a high degree of inequality. (T)
- We can think of GNP as the value of production, and GNI as the income generated from the production of GNP. (T)
- GDP and GNP are identical in value. (F)
- GNI per capita tells us the level of well-being of the people of a country. (F)
- GNI per capita does not tell us the level of well-being of the people of a country because it doesn't address the distribution of income or the composition of output. (T)
- When we compare GDP between two countries, this automatically adjusts for population size. (F)
- The GNI per capita of the United States is over 200 times that of Burundi. (T)
- Costa Rica has such poor standards of living because it spends a large share of its total income on the military. (F)
- Infant mortality rates show the number of infants who die before age one, per 1,000 live births. (T)
- The level of GNI per capita is more important in terms of peoples' well-being than the distribution of income and the composition of output. (F)
- Life expectancies sit around the lows in the 50s in Central African Republic (CAR), Lesotho, Nigeria, and Chad. (T)
- Life expectancy in Vietnam is relatively high, due in part to its relatively equal income distribution. (T)
- The developing country with the lowest (best) infant mortality rate is Afghanistan. (F)
- South Africa, Botswana, Namibia, and other southern African countries experienced high levels and spread of AIDS and the omicron variant of the coronavirus. (T)
- Export cropping refers to a pattern of agricultural production for export. (T)
- Agricultural price ceilings generally create surpluses. (F)
- A major issue for Indigenous people in Chiapas is the right to land. (T)
- Investments in human capital can improve productivity and standards of living. (T)
- Health and education are investments in human capital. (T)
- Social overhead includes roads and communications. (T)

23. The clearing of trees in forested areas is the definition of desertification. (F)
24. Desertification may result from deforestation. (T)
25. Informal employment consists primarily of service occupations. (T)
26. Economic development generally results in lower birthrates. (T)
27. Underemployment includes the situation where people work a limited number of hours. (T)
28. Rural-urban migration in developing countries is generally in the form of people moving from the urban sector to the more peaceful lifestyles of the rural sector. (F)
29. Conservative economists generally favor a growth-oriented strategy for economic development. (T)
30. Most of the world's poor live in Africa. (F)
31. Most of the world's poor *countries* are in Africa. (T)
32. Economic development is the same as economic growth. (F)
33. Most of the world's poor live in the rural sector. (T)
34. Price ceilings on food benefit all developing country residents. (F)
35. Economists use the term *fragile contexts* to describe conditions where people face higher rates of poverty due to healthcare crises, political upheaval, conflict, and climate-induced severe weather. (T)
36. AIDS is a serious issue for both women and men in Africa. (T)
37. In this chapter, the text measures income distribution by the share of total income going to the poorest 20 percent of the country's population. (T)
38. Life expectancy in Cuba, Costa Rica, and Vietnam is relatively high in comparison with many African countries. (T)
39. Infant mortality rates are relatively high (poor) in Costa Rica and Vietnam. (F)
40. Life expectancies and infant mortality rates are indicators that experience fewer measurement problems than GNI and GDP statistics. (T)
41. Over-urbanization refers to a situation when an urban environment cannot provide adequate jobs and services for its people. (T)
42. Chile has a high percentage of its urban population provided with safe water. (F)
43. The maternal mortality rate is the number of deaths of women for pregnancy-related reasons per 100,000 live births. (T)
44. Your author discovered that women receiving microenterprise credit chose to spend most of their higher incomes on consumer goods like furniture. (F)
45. Unequal distribution of wealth, including land, is a primary determinant of unequal distribution of income. (T)
46. Among the countries listed in the text table, the extreme poverty rate is the highest for Tanzania. (T)
47. The coronavirus pandemic is especially severe in countries where leaders have failed to effectively address the health crisis, including India, Brazil, and Belarus. (T)
48. Climate change will be a major cause of migration. (T)
49. High levels of military spending as a share of total government expenditures usually create peace and development. (F)
50. The percentage of people living in slums is extremely high in the countries of Sudan, South Sudan, and Central African Republic. (T)

Critical Thinking Questions

1. If you were a policymaker in a developing country, what strategies would you use to overcome the typical problems experienced by developing countries in your efforts to achieve economic development?
2. What is the role of violent conflict in economic development?
3. How does the production possibilities curve, first discussed in Chapter 1, address various aspects of development, including unemployment, scarcity, human resource development, natural resource development, agricultural development, industrial development, infrastructure development, and population growth? (For example, you may wish to place agricultural goods and manufacturing goods on the axes, or consumer goods and capital goods. Capital can include human capital, physical capital, and physical infrastructure.)
4. Why is there hunger in a world of plenty?
5. How can microenterprise credit help poor women and their families?
6. How can efforts to improve conditions in city slums actually worsen their problems? Why is a proper rural/urban balance so important?
7. How can developed countries help improve conditions in developing countries?

Global Agriculture and World Hunger



NEWS UPDATE

- On February 24, 2022, Russia invaded Ukraine, and all of Europe became implicated. Ukrainian crops were destroyed, and Europe faced yet another massive migration crisis. As noted below, conflict has major effects on hunger and migration, and the impact will soon be known.

PURPOSE

This is the second of the chapters focused on global issues, and we consider agriculture in the United States and on the global scale. For the United States, we rely on the demand and supply model and consider the unique problems of American agriculture and an overview of U.S. agricultural policy. The chapter presents the opportunity to revisit the topic of inelastic demand and to address the subject of a price floor. It tackles the issues pertaining to the livelihoods of farmers, global agriculture more widely, and the problem of U.S. and world hunger. We consider the “Three Cs,” the circumstances that are so greatly worsening global poverty and hunger (they are the coronavirus pandemic, climate change, and conflict). (For instructors who feel that a more detailed discussion of elasticity will help their students understand farm issues, Appendix 10–1 discusses elasticity in greater detail. Appendix 10–2 covers target prices and deficiency payments.)

WHAT’S NEW?

1. As discussed in Chapter 9, world poverty and hunger are worsening due to the “Three C’s” just mentioned. The coronavirus pandemic, climate change, and violent global conflicts are destroying existing crops, preventing the planting of new crops, causing illness, and creating conflicts over scarce resources. Millions of people are currently threatened with starvation. These are sometimes worsened by U.S. food policies.
2. Loss of Indigenous land rights and U.S. government policies that denied farm loans to Black farmers worsened the U.S. distribution of wealth (land), which worsens the distribution of income. As President Biden sought to correct for former racism and discrimination, he was met with charges of reverse discrimination.
3. The coronavirus pandemic disproportionately harms the health of U.S. “essential workers,” which include farm workers in agricultural fields and workers in animal processing factories. These include large numbers of Hispanics and Blacks, as well as immigrants.
4. The pandemic also created hunger in the United States, and various policies (including an expansion of food stamps) were helpful in reducing hunger.
5. There is greater discussion of agribusiness, biotechnology, market power, and concentration, all of which will lead into Chapter 13 on market power.
6. There is policy discussion in terms of both the Trump and the Biden administrations. Trump’s trade policies were harmful to farmers, and Biden’s policies have been met with opposition in Congress.

7. Once again, Bread for the World is referenced as a source of information on legislation pertaining to U.S. and global hunger and poverty. The intent is not to promote Christianity but to make students aware of an excellent source of information.

TEACHING SUGGESTIONS

➤ *Student Interest*

- My university is located in a small town surrounded by relatively small farms. Many students come from farm families, and in many ways, farmers are the backbone of the community. When discussing U.S. agricultural policy, our students will be more interested in the kinds of farms they are familiar with. They will not appreciate critiques of agricultural policy that fail to differentiate between large and small farms or corporate and family farms. They will also appreciate being asked questions about their farm experience, whether it pertains to migrant labor, government subsidies, farm safety, and the difficulties and rewards of farming.
- Students will appreciate you referencing female farmers who play a large role in U.S. agriculture.

➤ *Controversy*

- U.S. agricultural policies benefit large farmers and corporate agribusiness at the expense of small U.S. farmers and small farmers in developing countries. These policies benefit the rich at the expense of the poor.
- Genetically modified organisms are controversial for many reasons, but they can especially harm the well-being of small, poor farmers in developing countries.

➤ *Economic Theory and Models*

- We use the demand and supply model for multiple purposes in this chapter. First, we demonstrate the short-run situation where the combination of an inelastic demand curve for agricultural commodities and a fluctuating supply curve (due to weather) result in a great deal of price fluctuation in the short run. We also demonstrate the long-run situation where a slowly rising demand curve (or no increase in demand) coincides with a greatly increasing supply curve, causing a long-term decline in farm prices.
- We also use demand and supply to demonstrate the relation between the price elasticity of demand and the impact of supply curve shifts on total farm revenue. (We show this in greater detail in Appendix 10–1.)
- Finally, we use the demand and supply model to show the effects of other policies, including 1) price supports (price floors), 2) U.S. supply restriction programs, 3) U.S. policies to increase the demand for agricultural products, and 4) target prices and deficiency payments in Appendix 10–2.

➤ *Data and Terminology*

- Updated data include the characteristics of the rural sector and, more specifically, the farm sector; agricultural productivity in countries around the world, the race and ethnicity of U.S. farmers, the number of people affected by U.S. and global hunger, and agriculture as a share of GDP of countries around the world.
- As always, the terminology used in tables is precise. You will probably want to carefully explain how agricultural productivity is measured by value added per agricultural worker and is expressed in constant 2010 dollars.

➤ *Fundamentals*

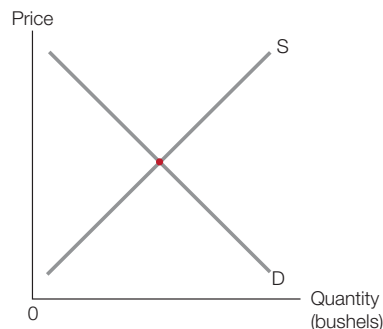
- U.S. agricultural policy that largely benefits large farmers and corporate agriculture; and policies that reduce the land rights of Indigenous people, the purchase of land and farming equipment by African Americans, and the exploitation of immigrant labor all serve to worsen the distribution of wealth and income.
- These same policies harm the well-being of racial and ethnic minorities by way of systemic racism. Racism is also present in the greater risk of the coronavirus among people of color who work in agriculture and meat packing. It was also present in the policies of the Trump administration to cut food programs and access to them by immigrants.

CLASSROOM EXERCISES

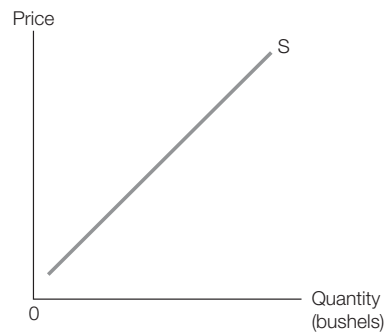
1. Graph the supply and demand data for sugar beets below. Make sure the demand curve is drawn relatively steep. Then show what happens to price, quantity, and producers' incomes if technological change shifts the supply schedule to the right by 3,000 units. What is the role of the price inelasticity of demand?

<u>Price</u>	<u>Quantity Supplied</u>	<u>Quantity Demanded</u>
\$15	12,000	6,000
12	10,000	7,000
9	8,000	8,000
6	6,000	9,000
3	4,000	10,000

2. If the demand for sorghum is inelastic and supply increases due to a bumper crop, what will happen to equilibrium price, quantity, and the overall income of producers of sorghum? Show graphically and explain in words.
3. Consider the wheat market below, and label the equilibrium point (E) within the graph. Label the equilibrium price (P) and quantity (Q) along their respective axes. Shift the curve to show the impact of rapid technological change over time in wheat production. Label the new equilibrium point (E') within the graph. Label the new equilibrium price (P') and equilibrium quantity (Q') along their respective axes. What happens to market equilibrium price? [It decreases.] What happens to the equilibrium quantity exchanged? [It increases.] Would you expect this to encourage farmers to leave the wheat industry? [Yes] Why has this not been the case? [Government supports keep them in farming.]



4. Draw supply and demand curves for oats. Label an effective price floor in the market. Remind students what it means to be “effective.” Label the quantity demanded [Q^D] and the quantity supplied [Q^S] of oats along the quantity axis. What is the problem that results? [Surplus] What must the government do to maintain the artificially high price of oats? [Buy and store oats] Is this efficient? [No] Keeping in mind that the concept of “fairness” is subjective, is this “fair” to the consumer? [No] Taxpayer? [No] Large farmer? [Yes] Small farmer? [No] Other small businesspeople? [No] Remind students that contrary to what they would like to see, price floors are “high” and price ceilings are “low” in the graphs.
5. Draw a demand curve (D) for millet, assuming that demand curve is relatively inelastic. Label the equilibrium point (E) within the graph. Now suppose that supply fluctuates from year to year due to changing weather. Show these supply shifts. What is the effect of demand inelasticity and supply fluctuations on the market price of millet? [Much fluctuation.] Show this on your graph.



SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. A bumper crop will _____ supply and _____ the price of a farm product.
 - a. decrease, decrease
 - b. decrease, increase
 - c. **increase, decrease**
 - d. increase, increase
2. The demand for most farm commodities is:
 - a. growing more rapidly than supply.
 - b. **inelastic.**
 - c. decreasing over time.
 - d. a relatively flat downward sloping line.
3. If demand is inelastic and the price of the product decreases, overall producers' incomes will:
 - a. not change.
 - b. increase.
 - c. **decrease.**
 - d. cannot say from given information.

Answer the next two questions based on the following demand and supply schedules for wheat.

<u>Price</u>	<u>Quantity Supplied</u>	<u>Quantity Demanded</u>
\$6	100,000	50,000
\$5	80,000	55,000
\$4	60,000	60,000
\$3	40,000	65,000
\$2	20,000	70,000

4. Equilibrium price and quantity will be:
 - a. **\$4; 60,000.**
 - b. \$5; 60,000.
 - c. \$3; 40,000.
 - d. \$3; 65,000.

5. If the government supports the price of wheat at \$5, there will be a:
 - a. shortage of wheat.
 - b. surplus of 20,000 units of wheat.
 - c. **surplus of 25,000 units of wheat.**
 - d. shortage of 20,000 units of wheat.

6. A reason the government might establish price supports for wheat could be to:
 - a. get rid of a surplus of wheat.
 - b. increase the ability of poor families to afford bread.
 - c. increase U.S. farmers' ability to compete in international wheat markets by lowering the export price of wheat.
 - d. **increase the incomes of wheat farmers.**

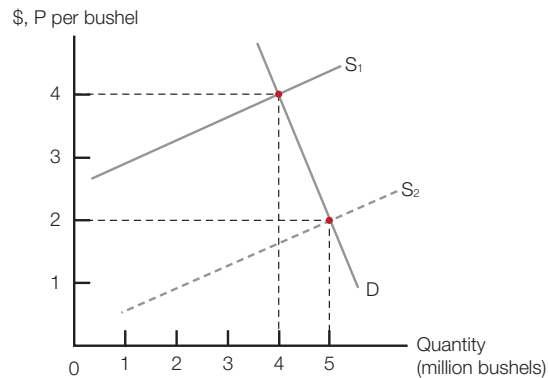
7. The largest share of government payments to farmers have gone to:
 - a. family farms.
 - b. growers of fresh fruit and vegetables.
 - c. **large farms and agribusiness.**
 - d. small farms.

8. The goal of government supply restriction programs has been to:
 - a. increase the amount of farm products exported by the United States.
 - b. decrease food prices for consumers.
 - c. **increase the price of farm products.**
 - d. increase U.S. demand for farm products.

9. Characteristics of agriculture include:
 - a. immobile resources.
 - b. extensive technological change in the long run.
 - c. inelastic demand over the short run.
 - d. **all of the above**

10. When we say that price supports interfere with the rationing function of price, we mean that price supports cause:
- too few resources to be allocated to farming.
 - persistent shortages.
 - persistent surpluses.**
 - the market to reach equilibrium too rapidly.
11. Which of the following is *not* used to increase the demand curve for U.S. farm products?
- Supply restriction programs**
 - Food stamps (SNAP)
 - School lunch programs
 - U.S. food aid to other countries
12. When demand is inelastic and bad weather causes crop failures for corn farmers so that the market supply of U.S. corn decreases substantially:
- the overall income of U.S. corn farmers will decrease.
 - the overall income of U.S. corn farmers will increase.**
 - almost all corn farmers go broke because of the crop failure.
 - the price of corn will fall to below the farmers' cost to produce it.
13. The inelastic demand curve for corn farmers means that if supply decreases,
- price will rise a lot.**
 - price will rise a little.
 - quantity will rise a lot.
 - quantity will rise a little.
14. Because there has been extensive technological change in agriculture over time:
- supply has not been able to keep up with demand.
 - supply has increased more than demand.**
 - the prices farmers receive for their products have increased in comparison to the prices of other products.
 - none of the above
15. When we say that price supports interfere with the rationing function of price, we mean that price supports:
- create shortages.
 - don't allow the price to fall to the equilibrium level, thus eliminating the shortage.
 - don't allow the price to fall to the equilibrium level, thus eliminating the surplus.**
 - shift the demand for agricultural commodities backward.

(Appendix 10-1) Answer the next three questions on the basis of the following graph for corn.



16. Initially assuming that the supply curve is S_1 , what is the total revenue to corn growers?
- \$16
 - \$16 million**
 - \$8 million
 - We cannot say from the given information.
17. Now assuming that supply changes to S_2 , what will be the total revenue to corn growers?
- \$20
 - \$10 million**
 - \$12
 - We cannot say from the given information.
18. On the basis of the changes in price and total income noted in the previous two questions (as well as the slope of the demand curve), we can say that the:
- supply of corn is inelastic.
 - supply of corn is elastic.
 - demand for corn is inelastic.**
 - demand for corn is elastic.
19. (Appendix 10-1) When supply increases, price will decrease by a greater amount the:
- the more elastic is demand.
 - the more inelastic is demand.**
 - the flatter is the supply curve.
 - the flatter is the demand curve.
20. (Appendix 10-2) Target prices differ from price supports in that:
- target prices indirectly subsidize both domestic and international buyers.
 - no surplus is created.
 - it is easier to calculate the cost of the policy than with price supports.
 - all of the above**

True / False Questions

1. More people live in the U.S. rural sector than in the urban sector. (F)
2. Most government benefits to farmers go to small farmers. (F)
3. Rural poverty rates are higher on average than suburban poverty rates. (T)
4. The demand for most farm commodities is inelastic. (T)
5. Because demand for farm products is inelastic, lower prices mean lower incomes for farmers. (T)
6. Argentina, Norway, and Iceland have the highest agricultural productivity as shown in the table in the text. (T)
7. “Dumping” is exporting a product at low prices, even below its cost. (T)
8. Poor African countries have among the lowest levels of agricultural productivity in the world. (T)
9. The government can increase the price of farm products by either increasing the supply or decreasing the demand for them. (F)
10. Virtually all farmers and farmworkers are non-Hispanic white males. (F)
11. Economic liberals are concerned about the fact that most agricultural subsidies go to larger farmers and agribusinesses. (T)
12. Controversy about funding for food stamps (SNAP) was part of the reason that a new farm bill failed to pass in 2018. (T)
13. U.S. hunger is largely due to people’s poverty. (T)
14. In recent years, world hunger has been largely due to people’s poverty. (T)
15. Resources used in agriculture are relatively immobile. (T)
16. Over time the price of farm products, compared to the price of other products, has increased. (F)
17. Hunger in the United States has largely been eliminated. (F)
18. Food aid has almost eliminated hunger in the world’s conflict zones. (F)
19. Price supports create shortages. (F)
20. Tariffs imposed by Donald Trump had the effect of harming U.S. farmers. (T)
21. Donald Trump’s policies were informed by his nationalist-populism. (T)
22. According to the text, genetically modified organisms will be the solution to world hunger. (F)
23. Based on the data in the text, the U.S. has the highest agricultural productivity in the world. (F)
24. U.S. agricultural subsidies harm poor farmers in developing countries. (T)
25. President Biden has sought to restore racial equity in farming. (T)
26. President Biden has sought to improve the nutrition of people of color but not of white people. (F)
27. Market power means a business firm can influence the market price of its product. (T)
28. (*Appendix 10-1*) With inelastic demand, the percentage change in quantity demanded is greater than the percentage change in price. (F)
29. (*Appendix 10-2*) Deficiency payments are calculated as the difference between the target price and the actual price received by farmers times the number of units sold by the farmers. (T)
30. (*Appendix 10-2*) Target prices result in lower agricultural prices. (T)

Critical Thinking Questions

1. World hunger is a complex issue with complex solutions. Under certain circumstances, food aid and U.S. subsidized agriculture can harm the world's poor. The same is true of genetically modified organisms and the practices of large agribusinesses in concentrated markets. Can you explain these issues?
2. World hunger had until recently been a problem of poverty. There was always enough food produced, but poor people couldn't afford to purchase it. In more recent times, the "Three C's" (coronavirus, climate change, and conflict) have threatened the availability of food. Discuss this issue in the context of the countries discussed in the text.
3. U.S. hunger is somewhat less complex. It is due to poverty. People cannot afford to buy from the abundance food. Similarly, people who live in low income and segregated residential areas often lack access to nutritious food. What can be done about these issues?
4. What is the viewpoint toward agriculture of the economic left and the economic right?
5. (*Appendix 10-2*) Price supports and target prices both can increase the income of farmers. But since price supports are minimum prices, below which price cannot fall, they create persistent surpluses. Target prices, on the other hand, do not create surpluses. Price is allowed to fall to the level that clears the market, and a subsidy in the amount of the difference between the target price and the actual price is paid on each unit the farmer sells. Both programs benefit farmers and cost taxpayers. The price support increases the price of food and thus hurts consumers, and the high price can also hurt our international competitiveness. The low price under a target pricing program acts as an indirect subsidy to consumers and encourages consumption. It is also an indirect subsidy to our farm exports, because it lowers the price of agricultural commodities. Both programs provide larger benefits to larger farms, because payments are based on the quantity of production. Which of these is the better program? Should we even have these two programs?

The Global Environment and Climate Change



NEWS UPDATE

- The Russian attack on Ukraine will have dramatic effects on the price of oil (and gasoline) with the sanctions imposed by the United States on Russian oil sales, especially if other countries follow suit. Oil prices have already increased to over \$100 per barrel in anticipation of such measures (March 9, 2022).
- The Biden administration announced a moratorium on granting new oil and gas drilling rights in response to the actions of a federal judge who blocked the Biden administration from using a higher dollar amount for the cost of climate change than was used by the Trump administration in cost-benefit analysis of drilling. Whereas the Obama administration valued the cost of CO₂ emissions during the burning of fossil fuels to be \$51 per ton of fossil fuel, the Trump administration had lowered the value to \$7 or less. Biden initially raised the measure of cost back up to \$51 until the judge halted this practice. Until the matter is resolved, there will apparently be no more drilling rights granted (Lisa Friedman, *The New York Times*, February 21, 2022.)
- An intelligence report issued by the Pentagon led to an editorial, “The Rash Report: Could Climate Change Lead to War?,” in the *Minneapolis Star Tribune* (January 29, 2022). In his editorial, John Rash cites the report’s prediction of a high chance of eight risks to U.S. national security stemming from climate change by 2040. These range from the resistance of petrostates to reducing their oil production to massive climate-induced migration setting off right-wing challenges to democracies worldwide. He also cites Jessica Hellmann, director of the University of Minnesota’s Institute on the Environment, as stating, “Increasingly, we realize that climate change intersects with and is critically important to everything we care about: food security, international political stability, environment justice, public health, as well as environmental quality.”

PURPOSE

The purpose of this chapter is to introduce students to the economics of environmental protection and to make them aware that economics and the problem of pollution are indeed linked. I use a social cost-benefit analysis rather than “marginal social cost equals marginal social benefit” as the framework for evaluating environmental policy. I feel the marginal approach is too difficult to teach quickly in a text covering issues, too abstract when used to describe a “unit of pollution control,” and not necessary for teaching environmental economics at this level. I think that at an introductory level, the weighing and comparing of the monetary and non-monetary costs and benefits of pollution control is more intuitive.

WHAT'S NEW?

1. Once again, the chapter opens with contrasting quotations by former President Donald Trump and President Joe Biden — this time about global warming: conspiracy theory versus existential threat.
2. Recent policies under Trump and Biden are addressed.
3. There is new material on climate change, along with and the Paris Climate Accord and the 2021 UN Climate Change Conference (COP21) in Glasgow, Scotland.
4. There is new discussion about the role of the coronavirus pandemic and greenhouse gas emissions. For example, people drove less in 2020 amid the early phase of the outbreak.
5. Other forms of pollution in addition to greenhouse gas emissions are addressed, and there is new discussion of genetically modified organisms.
6. The populist ideology is discussed in addition to the economic left and right opinions about pollution in the *Viewpoint* section.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Students often know more about specific types of pollution than we do. (They've studied it in high school and in their college biology and natural resource courses.) It may boost their self-confidence if you ask them to tell you what they know!
- I've found that students are often surprised to think of pollution and the environment as economic issues. You will want them to see that economics is involved in decisions to pollute, policies to control pollution, consumer decisions to recycle, and incentives to conserve.
- Among the issues students care about, it seems that pollution, particularly as it relates to climate change, ranks near the top. Everyone, including the Pope, is discussing the problem of climate change. Students will probably also be enthusiastic about any discussion that has to do with recycling, conservation, and incentives for these practices! They may also be interested in the ways to become "carbon neutral."

➤ *Controversy*

- I've noticed people often believe policy should be made at the local level of government because that level of government is closer to the people and their needs. They haven't given much thought to the reasons why environmental policy is usually more appropriate at the federal (or higher) levels of government. You may want to discuss this with your students, recognizing that people on the economic right are generally more supportive of policy decisions at the local level. People on the left may support a global organization charged with global rules on environmental protection.

➤ *Economic Theory and Models*

- As in Chapter 5, the theory of externalities and resource allocation is addressed in Chapter 11, this time with respect to the negative externalities associated with pollution. (Chapter 5 addressed the positive externalities associated with education.) A two-graph demand and supply model is used to show the over-allocation of resources to a polluting industry and the under-allocation of resources to an industry harmed by this pollution. Issues of inequity and inefficiency are also discussed.
- An alternative graph is shown in Appendix 11–1, representing the market for air travel to the Bahamas over spring break. This model uses a single graph to show the impact of pollution on resource allocation.
- Students sometimes wonder why an over-allocation of resources to the production of a particular product is a problem. You will probably want to explain this in terms of scarcity and opportunity costs.
- A social cost-benefit analysis of pollution is addressed, adding that even though some costs cannot be monetized, they should nevertheless be considered.
- References to production possibilities are used to address the impact of pollution and pollution control on economic growth and economic inefficiency.
- Students may have difficulty understanding the intricacies of marketable pollution permits, but once they do understand, they are usually delighted with this approach to pollution control! It isn't a complete solution, but it is attracting growing support. I think the hypothetical but concrete example used in the text is a good one.
- A graph of demand and supply is used to demonstrate how OPEC wields its market power by restricting output to drive up prices and profits in the context of an inelastic demand curve.
- Gasoline taxes are addressed in the same way as excise taxes, resulting in less production and higher prices of gasoline. Subsidies for the production or purchase of electric vehicles are also discussed.

➤ *Data and Terminology*

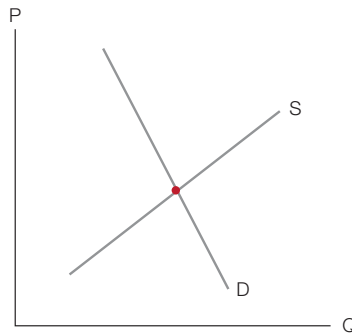
- New data reveal global and U.S. greenhouse gas emissions by type of gas.
- Updated data on emissions by individual countries reveal that China is the largest single emitter of carbon dioxide, but the United States has the highest emissions of carbon dioxide when expressed as a share of GDP.
- Updated data show recent changes in the price of gasoline (prior to the war in Ukraine).

➤ *Fundamentals*

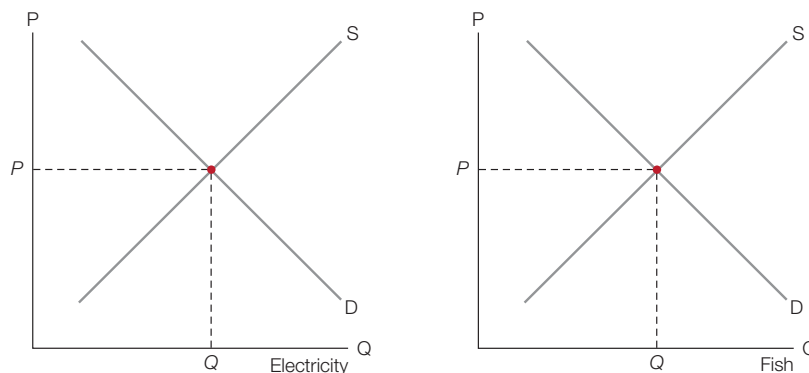
- In both the United States and globally, the poor suffer most from climate change, worsening national and global income inequality.
- Racism seems to be a factor in deciding who will get help from climate-induced damage. For example, many believe that poor Blacks suffered from government inaction amid Hurricane Katrina and Puerto Ricans suffered disproportionately from Hurricane Maria.
- Climate change and its destruction creates conditions for migration; and immigrants of color from Africa, the Northern Triangle in Central America, Haiti, and around the globe face racism in the immigration process.

CLASSROOM EXERCISES

1. The following graph depicts the global petroleum market under the assumption that the Organization of Petroleum Exporting countries (OPEC) controls the vast majority of exported oil (as it once did). Shift the appropriate curve to show what will occur if OPEC decides to act to increase the price of oil. [The supply curve will shift backward.] Does OPEC have the same extent of market power today as it once had? [No]

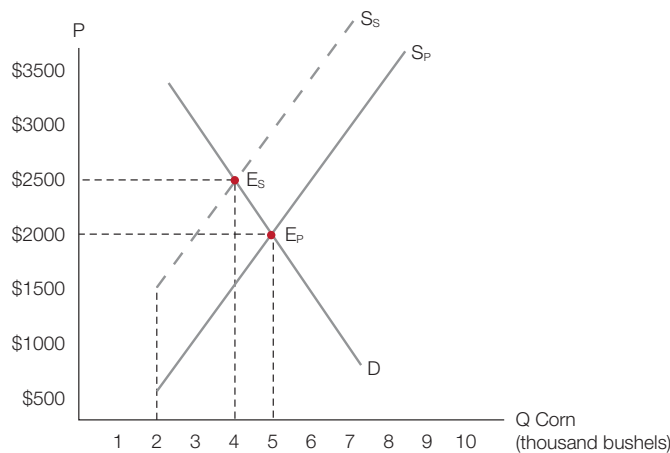


2. Consider the following demand and supply graphs for the electrical industry and the fish industry. Assume the electrical industry operates upstream of a river, while the fish industry operates downstream. Also assume that neither industry initially pollutes. Shift the curve to show what occurs in the first graph if the electrical industry decides to cut costs by dumping water into the stream without cooling it, causing thermal pollution. [Its supply curve shifts forward.] Next, shift the curve to show what happens in the fishing industry if it must undergo the expense of cooling the water before it can be used to raise fish. [Its supply curve shifts backward.]



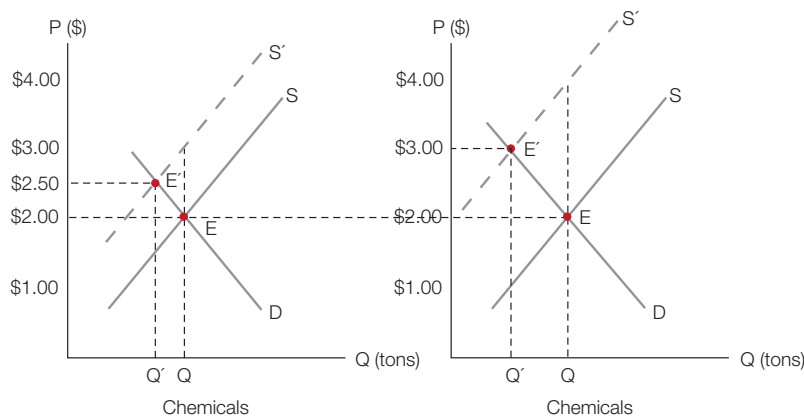
- What is the effect of the pollution by the electrical industry on the price of electricity? [Decrease]
- What is the effect on the price of fish? [Increase]
- In which industry is there now an over-allocation of resources? [Electricity]
- In which industry is there now an under-allocation of resources? [Fish]

3. Consider the graph of a market for corn in a small country, assuming that production of corn results in chemical fertilizer and pesticide runoff that pollutes nearby streams. S_p represents the private market supply curve, while S_s is the social supply curve. S_s reflects the full social costs of production.



- What costs are reflected in the social supply curve? [Private costs and spillover costs]
- What is represented by the vertical distance between the two supply curves? [The amount of pollution per unit of output] What amount is this? [\$1,000]
- Why is it possible that production of fewer than 2,000 bushels of corn results in no spillover costs? [The Earth has natural cleansing ability.]
- What is the equilibrium quantity of corn produced in the private market? [5,000 bushels]
- What is the socially optimal quantity of corn? [4,000 bushels] Why do we say that the private market results in an over-allocation of resources to corn production? [Society produces and consumes more corn than it would if the spillover costs were accounted for.] Why is this a problem? [With scarcity, if there is an over-allocation of resources to one industry, there is an under-allocation of resources to another industry.]
- Suppose an effluent fee of \$1,000 is imposed on the corn producers for every thousand bushels of corn produced. What will be the effect of the fee on the market price of corn? [Increase] Is it appropriate that consumers pay a higher price for a product whose production creates pollution? [Yes] Why? [They consume a product associated with causing pollution.]

4. Consider the following graphs of demand and supply in a polluting chemical industry under two scenarios. In the first case, an effluent fee of \$1.00 per pound of chemicals is placed on the industry, and in the second case, a larger effluent fee of \$2.00 per pound is placed on the industry.



- Why does the supply curve shift up (back) in each case with the imposition of the effluent fee? [This is considered a larger cost of production.]
 - What is the value of the vertical distance between the two supply curves in the first graph? [\$1] In the second graph? [\$2]
 - What is the effect of the fee on the equilibrium price of chemicals [Increase] On the equilibrium quantity of chemicals bought and sold? [Decrease]
 - In which graph is the quantity of chemicals (and therefore the amount of pollution) reduced the most? [In the second graph]
5. (Appendix 11-1) Draw the graph of a hypothetical market for steel, assuming that the production of steel results in air pollution. Label the private market supply curve as S_p , and label the social supply curve as S_s . S_s reflects the full social costs of production. The supply and demand schedules are as follows. Quantities are in tons.

Price	Quantity Demanded	Private Quantity	Public Quantity
		Supplied	Supplied
\$1,000	5	1	—
\$2,000	4	2	0
\$3,000	3	3	1
\$4,000	2	4	2
\$5,000	1	5	3

- What is represented by the vertical distance between the two supply curves? [The spillover cost]
- Specifically, what costs are reflected in the social supply curve? [Private costs and spillover costs]
- Why is it possible that production of less than 1 ton of steel results in no spillover costs? [Earth's natural cleansing]
- What is the equilibrium quantity of steel produced in the private market? [3,000 tons] What is the socially optimal quantity of steel? [2,000 tons] Why do we say that the private market results in an over-allocation of resources to steel production? [We produce more steel than is socially optimal.] Why is this a problem? [It means we must give up something society values more.]
- Suppose an emissions fee of \$2,000 is imposed on the steel producers for every 1 ton of steel produced. What will be the effect of the fee on the market supply? [It will shift backward.] The market price of steel? [Increase] Is it appropriate that consumers pay a higher price for a product whose production creates pollution? [Yes]

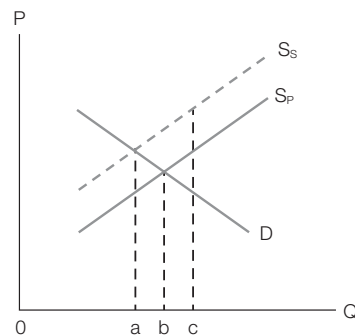
SAMPLE TEST QUESTIONS

Multiple Choice Questions

- Pollution causes:
 - spillover costs.
 - inefficient resource allocation.
 - an inequitable burden of costs.
 - all of the above**
- Spillover benefits derive from:
 - childhood vaccinations.
 - education tuition provided by employers.
 - your education.
 - all of the above**
- The earliest efforts to control pollution in the United States through legislation came from:
 - city governments.**
 - state governments.
 - the federal government.
 - none of the above
- According to the textbook, the decisions about pollution control in the case of pollution that extends beyond state boundaries should be made by:
 - city governments.
 - county governments.
 - state governments.
 - the federal (and possibly international) governments.**
- Which of the following economic terms represents a regulation that is more likely to encourage research into new technologies and lower cost methods of meeting environmental quality?
 - Performance standard**
 - Design standard
 - Technology standard
 - Business standard
- A tax on production that causes air pollution is called:
 - a pollution permit.
 - a specific standard.
 - an effluent fee.
 - an emissions fee.**
- Why is the overallocation of resources to a particular market a problem?
 - We give up something society values more.**
 - We must give up something society values less.
 - Society should always seek a greater allocation of resources to any good it desires.
 - It is not really a problem.

8. *Technology forcing* is defined as:
- allowing firms to choose the type of technology used in pollution control.
 - requiring firms to use specific types of technology used in pollution control.**
 - forcing firms to purchase the technology used in pollution control.
 - forcing firms to produce the technology used in pollution control.
9. Marketable pollution permits:
- allow producers to buy and sell permits.
 - minimize the costs of pollution control.
 - utilize the marketplace.
 - all of the above**
10. The creation of a market for pollution permits:
- completely eliminates air and water pollution.
 - causes firms to seek out low-cost pollution-reducing technologies.**
 - is only supported by economic liberals.
 - all of the above
11. Economists and environmentalists may differ in that:
- environmentalists often want to eliminate all pollution, but economists may approve some level of pollution if society values the product associated with it.**
 - environmentalists care about the environment, but economists do not.
 - economists rarely support a cost-benefit approach.
 - all of the above
12. If an emissions fee equal to the spillover cost of pollution is levied on the polluting firm:
- it will eliminate the over-allocation of resources to the product produced by the firm.
 - it will increase the price of the firm's product.
 - it will decrease the firm's output.
 - all of the above.**
13. Based on data in the text, which country causes the largest total amount of carbon dioxide emissions?
- China**
 - the United States
 - Russia
 - India
14. Based on data in the text, which country causes the largest carbon dioxide emissions per capita (per person)?
- China
 - the United States**
 - Russia
 - India

15. The Organization of Petroleum Exporting countries (OPEC) in the past has been able to keep petroleum prices high by:
- increasing demand.
 - increasing supply.
 - decreasing demand.
 - decreasing supply.**
16. When performing cost-benefit analysis of environmental protection, we should include:
- monetary costs such as business firms using less polluting but more expensive inputs.
 - monetary costs such as consumers buying high-efficiency but more expensive appliances.
 - non-monetary costs such as consumers' inconvenience associated with recycling.
 - all of the above**
17. A major problem with recycling is:
- that people absolutely refuse to recycle.
 - finding a market for recyclable materials.**
 - incentives simply do not work.
 - most such programs make recycling very convenient.
18. Which of the following environmental problems have not been successfully overcome in developing countries?
- Loss of biodiversity
 - Deforestation
 - Desertification
 - All of the above**
19. Which of the following should be considered when comparing costs and benefits of pollution control?
- Spillovers of production activity
 - Spillovers of consumption activity
 - Spillovers that occur over time
 - All of the above**
20. (Appendix 11-1) Assuming the production of paint results in chemical pollution of the land and water and that S_p represents the private supply curve for paint and S_s represents the social supply curve for paint, which is the socially optimal output of paint in the following graph?



- Amount a**
- Amount b
- Amount c
- We don't know because we've ignored social costs of production.

True / False Questions

1. Generally speaking, the economist's view is that all pollution should be eliminated. (F)
2. Environmental quality is a luxury good. (T)
3. Externalities can be positive or negative. (T)
4. Over-allocation of resources occurs in markets harmed by pollution caused in another market. (F)
5. Both positive and negative externalities cause inequity and inefficiency if government doesn't intervene. (T)
6. Economists believe the proper level of government to enact pollution control policies is almost always the local government, since the local government knows most clearly the needs of the local community. (F)
7. The performance standard approach to regulation specifies the maximum level of pollution as well as the specific means of compliance. (F)
8. The term *pollution fees* can include both effluent fees and emissions fees. (T)
9. A design standard specifies not only the required level of performance (in controlling pollution), but also the means to reach that performance. (T)
10. Marketable pollution permits are considered efficient but have never actually been used. (F)
11. Effluent and emissions fees are more likely to result in least-cost pollution control than the use of standards. (T)
12. People are more likely to recycle and purchase recyclable products if they are charged per bag of garbage rather than a fixed fee for garbage pickup. (T)
13. If the supply of recyclable materials increases, the price of these materials will increase. (F)
14. A higher gasoline tax is more likely to encourage conservation than a lower one. (T)
15. Pollution permits usually result in firms that are initially not heavy polluters doing all the cleanup. (F)
16. Cost-benefit analysis is useless in evaluating environmental policy. (F)
17. Present U.S. laws do not allow trade in pollution permits. (F)
18. Ten-cent deposits on aluminum soda cans would be an example of an incentive to recycle. (T)
19. Critics of environmental regulation argue that higher production costs will make products less competitive in the international market. (T)
20. Economists on the economic left are more likely than those on the right to support government regulation, including standards, as well as policies drafted at the national and international levels. (T)
21. Economists on the economic right like pollution controls that work via the marketplace, such as pollution fees and marketable pollution permits. (T)
22. Greta Thunberg is a young woman who says blah blah blah. (T)
23. Former President Trump vastly increases financing of pollution control. (F)
24. Under President Trump, the number of environmental regulations increased dramatically and even surpassed those of President Obama. (F)
25. (*Appendix 11-1*) The social costs of production that cause pollution include the private costs of production and the spillover costs of pollution. (T)

Critical Thinking Questions

1. Your author developed a three-pronged approach to externalities. Explain these three forms of spillovers.
2. What are the viewpoints on the economic left and economic right regarding pollution control? What has been the role of populism on the issue?
3. What are some negative externalities not mentioned in the textbook? What are some positive externalities?
4. Incentive-based pollution control (taxes, subsidies, improved convenience of recycling, pollution permits, etc.) allows research and development of least-cost technology and production processes to control pollution, allows the costs as well as the benefits of pollution control to be considered, and often results in the largest polluters having more incentive to reduce pollution than small polluters. Economists often favor these incentive-based pollution controls. On the other hand, standards may assure greater compliance and pollution control. Which do you prefer?
5. Is it appropriate that consumers pay a higher price for a product whose production causes pollution? Is there anything the government can do for poor consumers if they suffer severely from higher prices caused by pollution control for necessary products such as gasoline.
6. Additional roads and parking structures enable more people to drive in cities, thereby causing more pollution and congestion. What would be the impact of policies such as higher gasoline taxes, road tolls, automobile fees, expensive parking, high-price auto insurance, and inexpensive and convenient mass transit?

Global Trade, Finance, and Partnerships



NEWS UPDATE

- The textbook addresses politically motivated trade restrictions and it mentions some examples. The Russian attack on Ukraine precipitated numerous sanctions on Russia, including a U.S. halt to over half of Russia's high-tech imports. This alone will harm Russia's industrial base and its ability to exert global influence. Additional financial sanctions will impede other parts of the country's trade structure, and ultimately, its entire economy. Unprecedented supportive actions by U.S. allies will enhance the limitations placed on Russia, and in particular, on its military (The White House, www.whitehouse.gov, Feb. 24, 2022).

PURPOSE

The purpose of this fourth international chapter is to introduce the student to the world of international trade and finance, along with global partnerships that have the potential to solve some of the major world problems. If students worry that international trade is difficult, they will fear that international finance is even more difficult. Nevertheless, you can reassure your students that these are straightforward and rely on the graphs the students have seen before: production possibilities and demand and supply. International finance is discussed in Appendix 12-1.

WHAT'S NEW?

1. The opening statements of former President Trump and President Biden couldn't be more different regarding the U.S. role in the world. The first is of the nationalist type — "America First" — and the second envisions that the United States "is back to the world stage!"
2. This chapter continues to explore the unique trade issues for developing countries and additional material focuses on the exploitation of workers.
3. The *Viewpoint* section is new, and it contrasts Trump's nationalist populist viewpoint towards trade with President Biden's perspectives. Nevertheless, Biden does express some populism amid his trade views.
4. A new NAFTA trade deal was negotiated by the Trump administration and called the USMCA (the U.S.–Mexico–Canada Agreement). It is quite similar to NAFTA but includes some requirements that will benefit U.S. car manufacturers, and it places labor and environmental protections directly into the trade agreement. The latter is definitely a good thing, as the separation of the treaty from the labor and global protections with NAFTA was problematic.
5. Once again, there is attention given to structural unemployment that may result from trade, and since Trump regarded these unemployed people as part of his base, it is important to find ways to assist them that do not include trade restrictions.

TEACHING SUGGESTIONS

► *Student Interest*

- Because this chapter covers the entire globe and isn't focused on just one region, you may want to learn from students where they have traveled. If you have international students, you may want to ask them where they're from, but don't embarrass them! (It may help to ask them ahead of time if they want you to call on them or maybe even ask if they want to tell the class about their country of origin.)
- I think that many students (as well as the American public) are somewhat intimidated by international economics. It may help to tell your students that they can understand all of the concepts in the text by using the familiar production possibilities graph and the demand and supply model.
- This chapter also presents the opportunity to discuss international trade from the perspective of developing countries. Students (and teachers!) may find this information novel and interesting.
- While international trade in the developing world may not initially seem interesting to students, we can heighten their interest (and perhaps their activism) by raising such issues as sweatshop and slave labor, child labor, fair trade versus free trade, and the impact of U.S. trade restrictions and agricultural subsidies on people of the developing world. My students were so impressed with the DVD *Black Gold* that they organized a campus showing and discussion. They also initiated action on campus to encourage our food service to provide fair trade products.

► *Controversy*

- Students may have some preconceived notions and viewpoints that will be challenged in this chapter. You may want to poll students on the following at the outset. At the end of the chapter, repeat the poll!
 - 1) How many of you believe trade is good for the United States? How many believe it is bad?
 - 2) How many of you believe it would be good for the United States to be entirely self-sufficient rather than engage in trade? How many believe it would be bad?

► *Economic Theory and Models*

- Students will find the first figures showing the production possibilities curve (with no trade) and the consumption possibilities curve (with trade) quite interesting and useful. The main thing is that they recognize trade is not a zero-sum game, and that all trading countries can benefit from trade.
- Figure 12-3 uses the demand and supply model to show the impact of U.S. trade in cotton, revealing which groups of people benefit and which ones lose. (Table 12-3 summarizes these results.) Students may have difficulty locating the quantity of U.S.-produced cotton in the second graph of Figure 12-3. That is one thing that seems to elude many of them.
- Figures 12-4 and 12-5 address the inelastic demand and fluctuating supply for commodities and the resulting price fluctuation. These graphs are similar to those in Chapter 10 showing U.S. agricultural markets.
- The figures in Appendix 12-1 use the demand and supply model to demonstrate exchange rate determination.
- I've found that it becomes too complicated for students when we try to explain the reasons for the downward sloped demand curve and upward sloped supply curve of a nation's currency (in Appendix 12-1). I leave this for a principles or international finance course. (Students are adequately familiar with demand and supply curves by now that they will "accept" the visual slopes we use in this course.)

- Similarly, when we consider changes that shift the demand or supply of a nation's currency, I use only examples that shift the demand curve to keep the concepts as straightforward as possible.

➤ *Data and Terminology*

- It is important that students understand the meaning of the updated global data on exports, imports, exports plus imports, and the trade balance. They need to understand why we look at these as a share of GDP.

➤ *Fundamentals*

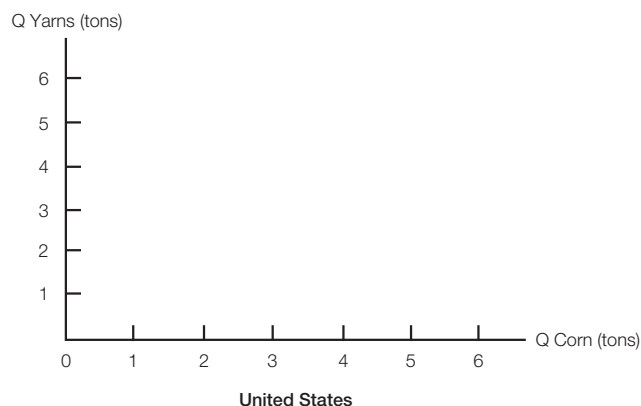
- Inequality in the U.S. is fostered by a lack of attention (or the wrong kind of attention) to the retraining and retooling needs of U.S. businesses and workers as they lose sales and jobs due to changing trade relations.
- Inequality between countries is fostered by U.S. policies that place developing countries at an unfair disadvantage in trade.
- Inequality and racism play a role in the exploitation of foreign labor, often ethnic minorities, the poor, and children.

CLASSROOM EXERCISES

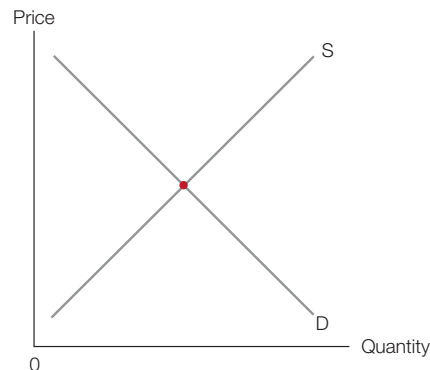
1. The following table shows that each U.S. worker can produce either 6 tons of corn or 3 tons of yams per year and each Ugandan worker can produce either 1 ton of corn or 2 tons of yams per year.

<u>Country</u>	<u>Corn Production (tons)</u>	<u>Yam Production (tons)</u>
United States	6	3
Uganda	1	2

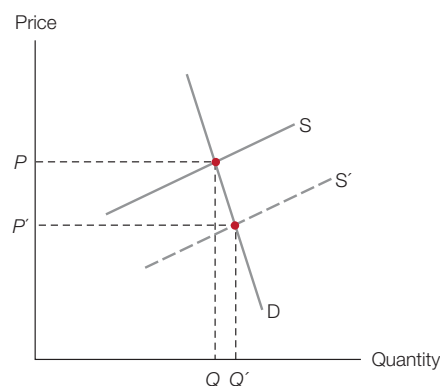
- a. Which country has an absolute advantage in corn production? [U.S.]
 - b. Which country has an absolute advantage in yam production? [U.S.]
 - c. Which country has a comparative advantage in corn production? [U.S.]
 - d. Which country has a comparative advantage in yam production? [Uganda]
2. Based on question 1, draw the (straight-line) production possibilities curve (for 1 worker) in the United States per day. Now suppose the United States decides to specialize completely in corn production and trades with Uganda at a mutually beneficial trade ratio of 1 ton of corn for 1 ton of yams. Draw in the U.S. consumption possibilities curve with free trade. Is the United States better off with or without trade with Uganda? [With trade] Is Uganda better off with trade? [Yes]



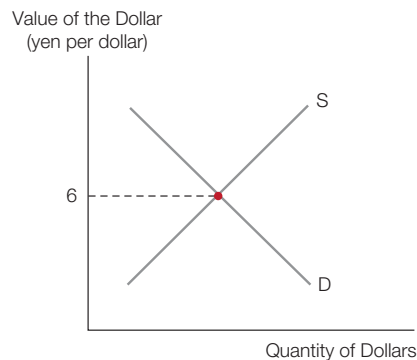
3. Consider a graph of the U.S. market for tobacco, assuming the United States is a large producer of tobacco and all tobacco is identical. Label the initial equilibrium point (E) within the graph, and label the equilibrium price (P) and equilibrium quantity (Q) along their respective axes. Shift the curve that occurs if the United States begins to freely import tobacco (shift it forward to S^T), and label the new free trade price (P^T) along the price axis, and the quantity demanded (Q^D) by U.S. consumers of tobacco and quantity supplied (Q^S) by U.S. producers of tobacco along the quantity axis. Note that Q^D is found at the intersection of the new free trade price with the demand curve, and Q^S is found at the intersection of the new free trade price with the original supply curve. What is the effect of free trade in tobacco on the following groups of people? (Answer gain or lose.)



- U.S. consumers of tobacco [gain]
 - U.S. companies that produce tobacco [lose]
 - U.S. workers in the tobacco industry [lose]
 - U.S. producers of export products [gain]
 - The U.S. as a whole [gain]
4. Now suppose that the U.S. government places a quota on the import of tobacco. What is the impact of this trade restriction on each of the following groups?
- U.S. consumers of tobacco [lose]
 - U.S. companies that produce tobacco [gain]
 - U.S. workers in the tobacco industry [gain]
 - U.S. producers of export products [lose]
 - The U.S. as a whole [lose]
5. What two characteristics of the cocoa market are represented by the following demand and supply curves? (Hint: The combination of these two characteristics results in unstable cocoa prices.)
- Inelastic demand
 - Weather-related supply fluctuation



6. (Appendix 12-1) Consider the following graph of the market for the U.S. dollar relative to the Japanese yen. (Assume Japan and the United States are the only two countries in the world.) Shift the demand curve for the dollar that occurs if more Japanese people travel in the United States. What is the effect on the value of the dollar relative to the yen? [Increase] What is the effect on the value of the yen relative to the dollar? [Decrease]



Market for U.S. Dollars

7. Set up a table showing that each U.S. worker can produce either 5 tables or 10 pineapples per day, while each Bolivian worker can produce either 1 table or 4 pineapples per day. Which country has an absolute advantage in table production? [the U.S.] An absolute advantage in pineapple production? [the U.S.] A comparative advantage in table production? [the U.S.] A comparative advantage in pineapple production? [Bolivia] Can the United States still benefit from trade with Bolivia? [Yes]
8. Based on information in the previous question, draw the (straight-line) production possibilities curve (for 1 worker) in the United States per day, placing the quantity of tables on horizontal axis and the quantity of pineapples on the vertical one. Draw the U.S. consumption possibilities curve with trade, assuming the United States decides to specialize in table production and trades with Bolivia at a mutually beneficial trade ratio of 1 table for 3 pineapples. Is the United States better off with or without trade? [With trade] And Bolivia? [With trade] (Note: The trade ratio was negotiated because it is mutually beneficial, or it evolves for the same reason.)
9. Draw a graph of the U.S. rice industry, assuming the United States is a large producer of rice and all rice is identical. Label the equilibrium point [E] within the table. Shift the curve to show what occurs if the United States begins to freely import rice. [Shift it forward.] Label the new equilibrium point (E') within the graph. Label the free trade price (P^T) along the price axis; and the new quantity demanded (Q^D) by U.S. consumers and quantity supplied (Q^S) by U.S. producers of rice along the quantity axis. Who gains and who loses? [Gainers are U.S. consumers of rice, foreign producers of rice, U.S. producers of export products, and the U.S. as a whole; but U.S. rice producers suffer.]
10. Now suppose the U.S. producers of rice convince the government to place a quota on of imported rice. What is the effect on U.S. producers of rice? [Gain] U.S. consumers of rice? [Lose] U.S. producers of export products? [Lose] The U.S. as a whole? [Lose] Foreign producers of rice? [Lose]
11. Ask if students believe the demand for tea is inelastic. Draw a fairly steep (inelastic) demand for tea. Ask students if they think the supply of tea fluctuates and why. Show this in the graph. What is the implication of these two characteristics of the tea market in the short run? [Price fluctuation] Show this in the graph.

SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. Which of the following is true? Since 1960, as a share of GDP, our imports and exports have:
 - a. **increased.**
 - b. decreased.
 - c. remained remarkably constant.
 - d. This information is not provided in the text.
2. The table in the text shows that the United States has:
 - a. a trade surplus.
 - b. **a trade deficit.**
 - c. a trade balance of zero.
 - d. an enormously important trade sector as a share of U.S. GDP.
3. Some countries, such as Luxembourg and Vietnam:
 - a. have enormously important trade sectors as a share of their GDP.
 - b. have large values of exports as a share of their GDP.
 - c. have large values of imports as a share of their GDP.
 - d. **all of the above**
4. The three main U.S. trading partners include:
 - a. China.
 - b. Canada.
 - c. Mexico.
 - d. **All of the above**
5. Exports minus imports is the:
 - a. budget balance.
 - b. **trade balance.**
 - c. exchange rate for the dollar.
 - d. international debt.
6. Which of the following contributes to higher labor productivity?
 - a. Training
 - b. Modern capital
 - c. Modern technology
 - d. **All of the above**
7. A situation whereby one country can produce a good with lower opportunity cost than another country defines:
 - a. **comparative advantage.**
 - b. absolute advantage.
 - c. situational advantage.
 - d. advantage by proxy.

8. One benefit of trade is the improved _____ achieved by specialization according to comparative advantage.
- equity
 - efficiency**
 - political stability
 - government borrowing
9. A country with wages and labor productivity three times higher than another country will have:
- much higher labor costs for each unit of production.
 - much lower labor costs for each unit of production.
 - identical labor costs for each unit of production.**
 - We don't have enough information to answer this question.
10. Which of the following *does not* gain from free trade in imports of handbags?
- The country as a whole
 - Handbag consumers in the country
 - Handbag producers in the country**
 - Export producers in the country
11. Producers of U.S. exported products may suffer when the United States imposes trade restrictions on imports because:
- other countries may retaliate with their own trade restrictions.
 - other countries may purchase fewer U.S. products because their incomes may fall.
 - exchange rate changes may result in foreigners purchasing fewer U.S. exports.
 - all of the above**
12. A tariff is:
- a tax on an imported good.**
 - a restriction on the quantity of an imported good.
 - a requirement for quality of imported goods.
 - all of the above.
13. U.S. trade restrictions on imports result in:
- a loss of gains from specialization for the United States as a whole.
 - a greater opportunity for market power in the United States.
 - losses to U.S. exporters.
 - all of the above**
14. Primary commodities generally have:
- inelastic demand.**
 - stable prices.
 - supply that does not fluctuate.
 - all of the above

15. "A situation where the prices of a country's exports decline relative to the prices of its imports" is the definition for:
- comparative advantage.
 - voluntary export restraint.
 - declining terms of trade.**
 - retaliation.
16. Which of the following is *not* true? Demand for developing country exports has declined:
- due to the development of synthetics.
 - due to developed country trade restrictions.
 - and contributed to declining terms of trade.
 - and contributed to rising prices of exports of developing countries.**
17. Which of the following was *not* a member of the North American Free Trade Agreement?
- Russia**
 - Canada
 - United States
 - Mexico
18. Which of the following is an international trade problem for a developing country?
- Lack of diversity in exports
 - Reliance on exporting primary commodities
 - Price instability
 - All of the above**
19. Which was *not* a result of the recent U.S. Great Recession?
- Foreign companies hired more workers.**
 - There was a decline in world trade.
 - Americans lost jobs.
 - Foreign companies cut production.
20. Which of the following are part of the United Nations (UN)?
- The Children's Fund (UNICEF)
 - The Educational, Scientific, and Cultural Organization (UNESCO)
 - The World Health Organization (WHO)
 - All of the above**
21. The mission of the International Criminal Court is to try cases involving:
- war crimes.
 - genocide.
 - crimes against humanity.
 - all of the above**
22. (*Appendix 12-1*) Which of the following is *not* a current member of the Group of Seven?
- Russia**
 - Canada
 - United States
 - Germany

23. (*Appendix 12-1*) The price of one country's currency in terms of another country's currency is the:
- exchange rate.**
 - balance of payments.
 - Group of Eight.
 - current account.
24. (*Appendix 12-1*) In a two-country world consisting of the United States and Canada, an increase in the value of the U.S. dollar means:
- the U.S. dollar appreciates relative to the Canadian dollar.
 - the Canadian dollar depreciates relative to the U.S. dollar.
 - the value of the Canadian dollar decreases relative to the U.S. dollar.
 - all of the above**
25. (*Appendix 12-1*) Canada and Germany belong to:
- the Group of Seven.**
 - the Six Markets Group.
 - Mercosur.
 - all of the above

True / False Questions

- Absolute advantage is defined as a situation whereby a country can produce a good with lower opportunity cost than another country. **(F)**
- Assuming two countries and two goods, a country that has an absolute advantage in production of both goods cannot possibly benefit from trade. **(F)**
- When considering labor costs to a firm, both wages and labor productivity must be considered. **(T)**
- The benefits of trade to a country include increased market power. **(F)**
- U.S. trade restrictions on imports may result in retaliation by other countries. **(T)**
- If our exports are greater than our imports, we have a trade deficit. **(F)**
- With trade, a country may achieve a consumption possibilities curve superior to its production possibilities curve. **(T)**
- A quota is a restriction on the quantity of an imported good. **(T)**
- The term *primary commodity* is defined as a country's most important export product. **(F)**
- Increased competition made possible through trade can reduce the likelihood of market power. **(T)**
- Inelastic demand and fluctuating supply result in relatively stable prices. **(F)**
- Declining terms of trade means the prices of a country's exports decline relative to the prices of its imports. **(T)**
- An embargo is a restriction on trade for political reasons. **(T)**
- Studies show that the United States has suffered a great deal of unemployment as a result of NAFTA. **(F)**
- The General Agreement on Tariffs and Trade (GATT) has been replaced by the World Trade Organization (WTO). **(T)**
- As a share of GDP, the United States has the world's largest exports plus imports. **(F)**
- The U.S. trade balance was positive in 2016. **(F)**

18. As a share of GDP, U.S. exports are the largest in the world. (F)
19. U.S. producers of exported products benefit from U.S. trade restrictions on imports of other goods. (F)
20. Overall, the United States benefits from free trade. (T)
21. U.S. agricultural policies benefit poor, developing country farmers. (F)
22. U.S. economic conservatives have traditionally opposed free trade. (F)
23. U.S. agricultural policies were a controversial aspect of the Doha Round of trade talks. (T)
24. The opening quotes to this chapter refer to the trade policies of Presidents Obama and Trump. (F)
25. Traditional economic conservatism is the basis for Donald Trump's trade policies. (F)
26. (*Appendix 12-1*) An exchange rate is the price of one country's currency in terms of another country's currency. (T)
27. (*Appendix 12-1*) Most of the industrialized world uses a (largely) flexible (floating) exchange rate system. (T)
28. (*Appendix 12-1*) In a two-country world consisting of the United States and Japan, the demand for yen by U.S. citizens is the same as the supply of dollars by U.S. citizens. (T)
29. (*Appendix 12-1*) An increase in U.S. interest rates will cause a decrease in the value of the dollar relative to other currencies. (F)
30. (*Appendix 12-1*) The Group of Seven refers to seven industrialized countries that cooperate on policies to influence exchange rates. (T)

Critical Thinking Question

Thinking about the world as a whole, and not just the United States, do you think the world would be better off with or without trade? Why? Do you believe there should be any restrictions or regulations on free trade? Think about the economics of trade, as well as exploitation of labor and the environment.

Market Power and Government Regulations



NEWS UPDATE

- We know that market power can often translate into political power, and that political power can have negative implications for society. We recently learned that the two major West Virginia coal miners' unions strongly endorsed President Biden's Build Back Better legislation that their own Senator Joe Manchin had just voted against. The coal miners understand that coal is on the way out, and they want the support embodied in Build Back Better that would help them transition to other types of economic activity and jobs. Even more to the point, they wanted the clause that would have continued the excise tax paid by coal companies into a trust fund for miners afflicted with black lung disease. Instead, the tax was cut in half after the bill failed to pass the Senate. The issue? The Manchin family is linked to the coal companies, and Senator Manchin has received more campaign contributions from the oil, gas, and coal companies than any other senators in the current election cycle. So, money talks, and in this case, coal companies and their money literally prevented legislation that would have radically transformed the U.S. safety net into one providing for the socio-economic needs of American families (Jonathan Weisman, *The New York Times*, January 11, 2022).
- Corporations are not the only ones who collude when they can get away with it. A lawsuit was recently filed against the nation's top colleges and universities, charging them with colluding on the level of financial awards they would give out. The lawsuit alleges that an estimated 170,000 students eligible for financial aid ended up overpaying their college tuition ("Suit Alleges Colleges Conspired on Aid," *Minneapolis Star Tribune*, January 11, 2022).

PURPOSE

This is the first of four chapters in the section titled Efficiency and Stability Issues. Clearly, government failure to address market power leads to inefficiency; and government failure to regulate leads to instability (as in the case of the 2007–2008 financial crisis), inequity (as in the failure to ensure racial equity), and exploitation (of labor, consumers, and the environment). This chapter first addresses market power with the use of the demand and supply model to compare behavior and outcomes of monopoly with those of competition. Next, we look at government regulations more broadly (and more globally) than in previous editions. Additional material on monopoly, price elasticity of demand, and price discrimination is presented in the appendices to the chapter.

WHAT'S NEW?

1. This edition provides new material on government regulations, the Google antitrust case, and the contrast between former President Donald Trump and President Biden on antitrust and regulatory behavior. Trump's association with Fox News is examined, as are other examples of policy and behavior.
2. There is new material on the exploitation of labor, including slave labor in the palm oil industry in Indonesia and Malaysia and the exploitation of the Uighur people in Jinjiang Province in Western China. Students are encouraged to educate themselves about the issues involved and to be aware of organizations seeking to end this kind of exploitation.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Normally, we don't expect a lot of student interest in market power and antitrust policy. It is helpful to bring it down to the student's level. You might start by asking students where they shop. Where do they buy their schoolbooks and supplies, their clothes, their food, and their gasoline? Where do they buy their electricity and where do they do their banking? Are these businesses competitive or do they exhibit market power?
- Students may be interested in cases that affect them. This is true of the cases against Ticketmaster and Google. Many students use Ticketmaster to purchase concert tickets, and most of them probably use one or more of Google's platforms.
- Once the following terminology is explained to students, they can probably provide more examples pertaining to franchises, licenses, patents, product differentiation, and barriers to entry than consumer-challenged instructors such as me.
- Students are interested in the topics of climate change and racial equity, as well as the exploitation of labor and consumers. This means students are interested in government regulatory activity as well.

➤ *Controversy*

- Students will differ in their views toward antitrust policy (once you explain it to them and literally drag out their nascent opinions). They are probably more opinionated about government regulations, with some of them aligned with the populist Trumpian ideology opposed to government regulations, and others more welcoming of regulations, especially on climate change.
- The greatest controversy may involve government regulation in the context of the coronavirus pandemic. Any right-wing students in your class may insist that government regulations violate their liberty. Don't allow any misinformation in your classroom!
- Students are also interested in regulations that protect workers and consumers and that foster greater racial equity. You may be able to dredge up some interest in the 2007–2008 financial crisis and the differing views toward financial regulations by the Obama, Trump, and Biden administrations.

➤ *Economic Theory and Models*

- A demand and supply model is used to represent a competitive market and its outcomes. Next, a graph of demand (but no supply) is used to represent a monopolist and its outcomes. Oligopoly is also described.
- Another demand (absent supply) graph is presented in Appendix 13–1 to describe a hypothetical monopoly in terms of numerical values. The elasticity conditions necessary for a monopoly to increase profits by restricting output are addressed in Appendix 13–2, along with the role of the price elasticity of demand in relation to price discrimination.
- The theory of economies of scale is presented and discussed as a form of barrier to entry.

➤ *Data and Terminology*

- Concentration ratios are updated and used as a means of addressing and measuring concentration. The flaws of concentration ratios are also discussed.

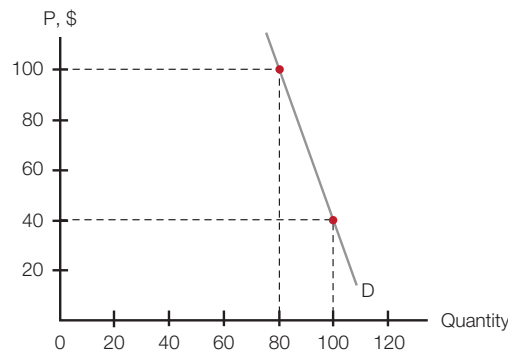
- It is important to discuss the cautions regarding concentration ratios, such as how their significance depends on the breadth of the category is (e.g., food versus breakfast cereal) and the relevance of the local versus national market (e.g., local newspapers are relevant for local markets).
- There is updated data on the share of senior management time spent complying with government regulations across many countries of the world. Certainly, very large shares of time spent on compliance would suggest the government is overdoing it. On the other hand, the regulations may be necessary.

► *Fundamentals*

- It is often the case that when there is a crisis (such as the financial crisis just referenced), low-income people suffer the most. The same is true when we consider the exploitation of labor and consumers that takes place when the government doesn't adequately protect them. And, of course, failure to regulate against climate change tends to hurt the poor more than the rich. National and global income inequality are the outcomes of so many aspects of our economy.
- Racial inequities continue when the government refuses to use regulations, executive orders, and legislation to prevent discrimination. Regulations pertaining to immigrants are often based on and perpetuate racism.

CLASSROOM EXERCISES

1. A market demand curve is shown below. If the only firm in the market sells 100 units, what price can it charge? [\$40] If it wants to raise the price to \$100, what would it do? [Reduce its output to 80.] Show numerically with the graph.



2. Suppose the widget industry consists of six firms, each producing the following shares of total widget output. What is the concentration ratio for the widget industry? [95, calculated as 50+30+10+5]

<u>Firm</u>	<u>Share of Total Output</u>
1	50
2	30
3	10
4	5
5	3
6	2

SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. A monopoly will not only charge a higher price, it will also produce _____ output than a competitive market would produce.
 - a. more
 - b. less**
 - c. better
 - d. poorer
2. The United States automobile industry is a good example of:
 - a. a monopoly.
 - b. a competitive market.
 - c. an oligopoly.**
 - d. an unconcentrated industry.
3. A monopoly:
 - a. charges higher prices than competitive firms, all other things equal.**
 - b. produces more output than competitive markets, all other things equal.
 - c. is one of several firms in a market.
 - d. all of the above
4. Compared to competitive markets, monopolies charge:
 - a. higher prices, produce more output, but make lower profits.
 - b. higher prices, produce more output, and make higher profits.
 - c. higher prices, produce less output, and make higher profits.**
 - d. lower prices, produce more output, and make higher profits.
5. What do patents, economies of scale, and exclusive franchises have in common?
 - a. They are all barriers to entry.**
 - b. They are all granted by the government to monopoly firms.
 - c. They all guarantee that a market will be competitive.
 - d. All of the above
6. If, shortly after Kellogg's Company announces price increases on its cereals, the other cereal manufacturers announce identical price increases on their products, this is likely to be:
 - a. the essence of competition.
 - b. a cartel.
 - c. price leadership.**
 - d. a coincidence.
7. All other things equal, compared to a competitive market, a monopoly will have:
 - a. higher profits and greater efficiency.
 - b. lower profits and greater efficiency.
 - c. lower profits and lower efficiency.
 - d. higher profits and lower efficiency.**

8. Compared to a firm in a competitive market, a monopoly has:
- more pressure to reduce costs.
 - less pressure to reduce costs.**
 - lower profits.
 - greater output.
9. Which of the following serves to limit market power?
- Patents
 - Economies of scale
 - Import competition**
 - Limit pricing
10. Price discrimination is:
- charging different prices to different customers because it costs the firm more to serve some customers than others.
 - changing the firm's price frequently to respond to market conditions.
 - charging different prices to different customers when the price differences are not based on cost differences.**
 - charging different prices to different customers based on their race or ethnicity.
11. Economies of scale over a wide range of output:
- can be a barrier to entry.
 - mean that cost per unit of output is lower at high levels of output.
 - mean that cost per unit of output is higher at low levels of output.
 - all of the above**
12. The essence of market power is:
- product differentiation.
 - lack of pressure to raise prices.
 - the firm's ability to influence the market price of its product.**
 - the existence of an exclusive franchise.
13. When we say that the competitive firm is a price taker, we mean that:
- the output of the firm is too small to influence the market price of the product.**
 - the firm's management doesn't know what price to set it charges what other firms charge.
 - the firm is following a price leader.
 - the firm produces less output to set a higher price.
14. An industry has a concentration ratio of 85. We would call this industry a(n):
- competitive industry.
 - monopoly.
 - oligopoly.**
 - very competitive industry.

15. If the concentration ratio for an industry is 80, the:
- four largest firms account for 20 percent of total output of the product.
 - four largest firms account for 80 percent of total output of the product.**
 - industry is a monopoly.
 - industry is competitive.
16. Concentration ratios may:
- overstate the extent of competition because they ignore imported products.
 - understate the extent of competition because they ignore imported products.**
 - either overstate or understate the extent of competition because they ignore imported products.
 - none of the above
17. Which of the following has market power?
- Google
 - Apple
 - Amazon
 - all of the above**
18. (*Appendix 13–1*) The example used to demonstrate monopoly behavior in this appendix is:
- water.
 - dishwashers.
 - “anti-age.”**
 - opioids.
19. (*Appendix 13–2*) To successfully reduce output to raise both price and profits, the monopolist must have an:
- inelastic demand curve.**
 - inelastic supply curve.
 - elastic demand curve.
 - elastic supply curve.
20. (*Appendix 13–2*) In order to successfully use price discrimination to increase its profits, a monopolist must:
- be able to segment groups of consumers from one another
 - have groups of consumers with different elasticities of demand.
 - have market power
 - all of the above**

True / False Questions

- Monopolies can charge any price they want and still be highly profitable because they have no competition. (F)
- Monopolies produce more output than competitive markets. (F)
- The monopolist's demand curve is the market demand curve. (T)
- In order to receive a higher price, the monopolist reduces output. (T)
- Monopolies are more efficient than competitive markets. (F)
- Economies of scale occur when cost per unit of output is lower for higher levels of output. (T)
- Whenever a firm charges different prices for its products, it is practicing price discrimination (you caution as you think this through). (F)

8. When a group of producers get together to discuss the output levels and prices that would maximize profits to the group, the group is called a cartel. (T)
9. Technological change serves to limit market power. (T)
10. A natural monopoly does not have economies of scale. (F)
11. Concentration ratios understate the extent of industry competition because they do not consider imports. (T)
12. Concentration ratios understate the extent of market power if the appropriate market is local instead of national. (T)
13. An oligopoly is a market with only a few dominant firms. (T)
14. Import competition limits the market power of domestic firms. (T)
15. The actions of existing firms in the industry can never act as a barrier to entry for new firms. (F)
16. The monopolist can increase output and price simultaneously. (F)
17. The first antitrust law passed was the Clayton Act of 1914. (F)
18. U.S. tariffs and import quotas increase the market power of domestic producers. (T)
19. When the government grants a public utility an exclusive franchise, it usually regulates the firm's prices and services. (T)
20. An exclusive franchise is a monopoly grant from the government. (T)
21. Cigarettes and breweries have relatively high concentration ratios. (T)
22. Conservatives generally view antitrust activity and economic regulations as creating inefficiency. (T)
23. Some countries listed in the text have a percent of senior management time spent on complying with government regulations as high as 80. (F)
24. Donald Trump made it his mission to increase the number of government regulations that protect workers, consumers, and the environment. (F)
25. (*Appendix 13–2*) The responsiveness of consumers to changes in the price of a product is measured by the elasticity of demand. (T)

Critical Thinking Questions

1. Describe the various barriers to entry discussed in the text. How do these serve to maintain the market power of existing monopolies?
2. Being a large, profitable company is not the same as being a company with considerable market power. What is the impact of each on its market? What is the impact of each on politics (e.g., money for campaigning and lobbying)?
3. What are some examples of workers being exploited in foreign countries? Are you interested in doing something about it, such as checking the sources in the text?

Unemployment, Immigration, and Inflation



NEWS UPDATE

- The Russian assault on Ukraine could potentially displace five to seven million people or more, creating an enormous immigration problem in Europe (PBS Newshour, February 25, 2022). We know that mass migration can encourage a groundswell of anti-immigrant populist fervor, some of which can easily threaten democracies by those with a more authoritarian intent. Prices of oil and gasoline will only increase far more due to sanctions on Russia's oil exports since their war with Ukraine.
- The inflation rate for January 2022 was an annualized 7.5 percent compared to January 2021. This was the biggest gain since February 1982. On a percentage basis, fuel oil prices rose the fastest, as well as energy prices overall. Prices for cars and trucks, food, and housing also increased (Jeff Cox, CNBC, February 10, 2022). Energy prices will increase much more due to sanctions on Russia's oil exports, and since energy is an input in the production of almost everything, it will cause a generalized inflation as well.

PURPOSE

This second of four chapters focused on efficiency and stability issues will help students understand the topics of unemployment and inflation, their causes, their types, and their effects. This is done in the context of an introduction to the macroeconomy, though we defer the discussion of aggregate demand and aggregate supply until Chapter 15. After carefully explaining our terminology, a demand and supply model is used to describe a labor market, and this is followed by a discussion and graph of 1) the minimum wage, and 2) immigration. Inflation is also discussed, though construction of the consumer price index is placed in Appendix 14–1.

WHAT'S NEW?

1. The discussion of structural unemployment is particularly important in the context of populist ideology, which responds to reasonable needs among the structurally unemployed with inappropriate, harmful, and often racist policies. We need to assure our students that our country does benefit from free trade, technological advance, and a shift to clean energy and that any structural unemployment resulting from these should be dealt with in the ways suggested in the text.
2. There is new material on immigration and culture wars, including the immigration policy of both the Trump and Biden administrations. There is also discussion and contrast between the ways each administration has addressed structural unemployment, including in the context of the coronavirus pandemic.
3. There is new material on child labor, and students are encouraged to look at sources of information that might encourage their activism.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Students may be thinking about whether jobs will be available for them in the future. They may be anxious about inflation and worried about the effects of immigration. I think a lot of material in this chapter will both interest them and reassure them.

➤ *Controversy*

- As you know, the issue of the minimum wage is timely and controversial. Our economic theory tells us it will create unemployment, though numerous studies seem to suggest that any unemployment caused by the minimum wage is minimal. We do know it creates major benefits for poor people.
- And, as you know, the issue of immigration is also timely and controversial. Our economic theory tells us it will create lower wages and unemployment among U.S. employees, but once again, numerous students seem to suggest that either of these impacts are minimal. Immigrants bring major benefits to our economy.
- As I write this, many people are concerned about relatively high inflation rates. They fail to understand that after a drop in economic activity, as with the coronavirus pandemic, an increase in pent-up demand will tend to raise prices. People also fail to realize their incomes may well keep up with inflation. Of course, inflation caused by the supply side, as with the rise in energy prices, is more problematic.

➤ *Economic Theory and Models*

- We use demand and supply models in this chapter to discuss labor markets, the minimum wage (a form of price floor), and the impact of immigration. We hold off on the aggregate demand/aggregate supply model until Chapter 15.
- Students often become confused with graphs of price ceilings and price floors (and in this case, the minimum wage) because they want to shift a curve. Remind them that they *do not* shift a curve, and that *to be effective*, the minimum wage must be *above* the market equilibrium wage. Also remind them to show the quantity of labor demanded and supplied along the quantity axis (and not inside the graph somewhere!).
- The primary purpose of defining the CPI is to calculate the inflation rate. (This is why its construction is in Appendix 14–1.) I do find that some students face difficulty when they try to translate the inflation rate represented by a decimal into one represented as a percent. They simply lack the basic mathematic skills involved in this simple procedure. That's why I like to go through several examples with them. (The same is true when calculating an unemployment rate and a labor force participation rate.)
- The production possibilities model is used to show the impact of unemployment on our economy.

➤ *Data and Terminology*

- The terminology in this chapter is especially important. This includes the labor force, labor force participation rate, and unemployment rate, as well as the consumer price index and inflation rate. It is helpful to use numerical examples to calculate them.
- In my experience, students (and random citizens) do not understand the concepts of unemployment and the labor force, and therefore cannot understand the meaning of unemployment rates and labor force participation rates. For example, many students think the unemployment rate refers to the share of the total population without jobs.

- In calculating the unemployment rate and the labor force participation rate, I have deliberately ignored the distinction between the civilian and non-civilian labor force. You can discuss this with your students if you wish.
- There is updated data on labor force participation rates (broken down by gender), U.S. unemployment rates for selected years, the incidence of U.S. unemployment rates, U.S. inflation rates, and global unemployment and inflation rates. Note that U.S. unemployment rates tend to understate the problem of unemployment, whereas inflation rates tend to overstate the problem of inflation. Also, unemployment rates are calculated differently for other countries of the world.
- When analyzing the impact of immigration and the minimum wage on labor markets, emphasize that we are considering specific low-skill labor markets. Any possible effects would be far less significant if we were analyzing the U.S. labor market as a whole. Students should also realize that many immigrants are highly skilled and educated.
- You probably share my experiences with journalists who mix up their terminology when discussing inflation rates. Make the terminology on prices and inflation clear to your students.
- Since the consumer price index overstates the rate of inflation, and because the CPI is used to calculate cost-of-living adjustments for Social Security benefits, the benefit increases will be overly high. Whenever politicians have sought to reduce benefits by adjusting their cost-of-living adjustment, it has met with adamant opposition.
- As in other chapters with numerical data, I usually encourage students to know “ballpark numbers” for important statistics (such as the current inflation rate), trends (such as the rise in labor force participation rates), and comparisons (such as disparities among racial and ethnic groups). You may wish to encourage the same.
- Labor statistics from developing countries are difficult to rely on, partly because of differing calculation methods. People in poor developing countries have told me that: “Poor people cannot afford to be unemployed. If they are unemployed, they die.” (If this is correct, then people find some kind of income source or family to live with.) I have also been told that only the rich can afford to be unemployed. These are people who are looking only for “desirable jobs” and can afford to remain unemployed in the meantime. On the other hand, informal labor (prevalent in developing countries) is not always tabulated. This will distort the employment statistics. Finally, while there is variation, the population of children (outside the formal labor force) is very high compared to the adult population. And, because child labor laws are often nonexistent or unenforced in developing countries, many children work. All these factors make comparisons between countries difficult.
- As new jobs are being created, discouraged workers may see their acquaintances taking new jobs and decide to look for jobs themselves. As these discouraged workers re-enter the labor market and fail to find jobs, they become counted among the unemployed, thereby raising unemployment rates. Hence, we have the ironic outcome that an improving economy is associated with rising unemployment rates. The opposite may be true during a period of job loss.

► *Fundamentals*

- As President Biden extended unemployment compensation amid the coronavirus pandemic, several Republican governors rejected it, stating it was encouraging people to avoid work. Keeping in mind that there was a pandemic going on, child and elder care issues were difficult, and parents were supervising children educated virtually — there seems to be some degree of contempt toward the poor in these Republican states. Apparently, there is also contempt, especially for women, both poor and non-poor. Does this provide insight into “women’s rage”?

- Given that economists view immigration favorably, and assuming that our people understand this (as well as people in countries around the world), the primary reason for opposition to immigration would seem to be racism.
- Systemic racism is revealed in the unemployment statistics, where racial and ethnic minorities face far higher unemployment rates than the national average.

CLASSROOM EXERCISES

1. Consider the population of a small country, assuming the number of people in each category is as follows:

total population = 1,200

children under age 16 = 200

elderly retired people = 300

full-time students = 20

full-time homemakers = 30

people working full time for pay = 420

people working part time for pay = 120

people not working but seeking employment = 60

people not working but have given up seeking employment = 50

Calculate the labor force participation rate. [60%] Calculate the unemployment rate. [10%] How does the unemployment rate understate the problem of unemployment? [Discouraged workers are ignored, and part-time workers are considered employed.]

2. Looking into the future, consider a country with the following data:

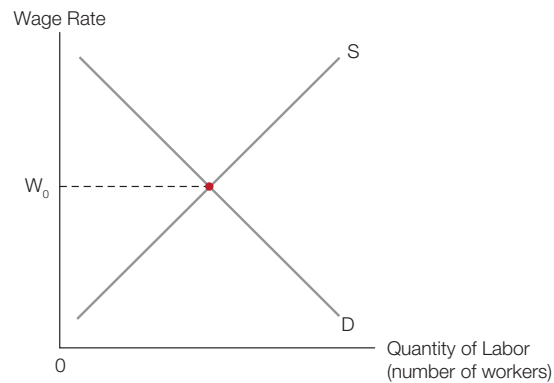
Year 2030 CPI = 102

Year 2029 CPI = 100

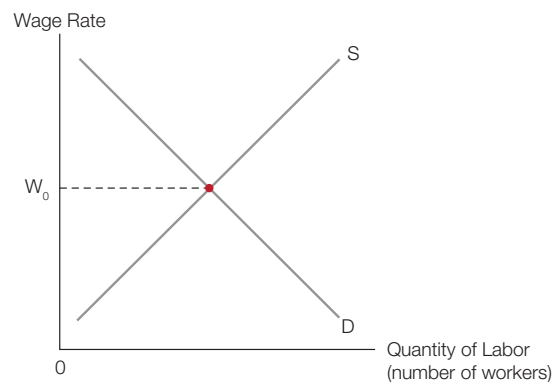
Calculate the inflation rate for the year 2030. [2%]

3. Identify the following unemployment situations as frictional, structural, or cyclical unemployment:
- a. Jobs are available in the sunbelt area of the United States, but an unemployed worker living in Iowa cannot move there because of family responsibilities. [structural]
 - b. Demand for output in the United States has fallen due to falling incomes resulting from job layoffs caused by recession. [cyclical]
 - c. A middle-aged man returns to the labor force after staying home to care for his children when they were young and experiences a short delay in finding a job. [frictional]
 - d. An unemployed mother lives in the central city of Chicago and lacks transportation to take her to the suburbs where jobs are available. [structural]
 - e. A student graduates from college and it takes a few months before finding a job. [frictional]

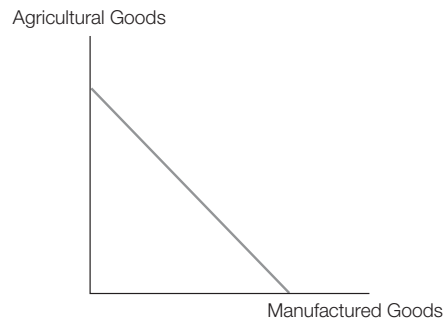
4. Consider the graph of a low-skill labor market in a particular geographical area, where D is the demand for low-skilled workers and S is the supply of low-skilled workers. Label the initial equilibrium point [E] within the graph and label the equilibrium wage rate (W_0) along the vertical axis. Now label an *effective* minimum wage (W_M) along the wage axis. Label the new quantity demanded of labor (Q^D) and quantity supplied of labor (Q^S) along the employment (quantity of labor) axis. What is the economic problem that results? [A surplus of labor, alternatively called unemployment]



5. Again, consider the graph of a low-skill labor market in a particular geographical area, where D is the demand for low-skilled workers and S is the supply of low-skilled workers. Label the initial equilibrium point (E) within the graph and label the equilibrium wage rate (W_0) along the vertical axis. Shift the curve to show what occurs with large-scale immigration of low-skilled workers in this geographical area. Label the new equilibrium point (E') within the graph and label the new quantity of labor demanded (Q^D_T) along the quantity of labor axis. (T can stand for trade or total, and $Q^D_T = Q^S_{T'}$.) Label the quantity supplied of labor (Q^S_{USA}) by U.S. workers. What is the effect of immigration on the wage rate? [decrease] On overall employment? [increase] On the employment of native-born U.S. workers? [decrease] (Note that the difference between Q^S_T and Q^S_{USA} is the number of immigrant workers.) Students will have difficulty labeling the quantity supplied by U.S. workers, by immigrant workers, and the total, so you need to explain these carefully to them.)



6. Label a point U (representing unemployment) in the production possibilities graph below. What is the problem it creates for the economy as a whole? [foregone output]



SAMPLE TEST QUESTIONS

Multiple Choice Questions

- Which of the following is a *microeconomic* topic?
 - Inflation
 - Total GDP
 - The overall economy
 - An individual market**
- The unemployment rate is calculated as:
 - the percent of the labor force that is unemployed.**
 - the percent of the population that is unemployed.
 - all people without jobs, as a percent of the labor force.
 - all people without jobs, as a percent of the population.
- The labor force participation rate is calculated as the percent of the:
 - population age 16 or older that is unemployed.
 - population age 16 or older that is in the labor force.**
 - entire population that is unemployed.
 - labor force age 16 or older that is employed.
- The unemployment rate understates the true problem of unemployment because of:
 - the limited hours for some part-time workers.
 - the plight of discouraged workers.
 - the plight of people who have given up looking for a job.
 - all of the above**
- Unemployment rates are above the national average for:
 - Hispanics.
 - African Americans.
 - teens.
 - all of the above**

6. A young woman experiences a short delay in finding a better job after she quits an unsatisfactory job. This type of unemployment is:
- a. **frictional.**
 - b. structural.
 - c. cyclical.
 - d. none of the above
7. A middle-aged autoworker is laid off from his job after improved technology (robotics) reduces the need for workers. This type of unemployment is:
- a. frictional.
 - b. **structural.**
 - c. cyclical.
 - d. none of the above
8. Which of the following *would not* be used to reduce structural unemployment?
- a. Retraining assistance
 - b. Relocation assistance
 - c. **Policies to expand GDP**
 - d. Policies to expand education
9. Full employment means:
- a. **no cyclical unemployment.**
 - b. no frictional unemployment.
 - c. no structural unemployment.
 - d. no unemployment at all.
10. According to the text, which of the following is true about immigration?
- a. It is controversial.
 - b. We are a nation of immigrants.
 - c. We benefit from cultural diversity.
 - d. **All of the above**
11. Large-scale immigration of low-skill immigrants can result in:
- a. a lower wage in low-skill labor markets.
 - b. higher levels of employment in low-skill labor markets.
 - c. lower employment of native-born workers in low-skill labor markets.
 - d. **all of the above**
12. What is the theoretical effect of a minimum wage in a low-skill labor market?
- a. A higher wage
 - b. A higher quantity of labor supplied
 - c. A lower quantity of labor demanded
 - d. **All of the above**

13. The consumer price index (CPI) is generally assumed by economists to:
- a. overstate the inflation rate.**
 - b. understate the inflation rate.
 - c. measure inflation extremely accurately.
 - d. none of the above
14. Inflation may cause:
- a. menu costs.
 - b. uncertainty and inefficiency.
 - c. redistribution of purchasing power.
 - d. all of the above**
15. Hyperinflation refers to:
- a. extremely low inflation.
 - b. extremely high inflation.**
 - c. mild inflation caused by short-term supply disruptions.
 - d. inflation caused by normal, everyday conditions in the economy.
16. The direct exchange of goods and services for other goods and services refers to:
- a. cost of living adjustment.
 - b. barter.**
 - c. hyperinflation.
 - d. purchasing power.
17. The 2021 U.S. inflation rate was:
- a. lower than usual.
 - b. higher than usual**
 - c. about the same as usual.
 - d. at a level never seen before.
18. Which racial/ethnic group has the highest unemployment rate?
- a. African Americans**
 - b. Hispanics
 - c. Asian Americans
 - d. Whites
19. Which of the following is true about the U.S. labor force participation rate since 1964?
- a. It has increased overall.
 - b. It has increased for women.
 - c. It has decreased for men.
 - d. All of the above**
20. Which type of inflation can result from rising energy prices that cause increased costs of production?
- a. Profit–push inflation
 - b. Demand–pull inflation
 - c. Cost–push inflation**
 - d. None of the above

True / False Questions

1. The problem of unemployment for the macroeconomy is the reduction in output that results. **(T)**
2. Frictional unemployment is assumed to be fairly normal and temporary. **(T)**
3. Because of its short duration, structural unemployment is assumed not to be very serious. **(F)**
4. Cyclical unemployment results from a drop in economic activity in our economy as a whole. **(T)**
5. Full employment means there is no unemployment. **(F)**
6. Since 1964, the U.S. labor force participation rate has decreased. **(F)**
7. According to the official definition of unemployment, unemployed people include those who have given up seeking employment. **(F)**
8. The labor force is defined to include unemployed people. **(T)**
9. Discouraged workers are defined as people who are easily discouraged and quit their jobs. **(F)**
10. The type of unemployment caused by recession is cyclical unemployment. **(T)**
11. The appropriate policy for structural unemployment is to expand the number of jobs in the economy overall. **(F)**
12. A minimum wage in a low-skill occupation will cause a shortage of labor. **(F)**
13. U.S. labor force participation rates are currently higher for men than for women. **(T)**
14. The 2021 unemployment rate was much lower than the 2020 rate. **(T)**
15. The consumer price index (CPI) overstates the inflation rate due to its failure to fully account for changes in our purchases and changes in quality. **(T)**
16. Inflation may cause inefficiency and redistribution of purchasing power. **(T)**
17. Demand-pull inflation occurs when any sectors of the economy increase their demand for goods and services. **(T)**
18. Cost-push inflation occurs when there are increases in the costs of production, such as rising energy costs. **(T)**
19. The purchasing power of Social Security recipients suffers as a result of inflation. **(F)**
20. Purchasing power depends on both prices and incomes. **(T)**
21. The unemployment rate for teens (ages 16–19) is very high. **(T)**
22. The U.S. labor force participation rate is over 60 percent. **(T)**
23. The Earned Income Tax Credit could be used to supplement the earnings of low-wage workers, but it would greatly discourage people from seeking jobs. **(F)**
24. The quotations that open the chapter show both former Presidents Obama and Trump announcing positive labor market situations. **(F)**
25. When we take into account various economic variables, we conclude that immigration presents very positive effects on our economy and people. **(T)**
26. Since 1960, U.S. unemployment rates have generally ranged above 10 percent. **(F)**
27. In the long run, we can expect immigration to reduce economic growth. **(F)**
28. Inflation in one country has no international effect. **(F)**
29. Unemployment rates for some countries listed in the text can be relatively high but never exceed 20 percent. **(F)**
30. Inflation rates for some countries listed in the text had/have inflation rates in the hundreds and even in the thousands percent. **(T)**

Critical Thinking Questions

1. If you were a policymaker, what types of strategies and policies would you devise to deal with unemployment in the United States? Keep in mind the different types of unemployment and the different unemployment rates for different groups of people.
2. What are the effects of unemployment on the individual? On the economy? Which effects are more serious?

Government Macroeconomic Policy and Contempt for the Poor



NEWS UPDATE

- The question now is how the Federal Reserve will respond to the inflation caused by the Russian invasion of Ukraine, and more generally, how our government will respond to the economic instability triggered by the assault. While Fed experts say they don't expect the attack to alter an anticipated interest rate hike in March, there may well be a future response. On February 24, the day of the assault, Federal Reserve Bank of Cleveland President Loretta Mester said the implications of the conflict would be "a consideration" as Fed officials plan their longer-term strategy (Abha Bhattacharai, et al., *The Washington Post*, February 25, 2022).
- The invasion's effect on the United States is as yet still uncertain, but as Louis Johnston, an economics professor at the College of St. Benedict and St. John's University stated, "Right now, the chances are it's not going to push us into a recession. But it's definitely going to slow us down. We're going to get more inflation and less GDP growth than we thought" (Kavita Kumar, "Invasion to Cause Economic Ripple Effects," *Minneapolis Star Tribune*, Feb. 25, 2022). We will watch to see if there is a fiscal and/or monetary policy response to the invasion and its impact on the U.S. macroeconomy.

PURPOSE

This is the third chapter that addresses the efficiency and stability issues in our economy, and it focuses on macroeconomic policy. I think this is a chapter that instructors have to be careful with. We want our students to have a working understanding of the topic, but we also probably want to avoid the complexities of the Keynesian cross, the workings of the banking system, the math of the multiplier, and so on. We need to keep the economics straightforward in order to use it to emphasize the issues. On the other hand, I often find this chapter enlightening for students. Whereas the concepts of demand and supply opened up the world of markets for them, aggregate demand and aggregate supply open up the world of macroeconomic policy. Nevertheless, they seem to be difficult concepts for students to grasp and we need to work at it. Populism enters at the end of the chapter, and along with it, a discussion of contempt for the poor.

WHAT'S NEW?

1. New material is used to address the use of fiscal policy in numerous presidential administrations, including those of former Presidents Reagan, Clinton, George W. Bush, Obama, and Trump; and current President Biden. (There is also new material on monetary policy under Trump and Biden.)
2. New material is also presented on fiscal policy amid the coronavirus pandemic under the Trump and Biden administrations.

TEACHING SUGGESTIONS

➤ *Student Interest*

- Whereas some students will appreciate acquiring an understanding of fiscal, monetary, and supply side policy, others will find it a bit on the dull side. It will help if you can address these in the context of our current economy and actual policy.
- Students may be interested in the material on supply-side policy, trickle-down philosophy, populism, and contempt for the poor, as they are all linked.

➤ *Controversy*

- Early on, the Biden administration faced controversy over monetary policy, with many people concerned about inflation and an absence of a strong response to this by the Federal Reserve under Jerome Powell. This relative inaction may change over time.
- Supply-side policy is always controversial, since it is most likely ineffective and it shifts resources from the poor to the rich.
- Ask your students whether the government should attach a value to homemaking services and include it in GDP statistics. It seems our society values production that has a price attached. How many homemakers, when asked what they do, say, “I’m just a homemaker”? How many farm wives who do the milking, the gardening, the canning, and the care of the livestock say, “I’m just a housewife” instead of “I am a farmer”? I’ve even heard women in developing countries — where cooking means growing, harvesting, and processing the food; where housekeeping means building, repairing, and painting the house; and where childcare means providing medicine, education, healthcare, and clothing for the children — say that they don’t have a job and do not feel valued unless they earn a monetary income.
- Another problem with not counting the value of homemaking services is that comparisons become distorted. For example, in the 1950s, many homemakers cared for their homes and families by themselves, without paying for additional help. In more recent decades, many women work outside their homes and pay for childcare services, laundry services, housekeeping services, and so on. The very same homemaking services might have been performed in the past but were not tabulated as part of GDP.

➤ *Economic Theory and Models*

- We begin by contrasting the demand and supply model of the tutoring market in Chapter 1 with an aggregate demand/aggregate supply model of the entire economy. We continue with the AD/AS model to examine a shift in AD and then a shift in AS, noting the impact in each case.
- We next use the AD/AS model to visualize the three types of inflation: demand pull, cost push, and profit push. We use the same model to examine the impact of expansionary fiscal policy, expansionary monetary policy, and supply-side policy.
- In Appendix 15–1, we use the AD/AS model to 1) explain the downward slope of the AD curve based on the international trade effect, wealth effect, and interest rate effect, and 2) consider expansionary AD-side policy with a more realistic AS curve that includes flat, upward-sloping, and vertical ranges.
- In Appendix 15–2, we use the AD/AS model to show the shifts in AS that occur if the various tools of supply side policy are effective.

- Aggregate demand and aggregate supply are difficult for students. You may find some of the following suggestions helpful.
 - I've found that it helps to provide students with a list of symbols so they don't get lost along the way. I include gross domestic product (GDP), full employment gross domestic product (GDP_F), aggregate demand (AD), aggregate supply (AS), the money supply (M), and the interest rate (i), along with their definitions. I have deliberately avoided the use of $GDP = C + I + G$, since it seems more useful to frame the discussion with students as "which groups purchase GDP?"
 - Again, students should be reminded we are addressing *purchases* when considering aggregate demand, so that, for example, they do not confuse government *spending* on national defense with the *production* (supply) of national defense. For this reason, I use the term "purchases" rather than "spending" when I talk about AD. I also make a point of only shifting one curve per graph so students are reminded of the difference between a shift in AD versus AS.
 - It's important to continually remind students that *investment spending* refers to things like business purchases of factories and machines, or they'll confuse it with financial investment. This is another reason I've avoided the symbol "I" for business purchases.
 - It needs to be pointed out to students that there is no necessary relationship between government spending and taxes. For example, they may want to assume that an increase in government spending automatically means there is an increase in taxes to finance it. Not true!
 - It is important to emphasize that monetary policy affects the aggregate demand curve and not the aggregate supply curve. Students sometimes want to shift the AS curve forward with expansionary monetary policy (perhaps because they link money *supply* and aggregate *supply* in their minds).
 - I find that it's helpful whenever addressing the AD curve to remind students that the groups purchasing U.S. GDP are consumers, businesses, government, and foreigners (though you may wish to simplify by ignoring foreigners). I do this so that students keep these sectors in mind at every opportunity. This helps them when they attempt to think through fiscal and monetary policy.
 - I also find it useful to use arrows when summarizing consecutive events. For example, I write that:

$$M \uparrow \rightarrow i \downarrow \rightarrow \text{business purchases} \uparrow \rightarrow AD \uparrow \text{ and}$$

$$\text{transfers} \uparrow \rightarrow \text{income} \uparrow \rightarrow \text{consumption purchases} \uparrow \rightarrow AD \uparrow.$$
 This helps students keep the processes straight and simple.
 - You may need to remind students several times that GDP and employment *move together* in the AD/AS model. We need more workers to produce higher levels of GDP. Students may also struggle with the concept of full employment GDP, and it helps to emphasize this is a *theoretical* concept and may well differ from actual GDP.
 - You may also need to remind students many times that an increase in aggregate supply is a *forward* shift in the aggregate supply curve. Remind them to think about the output (GDP) axis.
 - I have been surprised to realize that, despite my instructions to shift the AD or AS curve first, and then read the change in the average price level and GDP off the graph, some students still try to guess at the changes and *then* shift the curve accordingly. This results in as many wrong answers as right answers. Therefore, I regularly reinforce the need to shift the curve of the group most directly and immediately affected by the change (i.e., purchasers or producers), *and then* read the changes in P and GDP from the graph.

- I draw the aggregate supply curve as upward sloping in this class, as it enables students to think of the intermediate situation when a rise in aggregate demand causes both an increase in GDP and the average price level, at least in the short run. A more realistic version of the slope of the AS curve is addressed in Appendix 15–1.
- Also, I've learned not to discuss the reasons for the downward slope of the aggregate demand curve as I go through the chapter material. Students are not savvy enough about the difference between a shift of a curve and a movement along a curve at this point, and they tend to confuse the international trade effect and the interest rate effect, for example, as reasons for the downward slope instead of as sources of shifts in the aggregate demand curve. For this reason, the slope of the aggregate demand curve is discussed in Appendix 15–1 so you can decide whether to cover this material.
- Also note that I've deliberately simplified this chapter by ignoring the effect of the multiplier in the macroeconomic examples. Instructors can add this to the discussion in a nontechnical manner if they wish. It is addressed in the Notes section of the chapter.
- Finally, I like students to understand the economic explanation as well as the philosophical viewpoint behind the various types of macro policy. The *Viewpoint* section is intended to help students understand this so they can form their own opinions about what is best for our economy and our citizens.

➤ *Data and Terminology*

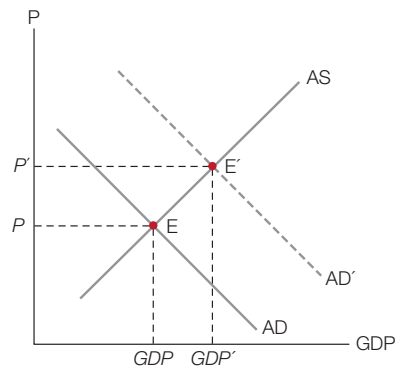
- Students will learn the concept of gross domestic product, its measurement, and its limitations as an indicator of economic conditions and standards of living. They will learn the same about gross national product and gross national income. We will also address these variables in per capita terms and with real versus nominal values.
- Data on U.S. unemployment and inflation rates are updated, as are data for other countries in the world.

➤ *Fundamentals*

- The supply-side policy tools, as used by former President Reagan and, to a lesser extent, by subsequent Republican presidents and even former President Clinton, serve to improve the circumstances of the rich (through tax cuts) while harming the position of the poor (through spending cuts). I believe an attitude of contempt for the poor underlies this.
- Supply-side policies can also translate into systemic racism. For example, former President Reagan's budget cuts were made under his assumption that people were "welfare cheats" and "welfare queens." He assumed they were lazy and would not work if they received government benefits. He and many others believed that benefits based on the number of children in the family would encourage women to keep having more children. Similar attitudes are held today by those state politicians who refuse to accept expanded federal funding for social programs amid the coronavirus pandemic.

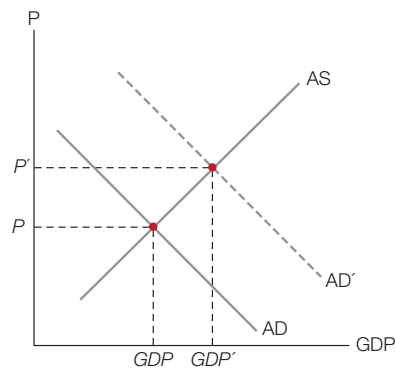
CLASSROOM EXERCISES

- In the following aggregate AD/AS graph, label the initial equilibrium point (E) within the graph, and label the initial equilibrium average price level (P) and equilibrium level of output (GDP) along their respective axes. Shift the curve to show what happens with an increase in government income transfers that increase the incomes of consumers. [Aggregate Demand increases from AD to AD'.] Label the new equilibrium point (E') within the graph, and label the new equilibrium average price level (P') and level of output (GDP') along their respective axes. What is the effect on GDP and employment? [Increase] On the average price level? [Increase]

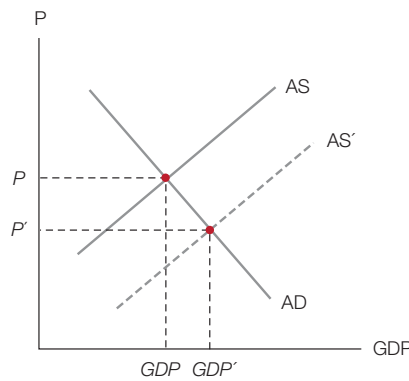


(Note that on questions like this, instructors need to be careful to distinguish between changes in taxes and transfers as fiscal policy tools versus supply-side policy tools. This can be done by referencing the effects of taxes and transfers on *income* versus *work incentives*.)

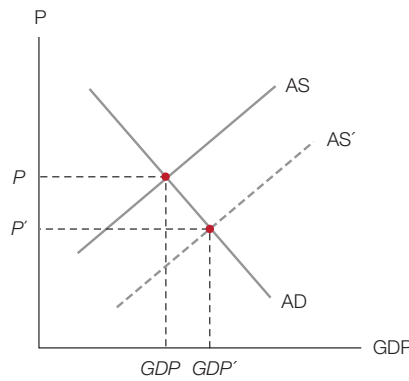
- Use the same procedures as in #1 to work with the following graphs.
 - Shift the curve to show what happens with an increase in government purchases of public libraries. What is the effect on GDP and employment? [Increase] On the average price level? [Increase]



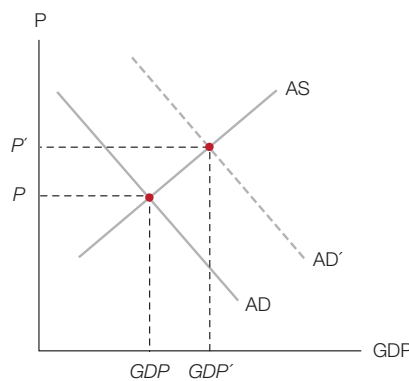
- b. Shift the curve to show what happens with fewer government safety regulations on cars, thereby lowering the costs of producing cars. What is the effect on GDP and employment? [Increase] On the average price level? [Decrease].



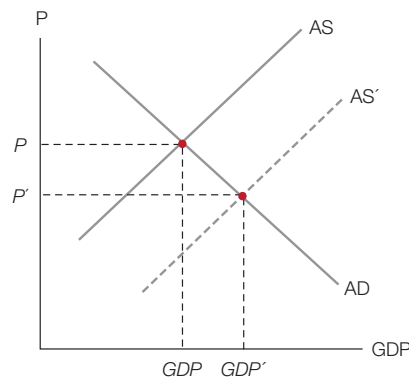
- c. Shift the curve to show what happens if tax rate cuts successfully increase work incentives and work effort by labor. What is the effect on GDP and employment? [Increase] On the average price level? [Decrease]



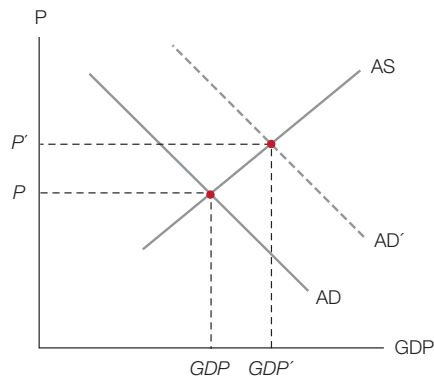
- d. Shift the curve to show what happens if tax cuts increase the after-tax income of consumers. What is the effect on GDP and employment? [Increase] On the average price level? [Increase]



- e. Shift the curve to show what happens if the government reduces transfers, assuming this increases work incentives and work effort by labor. What is the effect on GDP and employment? [Increase] On the average price level? [Decrease]

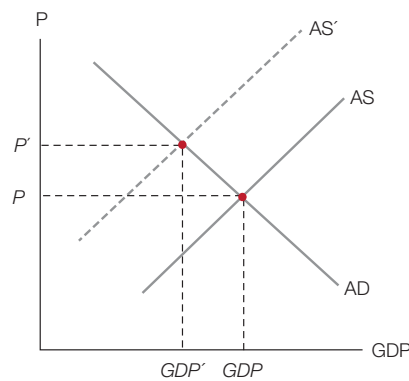


- f. Shift the curve to show what happens if the Federal Reserve increases the money supply, thereby lowering interest rates. What is the effect on GDP and employment? [Increase] On the average price level? [Increase]

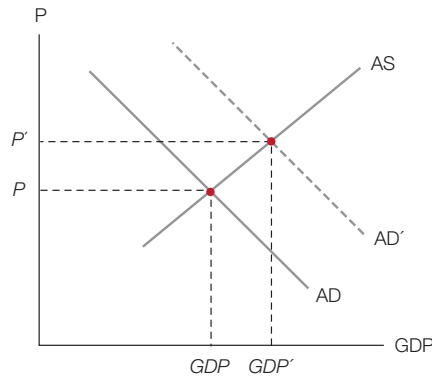


3. Shift the curve to show what happens with each type of inflation.

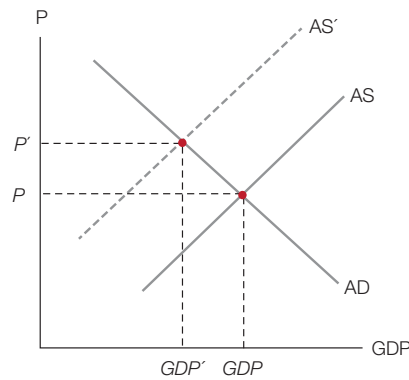
- a. Cost-push inflation



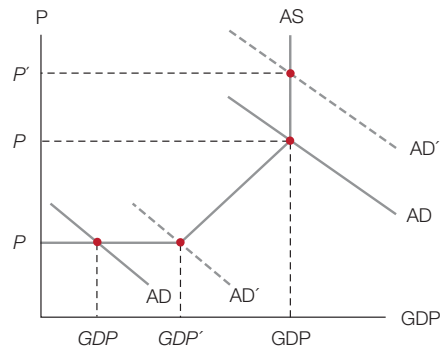
b. Demand-pull inflation



c. Profit-push inflation



4. (Appendix 15-1) Using the more complex graph of aggregate supply below, show the effect of an increase in AD in the horizontal portion of AS. What is the effect on GDP? [Increase] What is the effect on the average price level? [No change] Now show the effect of an increase in AD in the vertical portion of AS. What is the effect on GDP? [No change] What is the effect on the average price level? [Increase]



SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. Which of the following is true about gross domestic product?
 - a. It includes output at all stages of production (intermediate goods as well as final goods).
 - b. It is expressed in terms of physical quantities not values.
 - c. It includes services as well as goods.**
 - d. All of the above

2. When referring to GDP over time, we should use:
 - a. real GDP.**
 - b. nominal GDP.
 - c. GDP calculated using actual (current) prices.
 - d. none of the above

3. Gross national product (GNP) differs from gross domestic product (GDP) in that GNP refers to production:
 - a. by the economy.**
 - b. in the economy.
 - c. of goods only.
 - d. of services only.

4. Underground activity:
 - a. includes illegal activity.
 - b. includes activity not reported in order to evade taxes.
 - c. is sizable for many countries.
 - d. all of the above**

5. Consumer purchases of GDP include consumer purchases of:
 - a. durable goods.
 - b. nondurable goods.
 - c. services.
 - d. all of the above**

6. Business purchases of GDP include:
 - a. purchases of stocks.
 - b. purchases of bonds.
 - c. purchases of factories.
 - d. all of the above**

7. Which of the following is *not* true? Government purchases of goods and services include:
 - a. government purchases of food for nutrition programs.
 - b. government purchases of police protection for citizens.
 - c. government income transfers to low-income individuals.**
 - d. government purchases of the teaching services of public school teachers.

8. Demand-pull inflation is caused by:
- anything that increases aggregate demand.**
 - anything that increases costs of production.
 - market power that increases profits.
 - anything that pulls down aggregate demand.
9. Which of the following is a tool of expansionary fiscal policy?
- Increased taxes
 - Reduced transfers
 - Reduced regulations
 - Increased government purchases of goods and services**
10. Monetary policy is under the direct control of the:
- president.
 - Congress.
 - Federal Reserve.**
 - major city mayors.
11. Which of the following can be a tool of (expansionary) supply-side policy?
- Cuts in tax rates
 - Cuts in transfers
 - Cuts in government regulations
 - All of the above**
12. Which of the following is *not* associated with trickle-down philosophy?
- Economic growth and prosperity
 - Benefits to all
 - Special concern for the poor through government programs for them**
 - Conservative economics
13. Which of the following is included in GDP?
- Homemakers' services
 - Volunteer activities
 - Services such as healthcare and education**
 - Productive work that you do for yourself without being paid
14. Which of the following represents the largest share of aggregate demand?
- Consumer purchases**
 - Business purchases
 - Government purchases
 - Foreigner purchases
15. Examples of income transfers include:
- food stamps.
 - housing assistance for the poor.
 - Social Security cash benefits.**
 - all of the above

16. Which of the following is *not* an example of expansionary fiscal policy?
- a. Reduction in taxes
 - b. Increase in government purchases
 - c. Increase in the money supply**
 - d. Increase in government income transfers
17. Which of the following is a tool of (expansionary) supply-side policy?
- a. Reduction in tax rates**
 - b. Increase in government regulations
 - c. Increase in government transfers
 - d. All of the above
18. Business purchases include:
- a. purchases of machinery.
 - b. purchases of factories.
 - c. “purchases” of inventories.
 - d. all of the above**
19. Stagflation includes:
- a. recession.
 - b. inflation.
 - c. unemployment.
 - d. all of the above**
20. Expansionary monetary policy involves:
- a. an increase in the money supply.
 - b. a reduction in interest rates.
 - c. an increase in business and consumer purchases.
 - d. all of the above**
21. In general, which of the following policies would conservatives be *least* likely to support?
- a. Reduced taxes to increase private purchasing power
 - b. Government purchases for social programs**
 - c. Government defense spending
 - d. Lowered interest rates to increase private spending
22. Which country listed in the table in the text has the highest level of GDP in the world?
- a. The United States**
 - b. China
 - c. Japan
 - d. Germany
23. Which of the following could cause an increase (forward shift) in aggregate supply?
- a. Lower costs of production
 - b. Good weather
 - c. Improved technology
 - d. All of the above**

24. (*Appendix 15-1*) Which of the following can change the slope of the aggregate demand curve?
- Changes in international trade
 - Changes in wealth
 - Changes in interest rates
 - All of the above**
25. (*Appendix 15-1*) An increase in aggregate demand within the vertical range of the aggregate supply curve will result in:
- an increase in the average price level.**
 - an increase in GDP.
 - an increase in both the average price level and GDP.
 - None of the above

True / False Questions

- The letter "P" on the vertical axis of the graph of the aggregate demand and aggregate supply model refers to the average price level in the economy. **(T)**
- Gross domestic product is the market value of all final goods and services produced in the economy over a particular time period. **(T)**
- Aggregate supply is the quantity of total output supplied (produced), assuming that the average price level in the economy is constant. **(F)**
- If we are interested in the value of GDP during the current year only, then we use real GDP. **(F)**
- Underground activities refer to activities such as homemakers' services, which do not create incomes. **(F)**
- The composition of GDP refers to the goods and services that GDP consists of. **(T)**
- Durable goods are those goods that last longer than one year. **(T)**
- Business purchases of GDP include the purchases of stocks, bonds, and treasury bills. **(F)**
- Fiscal policy includes government purchases of goods and services, government taxes, and Federal Reserve decisions about the money supply in the economy. **(F)**
- Supply-side policy can include deregulation and cuts in tax rates. **(T)**
- The price I pay for my current purchase of a 10-year-old house is part of current GDP. **(F)**
- The price the consumer pays for a gallon of gasoline, including any sales and excise taxes, is called the market price of gasoline. **(T)**
- Production by a U.S. citizen in a foreign country is part of U.S. GDP. **(F)**
- Production by a U.S. citizen in a foreign country is part of U.S. GNP. **(T)**
- Two different types of fiscal policy may result in identical levels of GDP but a different composition of GDP. **(T)**
- Expansionary monetary policy results in increased interest rates. **(F)**
- Changes in government income transfers can be considered as fiscal or supply-side policy. **(T)**
- Homemakers' unpaid services are not considered as part of GDP. **(T)**
- Nominal GDP is calculated with "constant prices." **(F)**
- Increased costs of production throughout the economy will cause an increase in aggregate supply. **(F)**
- Policy that shifts AD generally causes a trade-off between unemployment and inflation. **(T)**

22. Policy that shifts AS generally causes a trade-off between unemployment and inflation. **(F)**
23. The Federal Reserve under President Biden did not initially pursue active contractionary monetary policy during Biden's first year of office. **(T)**
24. (*Appendix 15-1*) The aggregate demand curve is downward sloping because higher average price levels directly reduce our purchasing power by making goods and services more expensive. **(F)**
25. (*Appendix 15-1*) One of the reasons for the downward sloping aggregate demand curve is that a higher average price level is associated with higher interest rates, thereby reducing consumer and business purchases. **(T)**
26. (*Appendix 15-1*) An increase in aggregate demand along the Keynesian (flat) portion of aggregate supply results in increased GDP and a higher average price level. **(F)**
27. (*Appendix 15-1*) The slope of the aggregate demand curve is influenced by the average price level. **(T)**
28. (*Appendix 15-1*) The vertical range of the aggregate supply curve corresponds to the Great Depression. **(F)**
29. (*Appendix 15-1*) The usual upward slant to the aggregate supply is associated with a trade-off between unemployment and inflation. **(T)**
30. (*Appendix 15-2*) Recent evidence shows that supply-side policy is extremely effective in expanding our economy. **(F)**

Critical Thinking Questions

1. Economists and policymakers often place great importance on GDP as an indicator of economic prosperity, and they seek to increase GDP it over time. What do you think of this strategy? Are there other strategies that are equally important? Are there ways that economic growth can actually be harmful to our well-being? What types of policies would you advocate?
2. How could expansionary fiscal policy be used to improve the lives of the poor? Does an expansion of GDP always improve their lives? What are the effects of supply-side policy on the poor? Do you agree that contempt for the poor underlies supply-side policy?

Taxes, Deficits, and the National Debt



NEWS UPDATE

- The Organization of Economic Co-operation and Development (OECD) published new rules requiring a global minimum tax of 15 percent on multinational corporations. The impetus and promotion of this minimum tax was from Treasury Secretary Janet Yellen, former chair of the Fed under President Obama (OECD, www.oecd.org, December 20, 2021).
- While we can expect slower growth and worsening inflation, the other major economic impact of the Russian invasion of Ukraine is uncertainty. Uncertainty about the future, whether it is about Russia, COVID-19, or the rising division within the Republican party, means that U.S. consumers, workers, and businesses are operating with more unknown variables. Those who are risk averse will shut down their economic activity entirely. Consumers will avoid purchases of homes, workers will think twice before changing jobs, businesses will avoid investments in capital when they cannot predict costs, revenues, and profits, and students will decide not to enroll in college if they no longer know whether they can afford tuition four years from now. Global businesses, including those headquartered in the United States, will bear an additional uncertainty. They will use caution in decisions to move operations into Eastern European countries such as Poland if Ukraine no longer serves as a buffer between them and Russia (Kavita Kumar, “Invasion to Cause Economic Ripple Effects,” *Minneapolis Star Tribune*, February 25, 2022). To the extent that any of these economic actors are risk averse, our economy will grow more slowly. All this uncertainty also manifests in government taxes and deficit spending, since aside from deliberate macroeconomic policy, we know that government spending, taxes, and budget deficits respond automatically to changing economic conditions. Ultimately, these will also impact the national debt.

PURPOSE

The purpose of this chapter is to introduce students to the concepts of taxes, government borrowing, and the national debt. The objective is to explain and clarify these concepts without being overly technical. This is one of those chapters that covers material that everyone (i.e., the public) knows a little about (as in “taxes are too high, and so is the national debt!”), but nobody (i.e., the public) really understands enough to see the whole picture. The concept of government borrowing is particularly confusing to the public (and our students), as is the distinction between the budget deficit and the national debt. Our job is to convince our students that these topics are not as difficult as they might seem and that the frequent comparisons between governments and households made by politicians and pundits are not particularly useful.

WHAT’S NEW?

1. Data are updated, first on the share of total federal tax revenue received from each tax source, and second on the share of state and local tax revenue from each tax source. Data are also updated for the government budget deficit as a share of GDP, the national debt as a share of GDP, the ownership shares of the national debt, and global tax rates.

2. The 2021 tax forms are used to provide information on the tax brackets and marginal tax rates associated with each.
3. The American Rescue Plan, passed and signed into law in 2021, expanded the Earned Income Tax Credit and the Child Tax Credit (temporarily). This, as well as controversy over continuation of the Child Tax Credit, is discussed in the text.

TEACHING SUGGESTIONS

➤ *Student Interest*

- I'm going out on a limb here to suggest that the topics of taxes, deficits, and the national debt are not particularly exciting for our students. Since there are so many misconceptions when it comes to these topics, it may help to start off with an informal poll among your students. Ask them if they agree:
 - Taxes are too complex. We'd be better off with a simple flat rate tax.
 - Households must balance their budgets, so the government should, too.
 - If the government keeps borrowing, there will be a day of reckoning and bankruptcy.
 - The best way to stop the government from borrowing is to pass a law or constitutional amendment requiring the government to balance its budget.

At the end of the chapter, repeat the poll. Have many students changed their minds?

➤ *Controversy*

- There is controversy over the 2017 tax bill and its impact on 1) income distribution and 2) the budget deficit over the next several years. The largest benefits went to high income people and profitable corporations.
- President Biden proposed a tax on the wealth (not income) of very wealthy people to pay for some of his Build Back Better proposals, but Congress did not support this. Rich people often have relatively low income, but own large amounts of wealth — this suggests that wealth should be taxed as a tax revenue source and a means to ultimately redistribute income.

➤ *Economic Theory and Models*

- As in Chapter 15, we do not include a discussion of the multiplier within the chapter. Instructors can introduce this topic in a nontechnical manner if they wish. There is some detail in the end note #1 to this chapter.
- We use the aggregate demand/aggregate supply (AD/AS) model to show the different outcomes when an increase in government purchases of public parks is financed by borrowing versus taxes.
- We use the demand and supply model to show the impact of an excise tax on gasoline and show that the burden of the tax is shared by consumers and suppliers. We also show the impact of the property tax on the rent charged for rental housing and show that the burden of the tax is shared by renters and landlords.
- Just as other chapters have included more detailed elasticity topics in their appendices, there is a model of an excise tax in the cases of a perfectly inelastic demand and a perfectly inelastic supply in Appendix 16–1. Instructors are welcome to use these appendices as they wish. Note that Appendix 16–2 uses graphical analysis to show the effect of government spending on interest rates.

➤ *Data and Terminology*

- Students struggle with the difference between the government budget deficit and the national debt and are especially confused about “printing money.” (You may have noticed that former President Trump doesn’t understand it either.) Carefully clarify the first two concepts.
- Students also have difficulty thinking of taxes as a percent of income. For example, they think that a sales tax is proportional because it takes the same percent of the item’s price, regardless of the purchaser’s level of income. Carefully define the tax base and the meaning of progressive, proportional, and regressive taxes.

➤ *Fundamentals*

- The expanded Child Tax Credit was found to cut child poverty by about half while it was in effect. Congress voted against a bill (Build Back Better) that would have extended this tax credit. At a minimum, this shows apathy for our nation’s children, and at worst, it shows an attitude of contempt for the poor, especially poor mothers. The same is true for Congressional opposition for maternity leave and sick leave.
- The same bill that would have extended the Child Tax Credit would have also sought greater racial equity in a number of areas. Opposition to this also reveals apathy and contempt for racial and ethnic minorities.
- While the excise tax on gasoline generally takes a greater share of income from low- income people than from high-income people, it nevertheless serves other worthy goals, including the provision of incentives for people to reduce the amount of their driving and avoid purchasing gas-guzzling vehicles. The government could assist low-income people by establishing a tax credit for gasoline purchased by people whose incomes qualify.
- The 2017 tax bill joins the ranks of the tax bills passed under former Presidents Reagan and G.W. Bush that increased inequality in income distribution. Our vastly unequal income distribution is continually becoming more unequal through 1) steady reductions in the progressivity of the federal personal income tax and 2) a drop in the overall share of this one progressive tax among other highly regressive tax sources. (We note that the tax rate structure of the federal personal income tax is progressive, but the overall tax with all its complexity is not clear.)
- We noted in the text that conservatives had an underlying goal of using the budget deficits created by the 2017 tax bill to force a reduction in government social programs, including entitlements. This intentional shift of well-being from the poor to the rich is disturbing and raises concerns about people’s contempt for the poor.

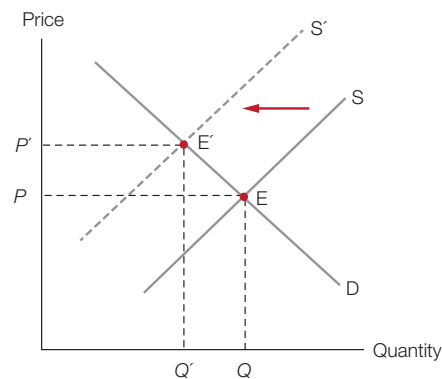
CLASSROOM EXERCISES

1. Calculate the effects of a sales tax on a hypothetical higher and lower income family over one year, using the following data:

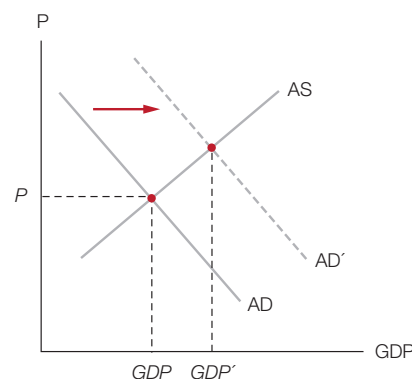
	<u>Higher-Income Family</u>	<u>Lower-Income Family</u>
Income	\$200,000	\$20,000
Purchases of taxable goods and services	\$100,000	\$18,000
Sales tax rate	5%	5%
Amount of sales tax paid	\$5,000	\$900
Amount of sales tax paid as % of income	$\$5,000 / \$200,000 = 2.5\%$	$\$900 / \$20,000 = 4.5\%$

What are the implications of this mathematical exercise? [The low-income family spends a higher share of their income on the sales tax than the higher income family, demonstrating the tax is regressive.]

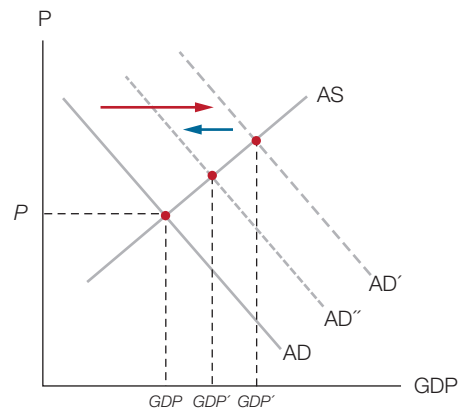
2. Show how the Social Security tax is regressive by assuming a low-income person earns \$20,000 per year through work (earnings) and a rich person earns \$200,000 per year through work. The rich person also receives \$400,000 in capital gains; \$300,000 in interest income; and \$500,000 in dividends. Assume the tax rate = 6.2% and the ceiling on earnings allowed to be taxed is \$142,800, as it was in 2021.
- Calculate the amount of Social Security tax the poor person pays. [$0.062 \times \$20,000 = \$1,240$] What share of the person's income is paid in the tax? [$\$1,240 / \$20,000 = 0.0620 = 6.20\%$]
 - Calculate the Social Security tax the rich person pays. [$0.062 \times \$102,000 = \$6,324$] What share of the rich person's income is paid in the tax? [$\$6,324 / \$1,400,000 = 0.0045 = 0.45\%$.]
 - What is the conclusion about the regressivity of the tax? [It is highly regressive.]
3. Consider the market for strawberries (with normally sloped demand and supply curves). Label the initial equilibrium point (E) within the graph; and label the equilibrium price (P) and equilibrium quantity (Q) along their respective axes. Shift the curve to show what happens with the imposition of an excise tax. [The supply curve shifts backward.] Label the new equilibrium point (E'); and label the new equilibrium price (P') and equilibrium quantity (Q') along their respective axes. What is the effect on the price paid by consumers? [Increase] What is the effect on the quantity of strawberries bought and sold? [Decrease] Who bears the burden of the excise tax? [The consumer bears some of the burden in the form of a higher price, whereas the supplier bears part of the burden in the form of fewer profits (since the price paid by the consumer increases by only part of the extra costs of production.)] (Extra from Appendix 16-1: Who bears the burden of the tax if the supply of strawberries is perfectly inelastic? [Answer: The supplier does. The group with the more inelastic curve bears the greater burden of the tax.]



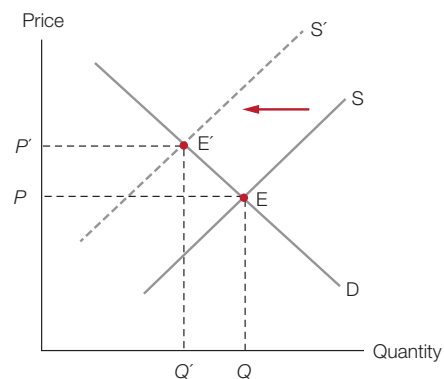
4. Show the effect on GDP of each of the following:
- Government purchases of public prisons, financed by government borrowing:



- b. Government purchases of public prisons, financed by increased taxes:



- c. Which situation results in a larger increase in GDP, assuming the increase in government spending is the same in each case? [A]
5. Consider the hypothetical market for alcohol. Label the initial equilibrium point (E) within the graph, and label the equilibrium price (P) and equilibrium quantity (Q) along their respective axes. Shift the curve to show what happens with the imposition of an excise tax. [The supply curve shifts backward.] Label the new equilibrium point (E') within the graph, and label the new equilibrium price (P') and equilibrium quantity (Q') along their respective axes. What is the effect on the price? [Increase] On the quantity of alcohol bought and sold? [Decrease] Who bears the burden of the excise tax? [Both consumers and producers] (Appendix 16–1): The consumer bears the burden of the tax if the demand for alcohol is perfectly inelastic.)



SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. Government securities consist of:
 - a. the treasury building and the federal reserve system.
 - b. government bonds and treasury bills.**
 - c. corporate bonds and stocks.
 - d. all of the above

2. A tax base is:
 - a. always expressed as a percentage.
 - b. always expressed as some form of income.
 - c. an item that has a tax credit applied to it.
 - d. an item that has a tax rate applied to it.**

3. Which tax brings in the greatest share of federal government tax revenue?
 - a. Federal personal income tax**
 - b. Social security tax
 - c. Federal excise taxes
 - d. Tariffs

4. Which tax brings in the greatest share of state and local government tax revenue combined?
 - a. Property tax**
 - b. Sales tax
 - c. Excise taxes
 - d. State income tax

5. In 2021, the marginal federal income tax rate on the highest increment of income was:
 - a. 74%.
 - b. 55%.
 - c. 37%.**
 - d. 5%.

6. About what share of federal tax revenue comes from the payroll tax?
 - a. 10%
 - b. 25%
 - c. 33%**
 - d. 90%

7. The estate tax brings in about what share of total federal tax revenue?
 - a. 1%**
 - b. 10%
 - c. 40%
 - d. 90%

8. The Earned Income Tax Credit:
 - a. is available to low-income eligible working people.
 - b. is refundable.
 - c. has increased in recent years.
 - d. all of the above**

9. Excise taxes:
 - a. operate like sales taxes but are applied only to specific goods and services.**
 - b. bring in approximately 20% of total federal tax revenue.
 - c. bring in approximately 50% of total state and local tax revenue.
 - d. none of the above

10. Which of the following is a regressive tax?
- Sales tax
 - Property tax
 - Social Security tax
 - All of the above**
11. Which of the following is correct? A regressive tax:
- takes a larger amount of tax dollars from low-income people than high-income people.
 - takes a larger percent of income from low-income people than high-income people.**
 - takes a larger percent of income from high-income people than low-income people.
 - takes the same percent of income from high-income people as low-income people.
12. Which causes greater expansion of the economy?
- An increase in taxes
 - An increase in government spending financed by an increase in taxes
 - An increase in government spending financed by government borrowing**
 - The impact of all of these is equal.
13. About what share of the national debt is owned by (owed to) foreigners?
- 10%
 - 17%
 - 27%**
 - 67%
14. What are the effects of a tax cut on the macroeconomy?
- An increase in GDP
 - An increase in employment
 - A rise in the average price level
 - All of the above**
15. The 2017 tax bill was supported by:
- President Trump.
 - the Senate and the House of Representatives.
 - most Republicans.
 - all of the above**
16. Government tax revenue of \$100 billion and government spending of \$80 billion in any given year results in a:
- budget deficit of \$20 billion.
 - budget surplus of \$20 billion.**
 - national debt of \$20 billion.
 - national surplus of \$20 billion.
17. The difference between federal government spending and federal tax revenue in one year is:
- the budget deficit.**
 - the national debt.
 - crowding out.
 - the trade deficit.

18. Economists generally believe a law or constitutional amendment requiring a balanced budget would:
- be extremely difficult to implement.
 - limit the government's use of fiscal policy.
 - destabilize the economy.
 - d. all of the above**
19. Why do conservatives generally favor reductions in taxes? They prefer:
- income to be concentrated in the private sector rather than the government.
 - lowered income taxes to increase personal incentives to work.
 - lowered taxes to encourage personal savings.
 - d. all of the above**
20. (*Appendix 16–2*) Increased government spending financed by government borrowing will:
- increase interest rates.
 - expand the economy.
 - create some crowding out.
 - d. all of the above**

True / False Questions

- The government borrows money when it issues government securities. (T)
- The standard deduction is a fixed amount taxpayers can deduct from their taxable income when calculating their income taxes if other deductions are not claimed. (T)
- A tax credit directly reduces the amount of tax payable to the government. (T)
- A refundable tax credit is available only if the person pays a large amount in income taxes. (F)
- The only purpose of taxes is to raise revenue for government spending. (F)
- A payroll tax is deducted directly from the worker's paycheck. (T)
- Property taxes bring in the largest share of combined state and local government tax revenue. (T)
- The United States has the highest business taxes as a share of profits in the world. (T)
- Increased government spending financed by increased taxes creates more expansion of the economy than if it is financed by government borrowing. (F)
- It is probably better to pay for government purchases by raising taxes when the economy is operating at full employment. (T)
- A regressive tax is one that takes a larger percentage of income from low-income people than from high-income people. (T)
- Property taxes are generally considered to be progressive. (F)
- The effect of the tax cuts under former Presidents Reagan, G.W. Bush, and Trump was reduced progressivity of the U.S. tax system. (T)
- In 2021, the G7 and G20 agreed to a minimum business tax rate of 15%. (T)
- Janet Yellen was Chair of the Federal Reserve under Trump and is Treasury Secretary under Biden. (T)
- Government borrowing has the positive consequences of enabling the government to expand the economy as needed and to make expenditures that can benefit our society. (T)

17. The total amount of money the government has ever borrowed and not yet repaid is the national debt. (T)
18. Property taxes are used primarily to finance local public schools. (T)
19. The national debt will eventually bankrupt the nation. (F)
20. Former President Trump said he could eliminate the national debt within about eight years. (T)
21. The burden of an excise tax is generally borne by both the consumer and supplier of a product. (T)
22. The United States has the lowest maximum federal personal income tax rate in the Western industrialized world. (F)
23. Government borrowing can result in a redistribution of income from low-income people to high-income people. (T)
24. The Netherlands and Spain have the world's lowest business taxes as a share of profits. (F)
25. (*Appendix 16-1*) An excise tax imposed on a product with a perfectly inelastic demand will cause a large increase in the price of the product. (T)
26. (*Appendix 16-1*) An excise tax imposed on a product with a perfectly inelastic supply will cause a large increase in the price of the product. (F)
27. (*Appendix 16-1*) An excise tax generally results in a higher price of the product, though the price usually does not increase by the full amount of the excise tax. (T)
28. (*Appendix 16-2*) Increased government borrowing will generally cause a decrease in interest rates. (F)
29. (*Appendix 16-2*) Crowding out refers to a situation whereby increased government borrowing results in increased interest rates, thereby causing some reduction in private borrowing and spending. (T)
30. (*Appendix 16-2*) An increase in the demand for loanable funds will generally cause an increase in the interest rate. (T)

Critical Thinking Questions

1. You now have a much better understanding of the effects of taxes in our economy. Taking into account government spending programs and income distribution, what changes would you like to see in our nation's spending and tax policies?
2. Would we be better off with a simple flat rate tax or a national sales tax instead of the complicated progressive tax rate structure for the federal personal income tax? Keep in mind that the complexity of the current income tax is not in the tax rate structure, but the various deductions, credits, and loopholes, so moving to a flat rate tax will not help with complexity. If we move to a flat rate structure, our income tax will lose its progressivity. Replacing the personal income tax with a national sales tax would amount to replacing a progressive tax with a regressive one. Both of the alternatives would result in a more regressive tax system.
3. Why do conservatives refer to the estate tax as a "death tax"? Are they trying to suggest that we are over-taxed, because we even pay taxes for dying (i.e., "taxed to death")? Only the extremely wealthy pay the estate tax. Conservatives are trying to make it sound like we are taxed too much, even for dying.
4. The Earned Income Tax Credit is a very efficient way to bolster the incomes of low-wage people. How does this potential eliminate the objections of some people that government assistance encourages people to work less? How does it avoid the labor market distortions caused by the minimum wage? Since conservatives oppose an expansion of the Earned Income Tax Credit, does this mean their reservations about work disincentives are not sincere?

5. Should Social Security benefits be provided to high-income retired people, even though economists are concerned about the viability of the program? Or is it the case that the Social Security program was set up as a social insurance program for all eligible people who have paid into it, and to eliminate benefits to the rich would substantially change the nature of the program?
6. How could the regressivity of the Social Security tax be eliminated? Rather than taxing only income earned through working, all income could be taxed for social security purposes (including capital gains, interest income, dividends, rental income, and so on). This would have the effect of making the Social Security tax proportional up to the ceiling on income. Secondly, this ceiling on income could become a floor instead of a ceiling; that is, all income below that level would not be taxed, while all income above it would be taxed. Finally, benefits might be reduced for higher income individuals and taxes might be fully placed on the benefits to these people. All these options will clearly raise even more issues!

Global Economics and Ideology



NEWS UPDATE

- Ironically, as I write this, the events of the last few weeks are concerning. I'm referring to the three weeks since Russia invaded Ukraine on February 22, 2022. This assault is already altering global economics and ideology and many of the repercussions are disturbing, to say the least. 1) White supremacy is unapologetically out in the open and the pro-Putin wing of the right-wing Republican party is letting its voice be heard. 2) Within days of the assault, hundreds of thousands, and now millions of Ukrainians left their country as refugees or were displaced to other locations within Ukraine. The United Nations predicts there will be up to six million immigrants or more before it is all over. 3) The "Three Cs" mentioned in Chapter 9 — conflict, COVID, and climate — are having their devastating effects on Ukraine. Aside from the conflict of war, only 34 percent of Ukrainians are fully vaccinated against COVID-19, and environmental destruction includes flooding, storms, higher than normal freezing temperatures, land degradation, and others.
- If we zero in on racial issues, we hear commentators making unintentionally racist remarks about the shock of seeing white-skinned, blue-eyed, Europeans being killed, as if this is somehow more distressful than the slaughter of Syrians, Afghans, and other people of color. And if we hone in on immigration issues, we see how Ukrainian refugees are somehow more acceptable than prior waves of immigrants from poorer countries — people of color, non-European ancestry, and non-Christian religions. On the other hand, the rabid cheering-on of Putin by the U.S. far right may well also be due to white supremacy — after all, Russia too is European, white-skinned, and Christian, providing possible fodder for right-wing white evangelical Christians seeking expansion of their ideology.
- Juxtapose this immigration issue with concurrent immigration speeches at CPAC, the Conservative Political Action Conference. It seems they believe America's biggest problem is immigration. Trump spoke of people "poring" over the southern border, "bringing crime and death." He added, "We're not the United States. We're considered a dumping ground for criminals" (February 27, 2022).
- Finally, within just days of these events, President Biden gave his first State of the Union Address, stating: "In the battle between democracy and autocracies, democracies are rising to the moment." This statement is more profound than one would think, given the context of rising autocratic tendencies among leaders and former leaders of countries and amid the conservative wing of the Republican party in the United States. We will see whether Biden's support for democracy amid a quickly expanding European war makes a difference for our country and the world (March 1, 2022).

PURPOSE

The purpose of this final chapter of the book is to raise the question of whether the worldwide movement toward free markets will continue and whether it will successfully meet the needs of people. It will ask whether the nationalist populism of former President Donald Trump will spread in other parts of the world (yes, it is already). And it will assess whether white supremacy, anti-Muslim, and neo-Nazi fascism and autocracy will spread in our country and abroad. The chapter also enables students to synthesize what they have learned about the economic left and the economic right philosophies and policies. As students formulate their own opinions, we make it clear to them that nationalist populism is not an economic viewpoint and is indeed considered racist and bigoted.

WHAT'S NEW?

1. The real question isn't "What's New?" but "What Isn't New?" since this chapter readdresses the recent past, present, and future. With the help of hindsight, we see an evolving context first described in Chapter 9: COVID, climate, and conflict. We begin with the Arab Spring, which left devastation in its tracks and led to massive migration to Europe. Immigrants were met with generosity by some and resistance by others, with the latter heralding renewed attention to neo-Nazism and white supremacy.
 2. Immigration to the United States triggered similar responses of generosity and antipathy and coincided with former President Trump's ideology of nationalist populism and white supremacy. The racism, deceit, and incompetence of his administration was coupled with rising authoritarianism that culminated in the January 6, 2021, insurrection. Our nation is now left to pick up the pieces.
 3. None of this occurred in a vacuum, of course, and the coronavirus pandemic emerged in early 2020 as a frightening maelstrom none of us had experienced before. Our polarized nation politicized the pandemic and created a vast divide between those who followed the guidance of health experts and those who charged that restrictions to prevent coronavirus spread hindered their "liberty." The life and times left us all wondering: where do we go from here?
 4. In this context, we consider the ideologies of populism, white supremacy, and anti-immigration across the United States, Western Europe, Eastern Europe, and the developing world. Nearly all of this material is new, and it gives students the opportunity to examine growing authoritarianism and the direction toward the future.
-

TEACHING SUGGESTIONS

► *Student Interest*

- Students are interested in the chapter topics, if for no other reason than they realize they are living in a time that will go down in history. Our democracy proved itself fragile, we lost friends and family to the pandemic, and our lives have been upended. Students have been a part of all this.

► *Controversy*

- Just like "What Isn't New," we could ask, "What Isn't Controversial?" The sharp divide between red and blue, Republican and Democrat, vaccinated and unvaccinated, Trumpers and never-Trumpers, and even whether the insurrection was "legitimate political discourse" (as described by the Republican National Committee) or whether it was an insurrection. The title of the chapter could alternatively be, "Controversy."

- Finally, just like “What Isn’t New?” and “What Isn’t Controversial?” we could ask “what isn’t totally polarized and divisive between the economic right and the economic left, and even more so, between supporters and opponents of populist ideology and the racism that accompanies it?” Ideology and philosophy are critical to this chapter.

► *Economic Theory and Models*

- We use two models to discuss the economic right and its focus on economic growth. The first is the short-run situation of the aggregate demand/aggregate supply (AS/AD) model with a forward shift in the AS curve creating growth via supply-side policy. Of course, the effectiveness of supply-side policy is always in question.
- The second model of economic growth is the production possibilities model showing long-run growth as an outward shift of the production possibilities curve. Growth hinges on the improvement in efficient use of resources, their quantity and quality, and technology.

► *Data and Terminology*

- Data are updated for GNI per capita, growth in GDP, growth in the labor force, growth in labor productivity, the savings rate, growth in capital formation, Internet use, and spending on research and development for the countries of the Western industrialized world. These are all discussed in the context of economic growth.
- We look at some similar data for the Eastern industrialized world, including updated data on GNI per capita and growth in GDP. We discuss these in the context of economic transition.
- We also look at GNI per capita and growth in GDP for the developing countries, and we discuss these in the context of economic reform.
- As we switch gears to the economic left, we examine the safety nets and updated statistics on average life expectancies indicators of standards of living for countries in all three regions.
- We need to remind students about various terminology. There is a difference between the words liberal (the economic left) and liberalism (the economic right). Socialism and capitalism refer to economic systems, which may coexist with any form of political system. Being an economic liberal or economic conservative may be very different from being a social liberal or social conservative. (You may also want to reassure students that they can be an economic liberal and social conservative, or vice versa. They can also be liberal on some issues and conservative on others.)

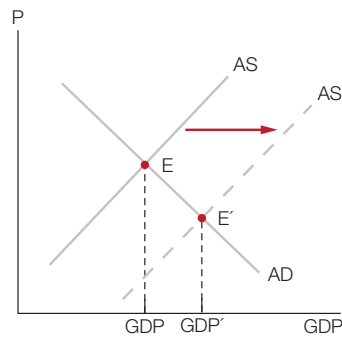
► *Fundamentals*

- Those who focus on GNI per capita and growth of GDP assume that the benefits of growth and prosperity will trickle down to everyone. We know this isn’t true, and indeed, the policies used to create economic growth may well worsen income inequality and harm the poor. Advocates of “trickle down” know this and are displaying their true negative attitudes toward the poor.
- In the context of the pandemic, states that refused expanded federal assistance for their populations, especially for working women with children, childcare providers, elder care providers, poor women, and women of color, state they did so because that assistance discourages work effort, right in line with supply-side economic theory. Bearing in mind that the coronavirus made it difficult to work safely, care for children and needy family members, and assist with their children’s virtual education *WHILE WORKING*, we are left to assume that the underlying concerns about work incentives are really attitudes of contempt for the poor and people of color,

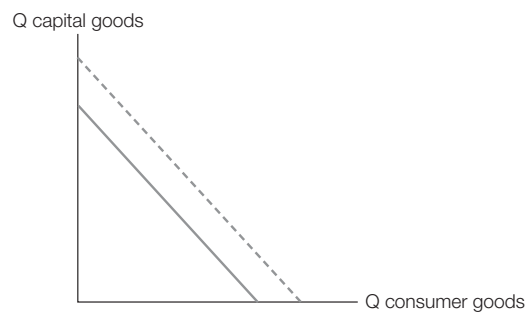
especially women. Similarly, opposition to Biden's Build Back Better plan, its intended safety net for the poor, and its search for racial equity reveals the same contempt.*

CLASSROOM EXERCISES

1. Consider the graph of the macroeconomy. Label the equilibrium point (E) within the graph, and label the equilibrium quantity of total output (GDP) along the GDP axis. Shift the curve to show what happens if there is a reduction in tax rates and transfers that successfully create incentives for increased work effort. [Supply will shift forward.] Label the new equilibrium point (E') within the graph, and the new level of GDP' along the GDP axis. What is the effect on GDP? [Increase].



2. Consider the production possibilities curve for the United States with the quantity of capital goods and consumer goods on the two axes. Shift the curve to show what happens over time if there is an increase in the quantity and quality of productive resources. [It shifts outward.] What is the economic term for the change that occurs? [Economic growth] Is this a short-run or a long-run result? [Long-run]



* I'm sure you've noticed that the word "contempt" has been used in the textbook and in the instructors' manual over and over. This has been deliberate. Certainly, overt hostility and racism are motivated by contempt, but that doesn't explain the deeper problem of systemic racism, which often arises from a quest to maintain one's white privilege in ways inimical to people of color. If this is explained to people, and people continue to live as usual, what is it if not contempt that explains their deep disregard for others?

SAMPLE TEST QUESTIONS

Multiple Choice Questions

1. The Arab Spring:
 - a. was a democracy movement.
 - b. took place in many of the Arab countries in the Middle East and North Africa.
 - c. began in Tunisia
 - d. all of the above**

2. In Syria, the Arab Spring:
 - a. failed.
 - b. created oppression.
 - c. created vast migration.
 - d. All of the above**

3. In the last few decades, the United States has experienced immigration from:
 - a. the Northern Triangle of Central America.**
 - b. the Southern Triangle of South America.
 - c. the middle Triangle of Central Asia.
 - d. all of the above

4. Which of the following is true? The economic right (conservatives) believe that:
 - a. the level of GNI per capita is important.
 - b. the growth of GDP is important.
 - c. the benefits of economic growth and prosperity trickle down to the poor.
 - d. all of the above**

5. Which of the following is true? The economic left (liberals) believe that the marketplace:
 - a. is imperfect.
 - b. entails market failures.
 - c. is not necessarily equitable.
 - d. all of the above**

6. In terms of the categories defined in the text, Russia belongs to:
 - a. the Western industrialized world.
 - b. the Eastern industrialized world.**
 - c. the developing world.
 - d. none of the above

7. Which of the following is *not* part of the developing world (as described in this text)?
 - a. Eastern Europe**
 - b. Latin America
 - c. Asia
 - d. Africa

8. According to the text, which of the following countries has recently had the highest GNI per capita in the Western industrialized world?
- Switzerland**
 - Norway
 - The United States
 - Denmark
9. According to the text, which of the following countries has recently had the highest average annual economic growth rate among the Western industrialized countries?
- The United States and Norway
 - Canada and Sweden**
 - Denmark and Finland
 - Germany and the United Kingdom
10. Production possibilities:
- shows alternative combinations of the maximum amounts of output an economy can possibly produce.
 - assumes resources are fully and efficiently used.
 - assumes technology is fully and efficiently used.
 - all of the above**
11. Economic growth is displayed in a production possibilities graph as:
- a movement along the curve.
 - a movement to a point below the curve.
 - an inward shift of the curve.
 - an outward shift of the curve.**
12. Labor productivity depends on:
- investment in human capital.
 - investment in physical capital used in conjunction with labor.
 - training and education programs.
 - all of the above**
13. Which of the following is *not* listed in the text as a means of achieving economic growth?
- Increase in capital
 - Improvement in technology
 - Improvement in labor productivity
 - Increase in monopoly**
14. The U.S. savings rate is:
- the highest in the Western industrialized world.
 - the lowest in the Western industrialized world.
 - in-between the highest and the lowest in the Western industrialized world.**
 - the same as gross capital formation.

15. Income earned when selling an asset at a higher price than when it was purchased refers to:
- research and development (R&D).
 - capital flight.
 - capital gains.**
 - liberalism.
16. The text associates the economic right with:
- economic growth.
 - economic transition.
 - economic reform.
 - all of the above**
17. The artificial prices traditionally set by socialist countries had created:
- low prices and shortages.**
 - high prices and shortages.
 - low prices and plentiful supplies.
 - high prices and plentiful supplies.
18. The most prominent elements of the transition in the Eastern industrialized world to capitalism include:
- price decontrol.
 - privatization.
 - the development of entrepreneurship.
 - all of the above**
19. The transition from socialism to capitalism in the Eastern industrialized world has often resulted in:
- unemployment.
 - inflation.
 - inequality
 - all of the above**
20. Among the developing countries listed in the text, the poorest country (with lowest GNI per capita) is:
- Saudi Arabia.
 - Chile.
 - China.
 - Afghanistan.**
21. Petrodollars are the:
- name given to Russian currency.
 - vouchers given to Russian citizens for the purchase of shares of enterprises.
 - money earned from the sale of petroleum.**
 - export earnings that leave the country in capital flight.
22. The debt service ratio is the amount of principal and interest that must be repaid:
- over the time period of the loan.
 - in a particular year.
 - in a particular year, as a share of GDP.
 - a particular year, as a share of exports of goods and services in that year.**

23. Average annual growth of GDP in the developing world countries listed in the table consists of:
- a high in China and Ethiopia.**
 - a high in Yemen and Afghanistan.
 - a low in Namibia and Kenya.
 - a low in Costa Rica and Uganda.
24. Which of the following Western industrialized countries have experienced the recent spread of right-wing and white supremacist groups?
- Germany
 - France
 - The Scandinavian countries of Norway, Sweden, Denmark, and Iceland.
 - All of the above**
25. Which of the following Eastern industrialized countries have experienced the recent spread of right-wing and white supremacist groups?
- Hungary
 - Poland
 - Slovenia
 - All of the above**

True / False Questions

- Based on text data, most of the Western industrialized countries experienced higher average annual growth of GDP in the recent time period (2000–2019) than the earlier time period (1990–2000). **(F)**
- Economic conservatives generally favor a very limited role for government in the economy. **(T)**
- Populism is often combined with nationalism. **(T)**
- Immigrants are often scapegoated by populists. **(T)**
- Donald Trump was a populist. **(T)**
- The economic left focuses on output and its growth. **(F)**
- The aggregate demand/aggregate supply model and its shift of aggregate supply represents long-run growth, whereas the production possibilities model and its shift of the production possibilities curve represents short-run growth. **(F)**
- Denmark and Norway have the largest shares of the population that use the Internet among the Western industrialized world. **(T)**
- Economic liberals believe that reductions in business taxes encourage corporations to increase reinvestment in their businesses and improve wages to their workers. **(F)**
- Economic conservatives believe that too many regulations will be harmful to economic growth. **(T)**
- Based on text data, most of the Eastern industrialized countries experienced higher average annual growth of GDP in the recent time period (2000–2019) than the earlier time period (1990–2000). **(T)**
- Based on text data, Russia has the highest GNI per capita among the Eastern industrialized countries. **(F)**
- Ukraine has recently experienced high inflation rates and high unemployment rates. **(T)**
- The transfer of enterprises from the private business sector to the government is called privatization. **(F)**
- Capital flight occurs when cash “flies” from the housing sector into savings accounts. **(F)**

16. The United States has the highest average life expectancy in the world. (F)
17. Average life expectancies range in the 60s in the poorest countries of the world. (T)
18. Brexit presents a good example of nationalism. (T)
19. President Bolsonaro is called the “Argentina Trump.” (F)
20. Nationalism in India includes an anti-Islam attitude. (T)
21. Technology can be thought of as ways of using available resources to produce output. (T)
22. Social media has been one factor in the recent increase in white supremacy. (T)
23. Generally speaking, economic conservatives prefer more government regulation than economic liberals. (F)
24. The tax rate, as specified in the text table, places the United States as the highest in the Western industrialized world. (F)
25. Decontrol of prices in the Eastern industrialized countries generally led to inflation. (T)
26. The roots of economic reforms in developing countries are in the 1980s international debt crisis and 1970s oil crisis. (T)
27. Nationalist populism strongly supports free trade and immigration. (F)
28. The distribution of income and the composition of output in part determine average life expectancies. (T)
29. We can say, “I am just one person,” but this also means: “I *am* one person!” (T)
30. Without education, we are just “blathering with sandwiches.” (T)

Critical Thinking Questions

1. You now have a much better understanding of the economic systems of capitalism and socialism and the philosophical viewpoints of conservative and liberal as they apply to economics throughout the world. What are your views about the world movement toward conservative and capitalist policies? Explain. What are your views toward nationalist populism? What about authoritarian populism?
2. You have now had a glimpse of the Western industrialized countries, the Eastern industrialized countries, and the developing countries of the world. You may have had experiences visiting or living in some other country and are willing to share these in the classroom.
3. This textbook has focused on the economics of social issues. The ultimate purpose of an education about such issues is, in the opinion of the author, the ability to make this a better world in which we live. I challenge you to think about what you can do to make a difference. Make sure you read the epilogue to this book, which gives you ideas about what you can do achieve greater socioeconomic justice in our world.