

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*

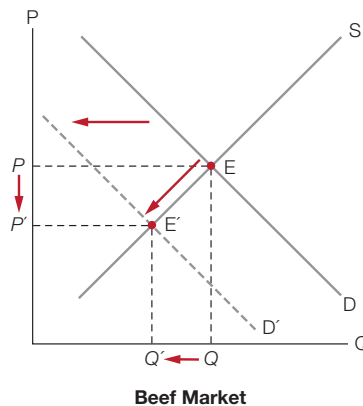
- Economics is very precise, and our students need to be precise, as well. They need to carefully read the titles, footnotes, and captions of the tables and figures and distinguish between terms such as the mean and median; real and nominal; GDP, GNP, and GNI; and GDP per capita and average annual growth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

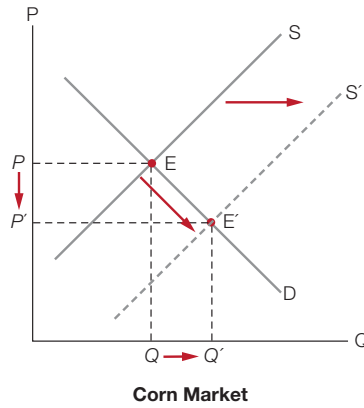
CLASSROOM EXERCISES

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]

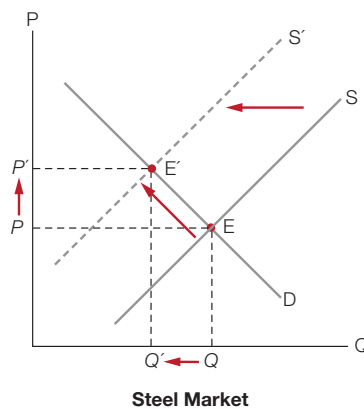


[*Note to the instructor:* The demand and supply graphs in this chapter of the *Instructors' Manual* are spelled out carefully in terms of symbols for the variables and arrows showing the direction of change. Text graphs either use similar symbols or numerical values for the prices and quantities. Graphs 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.]

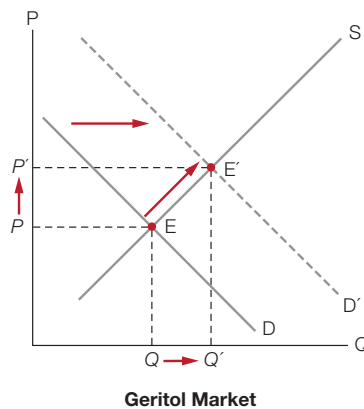
2. Follow the steps outlined in #1, but shift the curve to show what happens in the corn market if corn producers have unusually good weather this year. [Shift the supply curve forward.] Label the new equilibrium point [E'] within the graph. Label the new equilibrium price [P'] and equilibrium quantity [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]



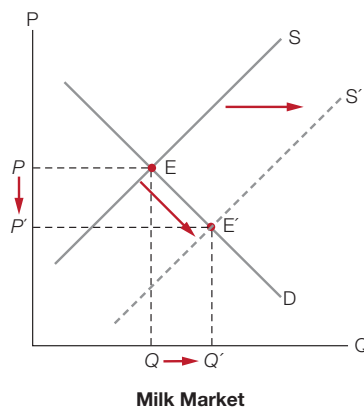
3. Follow the steps outlined in #1, but shift the curve to show what happens in the steel market if rising energy prices increase the cost of producing steel. What is the effect on the equilibrium price of steel? [Increase] On the equilibrium quantity of steel that is bought and sold? [Decrease]



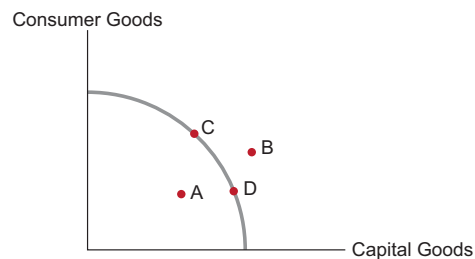
4. Follow the steps outlined in #1, but shift the curve to show what happens in the market for Geritol (a supplement advertised for elderly people) if the size of the elderly population increases. What is the effect on the equilibrium price of Geritol? [Increase] On the equilibrium quantity of Geritol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

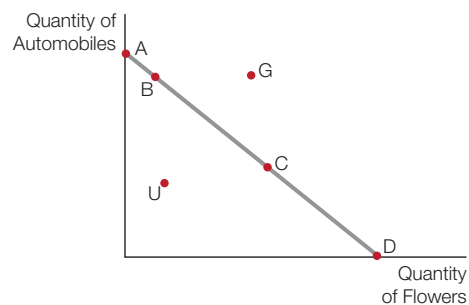
5. Economics deals primarily with:
 - a. inefficient businesses.
 - b. insufficient money.
 - c. scarcity.**
 - d. the nation's money supply.

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.

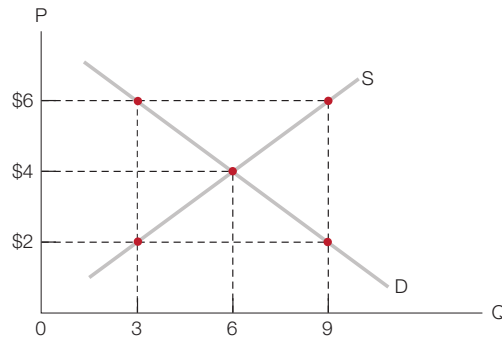
8. Which of the following is not considered a service?
- healthcare**
 - education
 - an automobile
 - city mass transit
9. Which of the following is *not* true? Production possibilities assumes that:
- all available resources are fully used.
 - all available resources are efficiently used.
 - while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