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Economics I

Introduction to Economics,

and ***Microeconomics***

BIM 2nd semester (rescheduled to 3rd)

- **References**
- **Material:**
    - **10 Economic Principles** (G. Mankiw)
    - **Opportunity** (from: The Audacity of Hope by B. Obama)
    - Module descriptions Economics **I** and **II** (German)

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- Gablers Volkswirtschaftslexikon
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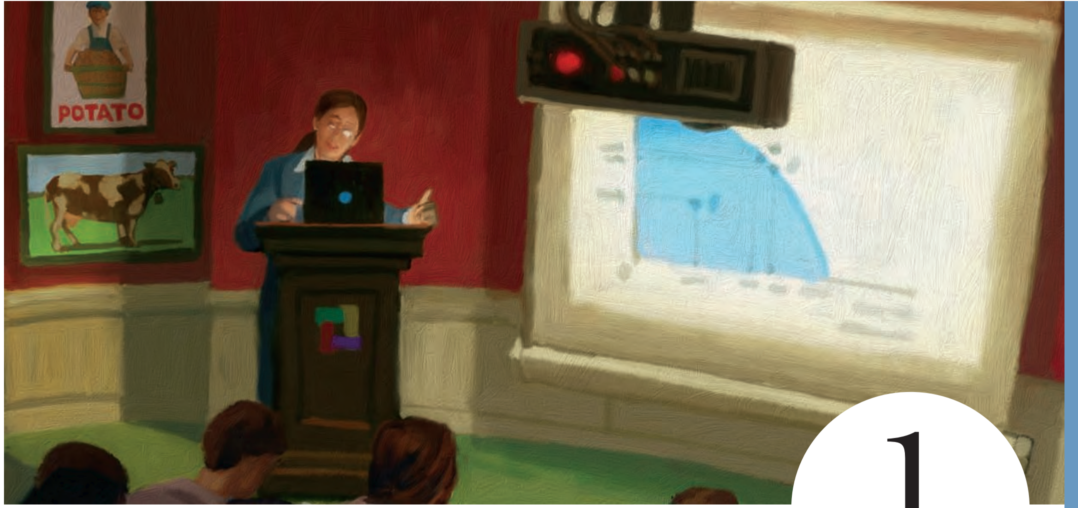
- Handwörterbuch der Volkswirtschaft
- Handwörterbuch der Wirtschaftswissenschaften (HdWW, mehrbändig)
- Vahlens Großes Wirtschaftslexikon
- Vahlens Kompendium der Wirtschaftstheorie und Wirtschaftspolitik

Zeitschriften:

- Das Wirtschaftsstudium (WISU)
- Wirtschaftswissenschaftliches Studium (WiSt)

Interessant für BWL und VWL, Übungs- und Klausuraufgaben

Verfolgen Sie auch die **Tages- und Wochenpresse**, entweder auf Papier (Abonnement, oft als Studentenabo deutlich günstiger - vieles auch in der Teilbibliothek verfügbar) oder aktuell im Internet. (z.B. auf meiner Seite (Links). Eine gute Übersicht und diverse Links finden Sie auch unter: http://www.wilhelmlorenz.de/links/ausgesuchte_links_zur_vwl.htm).



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Ten Principles of Economics

The word *economy* comes from the Greek word *oikonomos*, which means "one who manages a household." At first, this origin might seem peculiar. But in fact, households and economies have much in common.

A household faces many decisions. It must decide which members of the household do which tasks and what each member gets in return: Who cooks dinner? Who does the laundry? Who gets the extra dessert at dinner? Who gets to choose what TV show to watch? In short, the household must allocate its scarce resources among its various members, taking into account each member's abilities, efforts, and desires.

Like a household, a society faces many decisions. A society must decide what jobs will be done and who will do them. It needs some people to grow food, other people to make clothing, and still others to design computer software. Once society has allocated people (as well as land, buildings, and machines) to various jobs, it must also allocate the output of goods and services that they produce. It must decide who will eat caviar and who will eat potatoes. It must decide who will drive a Ferrari and who will take the bus.

The management of society's resources is important because resources are scarce. **Scarcity** means that society has limited resources and therefore cannot produce all the goods and services people wish to have. Just as a household cannot give every member everything he or she wants, a society cannot give every individual the highest standard of living to which he or she might aspire.

scarcity
the limited nature of society's resources

economics
the study of how society manages its scarce resources

Economics is the study of how society manages its scarce resources. In most societies, resources are allocated not by an all-powerful dictator but through the combined actions of millions of households and firms. Economists therefore study how people make decisions: how much they work, what they buy, how much they save, and how they invest their savings. Economists also study how people interact with one another. For instance, they examine how the multitude of buyers and sellers of a good together determine the price at which the good is sold and the quantity that is sold. Finally, economists analyze forces and trends that affect the economy as a whole, including the growth in average income, the fraction of the population that cannot find work, and the rate at which prices are rising.

Although the study of economics has many facets, the field is unified by several central ideas. In this chapter, we look at *Ten Principles of Economics.* Don't worry if you don't understand them all at first or if you don't find them completely convincing. In later chapters, we will explore these ideas more fully. The ten principles are introduced here to give you an overview of what economics is all about. You can think of this chapter as a "preview of coming attractions."

HOW PEOPLE MAKE DECISIONS

There is no mystery to what an economy is. Whether we are talking about the economy of Los Angeles, of the United States, or of the whole world, an economy is just a group of people interacting with one another as they go about their lives. Because the behavior of an economy reflects the behavior of the individuals who make up the economy, we start our study of economics with four principles of individual decision making.

Principle 1: People Face Trade-offs

The first lesson about making decisions is summarized in the adage "There is no such thing as a free lunch." To get one thing that we like, we usually have to give up another thing that we like. Making decisions requires trading off one goal against another.

Consider a student who must decide how to allocate her most valuable resource—her time. She can spend all of her time studying economics; she can spend all of her time studying psychology; or she can divide her time between the two fields. For every hour she studies one subject, she gives up an hour she could have used studying the other. And for every hour she spends studying, she gives up an hour that she could have spent napping, bike riding, watching TV, or working at her part-time job for some extra spending money.

Or consider parents deciding how to spend their family income. They can buy food, clothing, or a family vacation. Or they can save some of the family income for retirement or the children's college education. When they choose to spend an extra dollar on one of these goods, they have one less dollar to spend on some other good.

When people are grouped into societies, they face different kinds of trade-offs. The classic trade-off is between "guns and butter." The more we spend on national defense (guns) to protect our shores from foreign aggressors, the less we can spend on consumer goods (butter) to raise our standard of living at home. Also important in modern society is the trade-off between a clean envi-

ronment and a high level of income. Laws that require firms to reduce pollution raise the cost of producing goods and services. Because of the higher costs, these firms end up earning smaller profits, paying lower wages, charging higher prices, or some combination of these three. Thus, while pollution regulations give us the benefit of a cleaner environment and the improved health that comes with it, they have the cost of reducing the incomes of the firms' owners, workers, and customers.

Another trade-off society faces is between efficiency and equity. **Efficiency** means that society is getting the maximum benefits from its scarce resources. **Equity** means that those benefits are distributed fairly among society's members. In other words, efficiency refers to the size of the economic pie, and equity refers to how the pie is divided. Often, when government policies are designed, these two goals conflict.

efficiency
the property of society getting the most it can from its scarce resources

equity
the property of distributing economic prosperity fairly among the members of society

Consider, for instance, policies aimed at achieving a more equal distribution of economic well-being. Some of these policies, such as the welfare system or unemployment insurance, try to help the members of society who are most in need. Others, such as the individual income tax, ask the financially successful to contribute more than others to support the government. Although these policies have the benefit of achieving greater equity, they have a cost in terms of reduced efficiency. When the government redistributes income from the rich to the poor, it reduces the reward for working hard; as a result, people work less and produce fewer goods and services. In other words, when the government tries to cut the economic pie into more equal slices, the pie gets smaller.

Recognizing that people face trade-offs does not by itself tell us what decisions they will or should make. A student should not abandon the study of psychology just because doing so would increase the time available for the study of economics. Society should not stop protecting the environment just because environmental regulations reduce our material standard of living. The poor should not be ignored just because helping them distorts work incentives. Nonetheless, acknowledging life's trade-offs is important because people are likely to make good decisions only if they understand the options that they have available.

Principle 2: The Cost of Something Is What You Give Up to Get It

Because people face trade-offs, making decisions requires comparing the costs and benefits of alternative courses of action. In many cases, however, the cost of some action is not as obvious as it might first appear.

Consider, for example, the decision to go to college. The benefit is intellectual enrichment and a lifetime of better job opportunities. But what is the cost? To answer this question, you might be tempted to add up the money you spend on tuition, books, room, and board. Yet this total does not truly represent what you give up to spend a year in college.

The first problem with this answer is that it includes some things that are not really costs of going to college. Even if you quit school, you need a place to sleep and food to eat. Room and board are costs of going to college only to the extent that they are more expensive at college than elsewhere. Indeed, the cost of room and board at your school might be less than the rent and food expenses that you would pay living on your own. In this case, the savings on room and board are a benefit of going to college.

The second problem with this calculation of costs is that it ignores the largest cost of going to college—your time. When you spend a year listening to lectures, reading textbooks, and writing papers, you cannot spend that time working at a job. For most students, the wages given up to attend school are the largest single cost of their education.

opportunity cost
whatever must be given up to obtain some item

The **opportunity cost** of an item is what you give up to get that item. When making any decision, such as whether to attend college, decision makers should be aware of the opportunity costs that accompany each possible action. In fact, they usually are. College athletes who can earn millions if they drop out of school and play professional sports are well aware that their opportunity cost of college is very high. It is not surprising that they often decide that the benefit is not worth the cost.

Principle 3: Rational People Think at the Margin

rational people
people who systematically and purposefully do the best they can to achieve their objectives

Economists normally assume that people are rational. **Rational people** systematically and purposefully do the best they can to achieve their objectives, given the opportunities they have. As you study economics, you will encounter firms that decide how many workers to hire and how much of their product to manufacture and sell to maximize profits. You will encounter consumers who buy a bundle of goods and services to achieve the highest possible level of satisfaction, subject to their incomes and the prices of those goods and services.

marginal changes
small incremental adjustments to a plan of action

Rational people know that decisions in life are rarely black and white but usually involve shades of gray. At dinnertime, the decision you face is not between fasting or eating like a pig but whether to take that extra spoonful of mashed potatoes. When exams roll around, your decision is not between blowing them off or studying 24 hours a day but whether to spend an extra hour reviewing your notes instead of watching TV. Economists use the term **marginal changes** to describe small incremental adjustments to an existing plan of action. Keep in mind that *margin* means "edge," so marginal changes are adjustments around the edges of what you are doing. Rational people often make decisions by comparing *marginal benefits* and *marginal costs*.

For example, consider an airline deciding how much to charge passengers who fly standby. Suppose that flying a 200-seat plane across the United States costs the airline $100,000. In this case, the average cost of each seat is $100,000/200, which is $500. One might be tempted to conclude that the airline should never sell a ticket for less than $500. In fact, however, the airline can raise its profits by thinking at the margin. Imagine that a plane is about to take off with ten empty seats, and a standby passenger waiting at the gate will pay $300 for a seat. Should the airline sell the ticket? Of course it should. If the plane has empty seats, the cost of adding one more passenger is minuscule. Although the *average* cost of flying a passenger is $500, the *marginal* cost is merely the cost of the bag of peanuts and can of soda that the extra passenger will consume. As long as the standby passenger pays more than the marginal cost, selling the ticket is profitable.

Marginal decision making can help explain some otherwise puzzling economic phenomena. Here is a classic question: Why is water so cheap, while diamonds are so expensive? Humans need water to survive, while diamonds are unnecessary; but for some reason, people are willing to pay much more for a diamond than for a cup of water. The reason is that a person's willingness to pay for any good is based on the marginal benefit that an extra unit of the good would yield. The marginal benefit, in turn, depends on how many units a person already has. Although water is essential, the marginal benefit of an extra cup

is small because water is plentiful. By contrast, no one needs diamonds to survive, but because diamonds are so rare, people consider the marginal benefit of an extra diamond to be large.

A rational decision maker takes an action if and only if the marginal benefit of the action exceeds the marginal cost. This principle can explain why airlines are willing to sell a ticket below average cost and why people are willing to pay more for diamonds than for water. It can take some time to get used to the logic of marginal thinking, but the study of economics will give you ample opportunity to practice.

Principle 4: People Respond to Incentives

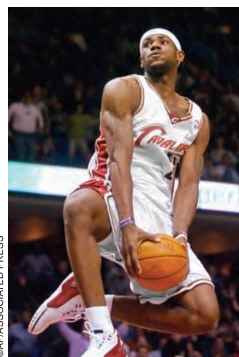
incentive
something that induces a person to act

An **incentive** is something (such as the prospect of a punishment or a reward) that induces a person to act. Because rational people make decisions by comparing costs and benefits, they respond to incentives. You will see that incentives play a central role in the study of economics. One economist went so far as to suggest that the entire field could be simply summarized: "People respond to incentives. The rest is commentary."

Incentives are crucial to analyzing how markets work. For example, when the price of an apple rises, people decide to eat more pears and fewer apples because the cost of buying an apple is higher. At the same time, apple orchards decide to hire more workers and harvest more apples because the benefit of selling an apple is also higher. As we will see, the effect of a good's price on the behavior of buyers and sellers in a market—in this case, the market for apples—is crucial for understanding how the economy allocates scarce resources.

Public policymakers should never forget about incentives because many policies change the costs or benefits that people face and, therefore, alter their behavior. A tax on gasoline, for instance, encourages people to drive smaller, more fuel-efficient cars. That is one reason people drive smaller cars in Europe, where gasoline taxes are high, than in the United States, where gasoline taxes are low. A gasoline tax also encourages people to take public transportation rather than drive and to live closer to where they work. If the tax were larger, more people would be driving hybrid cars, and if it were large enough, they would switch to electric cars.

When policymakers fail to consider how their policies affect incentives, they often end up with results they did not intend. For example, consider public policy regarding auto safety. Today, all cars have seat belts, but this was not true 50 years ago. In the 1960s, Ralph Nader's book *Unsafe at Any Speed* generated much public concern over auto safety. Congress responded with laws requiring seat belts as standard equipment on new cars.



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BASKETBALL STAR LEBRON JAMES UNDERSTANDS OPPORTUNITY COST AND INCENTIVES. HE DECIDED TO SKIP COLLEGE AND GO STRAIGHT TO THE PROS, WHERE HE HAS EARNED MILLIONS OF DOLLARS AS ONE OF THE NBA'S TOP PLAYERS.

How does a seat belt law affect auto safety? The direct effect is obvious: When a person wears a seat belt, the probability of surviving a major auto accident rises. But that's not the end of the story because the law also affects behavior by altering incentives. The relevant behavior here is the speed and care with which drivers operate their cars. Driving slowly and carefully is costly because it uses the driver's time and energy. When deciding how safely to drive, rational people compare the marginal benefit from safer driving to the marginal cost. They drive more slowly and carefully when the benefit of increased safety is high. It is no surprise, for instance, that people drive more slowly and carefully when roads are icy than when roads are clear.

Consider how a seat belt law alters a driver's cost–benefit calculation. Seat belts make accidents less costly because they reduce the likelihood of injury or

death. In other words, seat belts reduce the benefits of slow and careful driving. People respond to seat belts as they would to an improvement in road conditions—by driving faster and less carefully. The end result of a seat belt law, therefore, is a larger number of accidents. The decline in safe driving has a clear, adverse impact on pedestrians, who are more likely to find themselves in an accident but (unlike the drivers) don't have the benefit of added protection.

At first, this discussion of incentives and seat belts might seem like idle speculation. Yet in a classic 1975 study, economist Sam Peltzman showed that auto-safety laws have had many of these effects. According to Peltzman's evidence, these laws produce both fewer deaths per accident and more accidents. He concluded that the net result is little change in the number of driver deaths and an increase in the number of pedestrian deaths.

Peltzman's analysis of auto safety is an offbeat example of the general principle that people respond to incentives. When analyzing any policy, we must consider not only the direct effects but also the indirect and sometimes less obvious effects that work through incentives. If the policy changes incentives, it will cause people to alter their behavior.

Quick Quiz List and briefly explain the four principles of individual decision making.

HOW PEOPLE INTERACT

The first four principles discussed how individuals make decisions. As we go about our lives, many of our decisions affect not only ourselves but other people as well. The next three principles concern how people interact with one another.

Principle 5: Trade Can Make Everyone Better Off

You have probably heard on the news that the Japanese are our competitors in the world economy. In some ways, this is true because American and Japanese firms produce many of the same goods. Ford and Toyota compete for the same customers in the market for automobiles. Apple and Sony compete for the same customers in the market for digital music players.

"FOR $5 A WEEK YOU CAN WATCH BASEBALL WITHOUT BEING NAGGED TO CUT THE GRASS!"

CARTOON: FROM THE WALL STREET JOURNAL—PERMISSION, CARTOON FEATURES SYNDICATE

Yet it is easy to be misled when thinking about competition among countries. Trade between the United States and Japan is not like a sports contest in which one side wins and the other side loses. In fact, the opposite is true: Trade between two countries can make each country better off.

To see why, consider how trade affects your family. When a member of your family looks for a job, he or she competes against members of other families who are looking for jobs. Families also compete against one another when they go shopping because each family wants to buy the best goods at the lowest prices. So in a sense, each family in the economy is competing with all other families.

Despite this competition, your family would not be better off isolating itself from all other families. If it did, your family would need to grow its own food, make its own clothes, and build its own home. Clearly, your family gains much from its ability to trade with others. Trade allows each person to specialize in the

activities he or she does best, whether it is farming, sewing, or home building. By trading with others, people can buy a greater variety of goods and services at lower cost.

Countries as well as families benefit from the ability to trade with one another. Trade allows countries to specialize in what they do best and to enjoy a greater variety of goods and services. The Japanese, as well as the French and the Egyptians and the Brazilians, are as much our partners in the world economy as they are our competitors.

Principle 6: Markets Are Usually a Good Way to Organize Economic Activity

The collapse of communism in the Soviet Union and Eastern Europe in the 1980s may be the most important change in the world during the past half century. Communist countries worked on the premise that government officials were in the best position to determine the allocation of scarce resources in the economy. These central planners decided what goods and services were produced, how much was produced, and who produced and consumed these goods and services. The theory behind central planning was that only the government could organize economic activity in a way that promoted economic well-being for the country as a whole.

Today, most countries that once had centrally planned economies have abandoned this system and are trying to develop market economies. In a **market economy,** the decisions of a central planner are replaced by the decisions of millions of firms and households. Firms decide whom to hire and what to make. Households decide which firms to work for and what to buy with their incomes. These firms and households interact in the marketplace, where prices and self-interest guide their decisions.

market economy
an economy that allocates resources through the decentralized decisions of many firms and households as they interact in markets for goods and services

At first glance, the success of market economies is puzzling. After all, in a market economy, no one is looking out for the economic well-being of society as a whole. Free markets contain many buyers and sellers of numerous goods and services, and all of them are interested primarily in their own well-being. Yet despite decentralized decision making and self-interested decision makers, market economies have proven remarkably successful in organizing economic activity in a way that promotes overall economic well-being.

In his 1776 book *An Inquiry into the Nature and Causes of the Wealth of Nations,* economist Adam Smith made the most famous observation in all of economics: Households and firms interacting in markets act as if they are guided by an "invisible hand" that leads them to desirable market outcomes. One of our goals in this book is to understand how this invisible hand works its magic.

As you study economics, you will learn that prices are the instrument with which the invisible hand directs economic activity. In any market, buyers look at the price when determining how much to demand, and sellers look at the price when deciding how much to supply. As a result of the decisions that buyers and sellers make, market prices reflect both the value of a good to society and the cost to society of making the good. Smith's great insight was that prices adjust to guide these individual buyers and sellers to reach outcomes that, in many cases, maximize the welfare of society as a whole.

There is an important corollary to the skill of the invisible hand in guiding economic activity: When the government prevents prices from adjusting naturally to supply and demand, it impedes the invisible hand's ability to coordinate the millions of households and firms that make up the economy. This corollary explains why taxes adversely affect the allocation of resources: Taxes distort prices and thus the decisions of households and firms. It also explains the even greater harm caused by policies that directly control prices, such as rent control. And it explains the failure of communism. In communist countries, prices were not determined in the marketplace but were dictated by central planners. These planners lacked the information that gets reflected in prices that are free to respond to market forces. Central planners failed because they tried to run the economy with one hand tied behind their backs—the invisible hand of the marketplace.

Principle 7: Governments Can Sometimes Improve Market Outcomes

If the invisible hand of the market is so great, why do we need government? One purpose of studying economics is to refine your view about the proper role and scope of government policy.

One reason we need government is that the invisible hand can work its magic only if the government enforces the rules and maintains the institutions that are

FYI

Adam Smith and the Invisible Hand

It may be only a coincidence that Adam Smith's great book *The Wealth of Nations* was published in 1776, the exact year American revolutionaries signed the Declaration of Independence. But the two documents share a point of view that was prevalent at the time: Individuals are usually best left to their own devices, without the heavy hand of government guiding their actions. This political philosophy provides the intellectual basis for the market economy and for free society more generally.

Why do decentralized market economies work so well? Is it because people can be counted on to treat one another with love and kindness? Not at all. Here is Adam Smith's description of how people interact in a market economy:

> *Man has almost constant occasion for the help of his brethren, and it is vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show them that it is for their own advantage to do for him what he requires of them. . . . It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. . . .*
>
> *Every individual . . . neither intends to promote the public interest, nor knows how much he is promoting it. . . . He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.*

Adam Smith

Smith is saying that participants in the economy are motivated by self-interest and that the "invisible hand" of the marketplace guides this self-interest into promoting general economic well-being.

Many of Smith's insights remain at the center of modern economics. Our analysis in the coming chapters will allow us to express Smith's conclusions more precisely and to analyze fully the strengths and weaknesses of the market's invisible hand.

PHOTO: © BETTMANN/CORBIS

key to a market economy. Most important, markets work only if **property rights** are enforced. A farmer won't grow food if he expects his crop to be stolen; a restaurant won't serve meals unless it is assured that customers will pay before they leave; and a music company won't produce CDs if too many potential customers avoid paying by making illegal copies. We all rely on government-provided police and courts to enforce our rights over the things we produce—and the invisible hand counts on our ability to enforce our rights.

property rights
the ability of an individual to own and exercise control over scarce resources

Yet there is another, more profound reason we need government: The invisible hand is powerful, but it is not omnipotent. Although markets are often a good way to organize economic activity, this rule has some important exceptions. There are two broad reasons for a government to intervene in the economy and change the allocation of resources that people would choose on their own: to promote efficiency and to promote equity. That is, most policies aim either to enlarge the economic pie or to change how the pie is divided.

Consider first the goal of efficiency. Although the invisible hand usually leads markets to allocate resources efficiently, this is not always the case. Economists use the term **market failure** to refer to a situation in which the market on its own fails to produce an efficient allocation of resources. One possible cause of market failure is an **externality,** which is the impact of one person's actions on the well-being of a bystander. The classic example of an externality is pollution. Another possible cause of market failure is **market power,** which refers to the ability of a single person (or small group) to unduly influence market prices. For example, if everyone in town needs water but there is only one well, the owner of the well is not subject to the rigorous competition with which the invisible hand normally keeps self-interest in check. In the presence of externalities or market power, well-designed public policy can enhance economic efficiency.

market failure
a situation in which a market left on its own fails to allocate resources efficiently

externality
the impact of one person's actions on the well-being of a bystander

market power
the ability of a single economic actor (or small group of actors) to have a substantial influence on market prices

The invisible hand may also fail to ensure that economic prosperity is distributed equitably. A market economy rewards people according to their ability to produce things that other people are willing to pay for. The world's best basketball player earns more than the world's best chess player simply because people are willing to pay more to watch basketball than chess. The invisible hand does not ensure that everyone has sufficient food, decent clothing, and adequate healthcare. Many public policies, such as the income tax and the welfare system, aim to achieve a more equitable distribution of economic well-being.

To say that the government *can* improve on market outcomes at times does not mean that it always *will.* Public policy is made not by angels but by a political process that is far from perfect. Sometimes policies are designed simply to reward the politically powerful. Sometimes they are made by well-intentioned leaders who are not fully informed. As you study economics, you will become a better judge of when a government policy is justifiable because it promotes efficiency or equity and when it is not.

Quick Quiz List and briefly explain the three principles concerning people's economic interactions.

HOW THE ECONOMY AS A WHOLE WORKS

We started by discussing how individuals make decisions and then looked at how people interact with one another. All these decisions and interactions

together make up "the economy." The last three principles concern the workings of the economy as a whole.

Principle 8: A Country's Standard of Living Depends on Its Ability to Produce Goods and Services

The differences in living standards around the world are staggering. In 2003, the average American had an income of about $37,500. In the same year, the average Mexican earned $8,950, and the average Nigerian earned $900. Not surprisingly, this large variation in average income is reflected in various measures of the quality of life. Citizens of high-income countries have more TV sets, more cars, better nutrition, better healthcare, and a longer life expectancy than citizens of low-income countries.

Changes in living standards over time are also large. In the United States, incomes have historically grown about 2 percent per year (after adjusting for changes in the cost of living). At this rate, average income doubles every 35 years. Over the past century, average income has risen about eightfold.

What explains these large differences in living standards among countries and over time? The answer is surprisingly simple. Almost all variation in living standards is attributable to differences in countries' **productivity**—that is, the amount of goods and services produced from each hour of a worker's time. In nations where workers can produce a large quantity of goods and services per unit of time, most people enjoy a high standard of living; in nations where workers are less productive, most people endure a more meager existence. Similarly, the growth rate of a nation's productivity determines the growth rate of its average income.

productivity
the quantity of goods and services produced from each hour of a worker's time

The fundamental relationship between productivity and living standards is simple, but its implications are far-reaching. If productivity is the primary determinant of living standards, other explanations must be of secondary importance. For example, it might be tempting to credit labor unions or minimum-wage laws for the rise in living standards of American workers over the past century. Yet the real hero of American workers is their rising productivity. As another example, some commentators have claimed that increased competition from Japan and other countries explained the slow growth in U.S. incomes during the 1970s and 1980s. Yet the real villain was not competition from abroad but flagging productivity growth in the United States.

The relationship between productivity and living standards also has profound implications for public policy. When thinking about how any policy will affect living standards, the key question is how it will affect our ability to produce goods and services. To boost living standards, policymakers need to raise productivity by ensuring that workers are well educated, have the tools needed to produce goods and services, and have access to the best available technology.

Principle 9: Prices Rise When the Government Prints Too Much Money

In Germany in January 1921, a daily newspaper cost 0.30 marks. Less than 2 years later, in November 1922, the same newspaper cost 70,000,000 marks. All other prices in the economy rose by similar amounts. This episode is one of history's most spectacular examples of **inflation,** an increase in the overall level of prices in the economy.

inflation
an increase in the overall level of prices in the economy

Although the United States has never experienced inflation even close to that in Germany in the 1920s, inflation has at times been an economic problem. During the 1970s, for instance, the overall level of prices more than doubled, and President Gerald Ford called inflation "public enemy number one." By contrast, inflation in the 1990s was about 3 percent per year; at this rate, it would take more than 20 years for prices to double. Because high inflation imposes various costs on society, keeping inflation at a low level is a goal of economic policymakers around the world.

What causes inflation? In almost all cases of large or persistent inflation, the culprit is growth in the quantity of money. When a government creates large quantities of the nation's money, the value of the money falls. In Germany in the early 1920s, when prices were on average tripling every month, the quantity of money was also tripling every month. Although less dramatic, the economic history of the United States points to a similar conclusion: The high inflation of the 1970s was associated with rapid growth in the quantity of money, and the low inflation of the 1990s was associated with slow growth in the quantity of money.

"WELL IT MAY HAVE BEEN 68 CENTS WHEN YOU GOT IN LINE, BUT IT'S 74 CENTS NOW!"

Principle 10: Society Faces a Short-Run Trade-off between Inflation and Unemployment

Although a higher level of prices is, in the long run, the primary effect of increasing the quantity of money, the short-run story is more complex and more controversial. Most economists describe the short-run effects of monetary injections as follows:

- Increasing the amount of money in the economy stimulates the overall level of spending and thus the demand for goods and services.
- Higher demand may over time cause firms to raise their prices, but in the meantime, it also encourages them to increase the quantity of goods and services they produce and to hire more workers to produce those goods and services.
- More hiring means lower unemployment.

This line of reasoning leads to one final economywide trade-off: a short-run trade-off between inflation and unemployment.

Although some economists still question these ideas, most accept that society faces a short-run trade-off between inflation and unemployment. This simply means that, over a period of a year or two, many economic policies push inflation and unemployment in opposite directions. Policymakers face this trade-off regardless of whether inflation and unemployment both start out at high levels (as they were in the early 1980s), at low levels (as they were in the late 1990s), or someplace in between. This short-run trade-off plays a key role in the analysis of the **business cycle**—the irregular and largely unpredictable fluctuations in economic activity, as measured by the production of goods and services or the number of people employed.

business cycle
fluctuations in economic activity, such as employment and production

Policymakers can exploit the short-run trade-off between inflation and unemployment using various policy instruments. By changing the amount that the government spends, the amount it taxes, and the amount of money it prints, policymakers can influence the combination of inflation and unemployment that the economy experiences. Because these instruments of economic policy are potentially so powerful, how policymakers should use these instruments to control the economy, if at all, is a subject of continuing debate.

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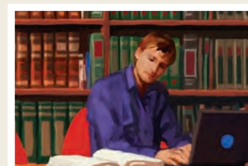

FYI

How to Read This Book

Economics is fun, but it can also be hard to learn. My aim in writing this text is to make it as fun and easy as possible. But you, the student, also have a role to play. Experience shows that if you are actively involved as you study this book, you will enjoy a better outcome both on your exams and in the years that follow. Here are a few tips about how best to read this book.

1. *Summarize, don't highlight.* Running a yellow marker over the text is too passive an activity to keep your mind engaged. Instead, when you come to the end of a section, take a minute and summarize what you just learned in your own words, writing your summary in the wide margins we've provided. When you've finished the chapter, compare your summaries with the one at the end of the chapter. Did you pick up the main points?
2. *Test yourself.* Throughout the book, Quick Quizzes offer instant feedback to find out if you've learned what you are supposed to. Take the opportunity to write down your answer and then check it against the answers provided in the back of the book. The quizzes are meant to test your basic comprehension. If your answer is incorrect, you probably need to review the section.
3. *Practice, practice, practice.* At the end of each chapter, Questions for Review test your understanding, and Problems and Applications ask you to apply and extend the material. Perhaps your instructor will assign some of these exercises as homework. If so, do them. If not, do them anyway. The more you use your new knowledge, the more solid it becomes.
4. *Go online.* The publisher of this book maintains an extensive website to help you in your study of economics. It includes additional examples, applications, and problems, as well as quizzes so you can test yourself. Check it out. The website is http://mankiw.swlearning.com.
5. *Study in groups.* After you've read the book and worked problems on your own, get together with classmates to discuss the material. You will learn from each other—an example of the gains from trade.
6. *Don't forget the real world.* In the midst of all the numbers, graphs, and strange new words, it is easy to lose sight of what economics is all about. The Case Studies and In the News boxes sprinkled throughout this book should help remind you. Don't skip them. They show how the theory is tied to events happening in all of our lives. If your study is successful, you won't be able to read a newspaper again without thinking about supply, demand, and the wonderful world of economics.

Quick Quiz List and briefly explain the three principles that describe how the economy as a whole works.

CONCLUSION

You now have a taste of what economics is all about. In the coming chapters, we will develop many specific insights about people, markets, and economies. Mastering these insights will take some effort, but it is not an overwhelming task. The field of economics is based on a few basic ideas that can be applied in many different situations.

Throughout this book, we will refer back to the *Ten Principles of Economics* highlighted in this chapter and summarized in Table 1. Whenever we do so, an icon will be displayed in the margin, as it is now. But even when that icon is absent, you should keep these building blocks in mind. Even the most sophisticated economic analysis is built using the ten principles introduced here.

TABLE 1

Ten Principles of Economics

How People Make Decisions
1: People Face Trade-offs
2: The Cost of Something Is What You Give Up to Get It
3: Rational People Think at the Margin
4: People Respond to Incentives

How People Interact
5: Trade Can Make Everyone Better Off
6: Markets Are Usually a Good Way to Organize Economic Activity
7: Governments Can Sometimes Improve Market Outcomes

How the Economy as a Whole Works
8: A Country's Standard of Living Depends on Its Ability to Produce Goods and Services
9: Prices Rise When the Government Prints Too Much Money
10: Society Faces a Short-Run Trade-off between Inflation and Unemployment

SUMMARY

- The fundamental lessons about individual decision making are that people face trade-offs among alternative goals, that the cost of any action is measured in terms of forgone opportunities, that rational people make decisions by comparing marginal costs and marginal benefits, and that people change their behavior in response to the incentives they face.
- The fundamental lessons about interactions among people are that trade can be mutually beneficial, that markets are usually a good way of coordinating trade among people, and that the government can potentially improve market outcomes if there is some market failure or if the market outcome is inequitable.
- The fundamental lessons about the economy as a whole are that productivity is the ultimate source of living standards, that money growth is the ultimate source of inflation, and that society faces a short-run trade-off between inflation and unemployment.

KEY CONCEPTS

scarcity, p. 3
economics, p. 4
efficiency, p. 5
equity, p. 5
opportunity cost, p. 6
rational people, p. 6
marginal changes, p. 6
incentive, p. 7
market economy, p. 9
property rights, p. 11
market failure, p. 11
externality, p. 11
market power, p. 11
productivity, p. 12
inflation, p. 12
business cycle, p. 13

QUESTIONS FOR REVIEW

1. Give three examples of important trade-offs that you face in your life.
2. What is the opportunity cost of seeing a movie?
3. Water is necessary for life. Is the marginal benefit of a glass of water large or small?
4. Why should policymakers think about incentives?
5. Why isn't trade among countries like a game with some winners and some losers?
6. What does the "invisible hand" of the marketplace do?
7. Explain the two main causes of market failure and give an example of each.
8. Why is productivity important?
9. What is inflation and what causes it?
10. How are inflation and unemployment related in the short run?

PROBLEMS AND APPLICATIONS

1. Describe some of the trade-offs faced by each of the following:
   a. a family deciding whether to buy a new car
   b. a member of Congress deciding how much to spend on national parks
   c. a company president deciding whether to open a new factory
   d. a professor deciding how much to prepare for class
2. You are trying to decide whether to take a vacation. Most of the costs of the vacation (airfare, hotel, and forgone wages) are measured in dollars, but the benefits of the vacation are psychological. How can you compare the benefits to the costs?
3. You were planning to spend Saturday working at your part-time job, but a friend asks you to go skiing. What is the true cost of going skiing? Now suppose you had been planning to spend the day studying at the library. What is the cost of going skiing in this case? Explain.
4. You win $100 in a basketball pool. You have a choice between spending the money now or putting it away for a year in a bank account that pays 5 percent interest. What is the opportunity cost of spending the $100 now?
5. The company that you manage has invested $5 million in developing a new product, but the development is not quite finished. At a recent meeting, your salespeople report that the introduction of competing products has reduced the expected sales of your new product to $3 million. If it would cost $1 million to finish development and make the product, should you go ahead and do so? What is the most that you should pay to complete development?
6. Three managers of the Magic Potion Company are discussing a possible increase in production. Each suggests a way to make this decision.

   HARRY: We should examine whether our company's productivity—gallons of potion per worker—would rise or fall.

   RON: We should examine whether our average cost—cost per worker—would rise or fall.

   HERMIONE: We should examine whether the extra revenue from selling the additional potion would be greater or smaller than the extra costs.

   Who do you think is right? Why?
7. The Social Security system provides income for people over age 65. If a recipient of Social Security decides to work and earn some income, the amount he or she receives in Social Security benefits is typically reduced.
   a. How does the provision of Social Security affect people's incentive to save while working?
   b. How does the reduction in benefits associated with higher earnings affect people's incentive to work past age 65?

8. A recent bill reforming the government's antipoverty programs limited many welfare recipients to only 2 years of benefits.
   a. How does this change affect the incentives for working?
   b. How might this change represent a trade-off between equity and efficiency?
9. Your roommate is a better cook than you are, but you can clean more quickly than your roommate can. If your roommate did all of the cooking and you did all of the cleaning, would your chores take you more or less time than if you divided each task evenly? Give a similar example of how specialization and trade can make two countries both better off.
10. Suppose the United States adopted central planning for its economy, and you became the chief planner. Among the millions of decisions that you need to make for next year are how many compact discs to produce, what artists to record, and who should receive the discs.
    a. To make these decisions intelligently, what information would you need about the compact disc industry? What information would you need about each of the people in the United States?
    b. How would your decisions about CDs affect some of your other decisions, such as how many CD players to make or cassette tapes to produce? How might some of your other decisions about the economy change your views about CDs?
11. Nations with corrupt police and court systems typically have lower standards of living than nations with less corruption. Why might that be the case?
12. Explain whether each of the following government activities is motivated by a concern about equity or a concern about efficiency. In the case of efficiency, discuss the type of market failure involved.
    a. regulating cable TV prices
    b. providing some poor people with vouchers that can be used to buy food
    c. prohibiting smoking in public places
    d. breaking up Standard Oil (which once owned 90 percent of all oil refineries) into several smaller companies
    e. imposing higher personal income tax rates on people with higher incomes
    f. instituting laws against driving while intoxicated
13. Discuss each of the following statements from the standpoints of equity and efficiency.
    a. "Everyone in society should be guaranteed the best healthcare possible."
    b. "When workers are laid off, they should be able to collect unemployment benefits until they find a new job."
14. In what ways is your standard of living different from that of your parents or grandparents when they were your age? Why have these changes occurred?
15. Suppose Americans decide to save more of their incomes. If banks lend this extra saving to businesses, which use the funds to build new factories, how might this lead to faster growth in productivity? Who do you suppose benefits from the higher productivity? Is society getting a free lunch?
16. Imagine that you are a policymaker trying to decide whether to reduce the rate of inflation. To make an intelligent decision, what would you need to know about inflation, unemployment, and the trade-off between them?
17. Look at a newspaper or at the website http://www.economist.com to find three stories about the economy that have been in the news lately. For each story, identify one (or more) of the *Ten Principles of Economics* discussed in this chapter that is relevant and explain how it is relevant. Also, for each story, look through this book's Contents and try to find a chapter that might shed light on the news event.

For further information on topics in this chapter, additional problems, applications, examples, online quizzes, and more, please visit our website at http://mankiw.swlearning.com.

through a fundamental economic transformation. Advances in digital technology, fiber optics, the Internet, satellites, and transportation have effectively leveled the economic barriers between countries and continents. Pools of capital scour the earth in search of the best returns, with trillions of dollars moving across borders with only a few keystrokes. The collapse of the Soviet Union, the institution of market-based reforms in India and China, the lowering of trade barriers, and the advent of big-box retailers like Wal-Mart have brought several billion people into direct competition with American companies and American workers. Whether or not the world is already flat, as columnist and author Thomas Friedman says, it is certainly getting flatter every day.

There's no doubt that globalization has brought significant benefits to American consumers. It's lowered prices on goods once considered luxuries, from big-screen TVs to peaches in winter, and increased the purchasing power of low-income Americans. It's helped keep inflation in check, boosted returns for the millions of Americans now invested in the stock market, provided new markets for U.S. goods and services, and allowed countries like China and India to dramatically reduce poverty, which over the long term makes for a more stable world.

But there's also no denying that globalization has greatly increased economic instability for millions of ordinary Americans. To stay competitive and keep investors happy in the global marketplace, U.S.-based companies have automated, downsized, outsourced, and offshored. They've held the line on wage increases, and replaced defined-benefit health and retirement plans with 401(k)s

and Health Savings Accounts that shift more cost and risk onto workers.

The result has been the emergence of what some call a "winner-take-all" economy, in which a rising tide doesn't necessarily lift all boats. Over the past decade, we've seen strong economic growth but anemic job growth; big leaps in productivity but flatlining wages; hefty corporate profits, but a shrinking share of those profits going to workers. For those like Larry Page and Sergey Brin, for those with unique skills and talents and for the knowledge workers—the engineers, lawyers, consultants, and marketers—who facilitate their work, the potential rewards of a global marketplace have never been greater. But for those like the workers at Maytag, whose skills can be automated or digitized or shifted to countries with cheaper wages, the effects can be dire—a future in the ever-growing pool of low-wage service work, with few benefits, the risk of financial ruin in the event of an illness, and the inability to save for either retirement or a child's college education.

The question is what we should do about all this. Since the early nineties, when these trends first began to appear, one wing of the Democratic Party—led by Bill Clinton—has embraced the new economy, promoting free trade, fiscal discipline, and reforms in education and training that will help workers to compete for the high-value, high-wage jobs of the future. But a sizable chunk of the Democratic base—particularly blue-collar union workers like Dave Bevard—has resisted this agenda. As far as they're concerned, free trade has served the interests of Wall Street but has done little to stop the hemorrhaging of good-paying American jobs.

The Republican Party isn't immune from these tensions. With the recent uproar around illegal immigration, for example, Pat Buchanan's brand of "America first" conservatism may see a resurgence within the GOP, and present a challenge to the Bush Administration's free trade policies. And in his 2000 campaign and early in his first term, George W. Bush suggested a legitimate role for government, a "compassionate conservatism" that, the White House argues, has expressed itself in the Medicare prescription drug plan and the educational reform effort known as No Child Left Behind—and that has given small-government conservatives heartburn.

For the most part, though, the Republican economic agenda under President Bush has been devoted to tax cuts, reduced regulation, the privatization of government services—and more tax cuts. Administration officials call this the Ownership Society, but most of its central tenets have been staples of laissez-faire economics since at least the 1930s: a belief that a sharp reduction—or in some cases, elimination—of taxes on incomes, large estates, capital gains, and dividends will encourage capital formation, higher savings rates, more business investment, and greater economic growth; a belief that government regulation inhibits and distorts the efficient working of the market; and a belief that government entitlement programs are inherently inefficient, breed dependency, and reduce individual responsibility, initiative, and choice.

Or, as Ronald Reagan succinctly put it: "Government is not the solution to our problem; government is the problem."

So far, the Bush Administration has only achieved one-half of its equation; the Republican-controlled Congress

has pushed through successive rounds of tax cuts, but has refused to make tough choices to control spending—special interest appropriations, also known as earmarks, are up 64 percent since Bush took office. Meanwhile, Democratic lawmakers (and the public) have resisted drastic cuts in vital investments—and outright rejected the Administration's proposal to privatize Social Security. Whether the Administration actually believes that the resulting federal budget deficits and ballooning national debt don't matter is unclear. What is clear is that the sea of red ink has made it more difficult for future administrations to initiate any new investments to address the economic challenges of globalization or to strengthen America's social safety net.

I don't want to exaggerate the consequences of this stalemate. A strategy of doing nothing and letting globalization run its course won't result in the imminent collapse of the U.S. economy. America's GDP remains larger than China's and India's combined. For now, at least, U.S.-based companies continue to hold an edge in such knowledge-based sectors as software design and pharmaceutical research, and our network of universities and colleges remains the envy of the world.

But over the long term, doing nothing probably means an America very different from the one most of us grew up in. It will mean a nation even more stratified economically and socially than it currently is: one in which an increasingly prosperous knowledge class, living in exclusive enclaves, will be able to purchase whatever they want on the marketplace—private schools, private health care, private security, and private jets—while a growing number of their fellow citizens are consigned to low-paying service jobs, vulnerable to dislocation, pressed to work

longer hours, dependent on an underfunded, overburdened, and underperforming public sector for their health care, their retirement, and their children's educations.

It will mean an America in which we continue to mortgage our assets to foreign lenders and expose ourselves to the whims of oil producers; an America in which we underinvest in the basic scientific research and workforce training that will determine our long-term economic prospects and neglect potential environmental crises. It will mean an America that's more politically polarized and more politically unstable, as economic frustration boils over and leads people to turn on each other.

Worst of all, it will mean fewer opportunities for younger Americans, a decline in the upward mobility that's been at the heart of this country's promise since its founding.

That's not the America we want for ourselves or our children. And I'm confident that we have the talent and the resources to create a better future, a future in which the economy grows and prosperity is shared. What's preventing us from shaping that future isn't the absence of good ideas. It's the absence of a national commitment to take the tough steps necessary to make America more competitive—and the absence of a new consensus around the appropriate role of government in the marketplace.

TO BUILD THAT consensus, we need to take a look at how our market system has evolved over time. Calvin Coolidge once said that "the chief business of the American people is business," and indeed, it would be hard to find a country on earth that's been more consistently hos-

pitable to the logic of the marketplace. Our Constitution places the ownership of private property at the very heart of our system of liberty. Our religious traditions celebrate the value of hard work and express the conviction that a virtuous life will result in material reward. Rather than vilify the rich, we hold them up as role models, and our mythology is steeped in stories of men on the make—the immigrant who comes to this country with nothing and strikes it big, the young man who heads West in search of his fortune. As Ted Turner famously said, in America money is how we keep score.

The result of this business culture has been a prosperity that's unmatched in human history. It takes a trip overseas to fully appreciate just how good Americans have it; even our poor take for granted goods and services—electricity, clean water, indoor plumbing, telephones, televisions, and household appliances—that are still unattainable for most of the world. America may have been blessed with some of the planet's best real estate, but clearly it's not just our natural resources that account for our economic success. Our greatest asset has been our system of social organization, a system that for generations has encouraged constant innovation, individual initiative, and the efficient allocation of resources.

It should come as no surprise, then, that we have a tendency to take our free-market system as a given, to assume that it flows naturally from the laws of supply and demand and Adam Smith's invisible hand. And from this assumption, it's not much of a leap to assume that any government intrusion into the magical workings of the market—whether through taxation, regulation, lawsuits, tariffs, labor protections, or spending on entitlements—necessarily

undermines private enterprise and inhibits economic growth. The bankruptcy of communism and socialism as alternative means of economic organization has only reinforced this assumption. In our standard economics textbooks and in our modern political debates, laissez-faire is the default rule; anyone who would challenge it swims against the prevailing tide.

It's useful to remind ourselves, then, that our free-market system is the result neither of natural law nor of divine providence. Rather, it emerged through a painful process of trial and error, a series of difficult choices between efficiency and fairness, stability and change. And although the benefits of our free-market system have mostly derived from the individual efforts of generations of men and women pursuing their own vision of happiness, in each and every period of great economic upheaval and transition we've depended on government action to open up opportunity, encourage competition, and make the market work better.

In broad outline, government action has taken three forms. First, government has been called upon throughout our history to build the infrastructure, train the workforce, and otherwise lay the foundations necessary for economic growth. All the Founding Fathers recognized the connection between private property and liberty, but it was Alexander Hamilton who also recognized the vast potential of a national economy—one based not on America's agrarian past but on a commercial and industrial future. To realize this potential, Hamilton argued, America needed a strong and active national government, and as America's first Treasury secretary he set about putting his ideas to work. He nationalized the Revolutionary

War debt, which not only stitched together the economies of the individual states but helped spur a national system of credit and fluid capital markets. He promoted policies—from strong patent laws to high tariffs—to encourage American manufacturing, and proposed investment in roads and bridges needed to move products to market.

Hamilton encountered fierce resistance from Thomas Jefferson, who feared that a strong national government tied to wealthy commercial interests would undermine his vision of an egalitarian democracy tied to the land. But Hamilton understood that only through the liberation of capital from local landed interests could America tap into its most powerful resource—namely the energy and enterprise of the American people. This idea of social mobility constituted one of the great early bargains of American capitalism; industrial and commercial capitalism might lead to greater instability, but it would be a dynamic system in which anyone with enough energy and talent could rise to the top. And on this point, at least, Jefferson agreed—it was based on his belief in a meritocracy, rather than a hereditary aristocracy, that Jefferson would champion the creation of a national, government-financed university that could educate and train talent across the new nation, and that he considered the founding of the University of Virginia to be one of his greatest achievements.

This tradition, of government investment in America's physical infrastructure and in its people, was thoroughly embraced by Abraham Lincoln and the early Republican Party. For Lincoln, the essence of America was opportunity, the ability of "free labor" to advance in life. Lincoln considered capitalism the best means of creating such opportunity, but he also saw how the transition from an

agricultural to an industrial society was disrupting lives and destroying communities.

So in the midst of civil war, Lincoln embarked on a series of policies that not only laid the groundwork for a fully integrated national economy but extended the ladders of opportunity downward to reach more and more people. He pushed for the construction of the first transcontinental railroad. He incorporated the National Academy of Sciences, to spur basic research and scientific discovery that could lead to new technology and commercial applications. He passed the landmark Homestead Act of 1862, which turned over vast amounts of public land across the western United States to settlers from the East and immigrants from around the world, so that they, too, could claim a stake in the nation's growing economy. And then, rather than leave these homesteaders to fend for themselves, he created a system of land grant colleges to instruct farmers on the latest agricultural techniques, and to provide them the liberal education that would allow them to dream beyond the confines of life on the farm.

Hamilton's and Lincoln's basic insight—that the resources and power of the national government can facilitate, rather than supplant, a vibrant free market—has continued to be one of the cornerstones of both Republican and Democratic policies at every stage of America's development. The Hoover Dam, the Tennessee Valley Authority, the interstate highway system, the Internet, the Human Genome Project—time and again, government investment has helped pave the way for an explosion of private economic activity. And through the creation of a system of public schools and institutions of higher education, as well as programs like the GI Bill that made a

college education available to millions, government has helped provide individuals the tools to adapt and innovate in a climate of constant technological change.

Aside from making needed investments that private enterprise can't or won't make on its own, an active national government has also been indispensable in dealing with market failures—those recurring snags in any capitalist system that either inhibit the efficient workings of the market or result in harm to the public. Teddy Roosevelt recognized that monopoly power could restrict competition, and made "trust busting" a centerpiece of his administration. Woodrow Wilson instituted the Federal Reserve Bank, to manage the money supply and curb periodic panics in the financial markets. Federal and state governments established the first consumer laws—the Pure Food and Drug Act, the Meat Inspection Act—to protect Americans from harmful products.

But it was during the stock market crash of 1929 and the subsequent Depression that the government's vital role in regulating the marketplace became fully apparent. With investor confidence shattered, bank runs threatening the collapse of the financial system, and a downward spiral in consumer demand and business investment, FDR engineered a series of government interventions that arrested further economic contraction. For the next eight years, the New Deal administration experimented with policies to restart the economy, and although not all of these interventions produced their intended results, they did leave behind a regulatory structure that helps limit the risk of economic crisis: a Securities and Exchange Commission to ensure transparency in the financial markets and protect smaller investors from fraud and insider

manipulation; FDIC insurance to provide confidence to bank depositors; and countercyclical fiscal and monetary policies, whether in the form of tax cuts, increased liquidity, or direct government spending, to stimulate demand when business and consumers have pulled back from the market.

Finally—and most controversially—government has helped structure the social compact between business and the American worker. During America's first 150 years, as capital became more concentrated in trusts and limited liability corporations, workers were prevented by law and by violence from forming unions that would increase their own leverage. Workers had almost no protections from unsafe or inhumane working conditions, whether in sweatshops or meatpacking plants. Nor did American culture have much sympathy for workers left impoverished by capitalism's periodic gales of "creative destruction"—the recipe for individual success was greater toil, not pampering from the state. What safety net did exist came from the uneven and meager resources of private charity.

Again, it took the shock of the Great Depression, with a third of all people finding themselves out of work, ill housed, ill clothed, and ill fed, for government to correct this imbalance. Two years into office, FDR was able to push through Congress the Social Security Act of 1935, the centerpiece of the new welfare state, a safety net that would lift almost half of all senior citizens out of poverty, provide unemployment insurance for those who had lost their jobs, and provide modest welfare payments to the disabled and the elderly poor. FDR also initiated laws that fundamentally changed the relationship between capital and labor: the forty-hour workweek, child labor laws, and minimum wage

laws; and the National Labor Relations Act, which made it possible to organize broad-based industrial unions and forced employers to bargain in good faith.

Part of FDR's rationale in passing these laws came straight out of Keynesian economics: One cure for economic depression was putting more disposable income in the pockets of American workers. But FDR also understood that capitalism in a democracy required the consent of the people, and that by giving workers a larger share of the economic pie, his reforms would undercut the potential appeal of government-managed, command-and-control systems—whether fascist, socialist, or communist—that were gaining support all across Europe. As he would explain in 1944, "People who are hungry, people who are out of a job are the stuff of which dictatorships are made."

For a while this seemed to be where the story would end—with FDR saving capitalism from itself through an activist federal government that invests in its people and infrastructure, regulates the marketplace, and protects labor from chronic deprivation. And in fact, for the next twenty-five years, through Republican and Democratic administrations, this model of the American welfare state enjoyed a broad consensus. There were those on the right who complained of creeping socialism, and those on the left who believed FDR had not gone far enough. But the enormous growth of America's mass production economy, and the enormous gap in productive capacity between the United States and the war-torn economies of Europe and Asia, muted most ideological battles. Without any serious rivals, U.S. companies could routinely pass on higher labor and regulatory costs to their customers. Full employment allowed unionized factory workers to move

into the middle class, support a family on a single income, and enjoy the stability of health and retirement security. And in such an environment of steady corporate profits and rising wages, policy makers found only modest political resistance to higher taxes and more regulation to tackle pressing social problems—hence the creation of the Great Society programs, including Medicare, Medicaid, and welfare, under Johnson; and the creation of the Environmental Protection Agency and Occupational Safety and Health Administration under Nixon.

There was only one problem with this liberal triumph—capitalism would not stand still. By the seventies, U.S. productivity growth, the engine of the postwar economy, began to lag. The increased assertiveness of OPEC allowed foreign oil producers to lop off a much bigger share of the global economy, exposing America's vulnerability to disruptions in energy supplies. U.S. companies began to experience competition from low-cost producers in Asia, and by the eighties a flood of cheap imports—in textiles, shoes, electronics, and even automobiles—had started grabbing big chunks of the domestic market. Meanwhile, U.S.-based multinational corporations began locating some of their production facilities overseas—partly to access these foreign markets, but also to take advantage of cheap labor.

In this more competitive global environment, the old corporate formula of steady profits and stodgy management no longer worked. With less ability to pass on higher costs or shoddy products to consumers, corporate profits and market share shrank, and corporate shareholders began demanding more value. Some corporations found ways to improve productivity through innovation and

automation. Others relied primarily on brutal layoffs, resistance to unionization, and a further shift of production overseas. Those corporate managers who didn't adapt were vulnerable to corporate raiders and leveraged buyout artists, who would make the changes for them, without any regard for the employees whose lives might be upended or the communities that might be torn apart. One way or another, American companies became leaner and meaner—with old-line manufacturing workers and towns like Galesburg bearing the brunt of this transformation.

It wasn't just the private sector that had to adapt to this new environment. As Ronald Reagan's election made clear, the people wanted the government to change as well.

In his rhetoric, Reagan tended to exaggerate the degree to which the welfare state had grown over the previous twenty-five years. At its peak, the federal budget as a total share of the U.S. economy remained far below the comparable figures in Western Europe, even when you factored in the enormous U.S. defense budget. Still, the conservative revolution that Reagan helped usher in gained traction because Reagan's central insight—that the liberal welfare state had grown complacent and overly bureaucratic, with Democratic policy makers more obsessed with slicing the economic pie than with growing the pie—contained a good deal of truth. Just as too many corporate managers, shielded from competition, had stopped delivering value, too many government bureaucracies had stopped asking whether their shareholders (the American taxpayer) and their consumers (the users of government services) were getting their money's worth.

Not every government program worked the way it was advertised. Some functions could be better carried out by

the private sector, just as in some cases market-based incentives could achieve the same results as command-and-control-style regulations, at a lower cost and with greater flexibility. The high marginal tax rates that existed when Reagan took office may not have curbed incentives to work or invest, but they did distort investment decisions—and did lead to a wasteful industry of setting up tax shelters. And while welfare certainly provided relief for many impoverished Americans, it did create some perverse incentives when it came to the work ethic and family stability.

Forced to compromise with a Democrat-controlled Congress, Reagan would never achieve many of his most ambitious plans for reducing government. But he fundamentally changed the terms of the political debate. The middle-class tax revolt became a permanent fixture in national politics and placed a ceiling on how much government could expand. For many Republicans, noninterference with the marketplace became an article of faith.

Of course, many voters continued to look to the government during economic downturns, and Bill Clinton's call for more aggressive government action on the economy helped lift him to the White House. After the politically disastrous defeat of his health-care plan and the election of a Republican Congress in 1994, Clinton had to trim his ambitions but was able to put a progressive slant on some of Reagan's goals. Declaring the era of big government over, Clinton signed welfare reform into law, pushed tax cuts for the middle class and working poor, and worked to reduce bureaucracy and red tape. And it was Clinton who would accomplish what Reagan never did, putting the nation's fiscal house in order even while

lessening poverty and making modest new investments in education and job training. By the time Clinton left office, it appeared as if some equilibrium had been achieved—a smaller government, but one that retained the social safety net FDR had first put into place.

Except capitalism is still not standing still. The policies of Reagan and Clinton may have trimmed some of the fat of the liberal welfare state, but they couldn't change the underlying realities of global competition and technological revolution. Jobs are still moving overseas—not just manufacturing work, but increasingly work in the service sector that can be digitally transmitted, like basic computer programming. Businesses continue to struggle with high health-care costs. America continues to import far more than it exports, to borrow far more than it lends.

Without any clear governing philosophy, the Bush Administration and its congressional allies have responded by pushing the conservative revolution to its logical conclusion—even lower taxes, even fewer regulations, and an even smaller safety net. But in taking this approach, Republicans are fighting the last war, the war they waged and won in the eighties, while Democrats are forced to fight a rearguard action, defending the New Deal programs of the thirties.

Neither strategy will work anymore. America can't compete with China and India simply by cutting costs and shrinking government—unless we're willing to tolerate a drastic decline in American living standards, with smog-choked cities and beggars lining the streets. Nor can America compete simply by erecting trade barriers and raising the minimum wage—unless we're willing to confiscate all the world's computers.

But our history should give us confidence that we don't have to choose between an oppressive, government-run economy and a chaotic and unforgiving capitalism. It tells us that we can emerge from great economic upheavals stronger, not weaker. Like those who came before us, we should be asking ourselves what mix of policies will lead to a dynamic free market and widespread economic security, entrepreneurial innovation and upward mobility. And we can be guided throughout by Lincoln's simple maxim: that we will do collectively, through our government, only those things that we cannot do as well or at all individually and privately.

In other words, we should be guided by what works.

WHAT MIGHT SUCH a new economic consensus look like? I won't pretend to have all the answers, and a detailed discussion of U.S. economic policy would fill up several volumes. But I can offer a few examples of where we can break free of our current political stalemate; places where, in the tradition of Hamilton and Lincoln, we can invest in our infrastructure and our people; ways that we can begin to modernize and rebuild the social contract that FDR first stitched together in the middle of the last century.

Let's start with those investments that can make America more competitive in the global economy: investments in education, science and technology, and energy independence.

Throughout our history, education has been at the heart of a bargain this nation makes with its citizens: If you work hard and take responsibility, you'll have a

chance for a better life. And in a world where knowledge determines value in the job market, where a child in Los Angeles has to compete not just with a child in Boston but also with millions of children in Bangalore and Beijing, too many of America's schools are not holding up their end of the bargain.

In 2005 I paid a visit to Thornton Township High School, a predominantly black high school in Chicago's southern suburbs. My staff had worked with teachers there to organize a youth town hall meeting—representatives of each class spent weeks conducting surveys to find out what issues their fellow students were concerned about and then presented the results in a series of questions to me. At the meeting they talked about violence in the neighborhoods and a shortage of computers in their classrooms. But their number one issue was this: Because the school district couldn't afford to keep teachers for a full school day, Thornton let out every day at 1:30 in the afternoon. With the abbreviated schedule, there was no time for students to take science lab or foreign language classes.

How come we're getting shortchanged? they asked me. Seems like nobody even expects us to go to college, they said.

They wanted more school.

We've become accustomed to such stories, of poor black and Latino children languishing in schools that can't prepare them for the old industrial economy, much less the information age. But the problems with our educational system aren't restricted to the inner city. America now has one of the highest high school dropout rates in the industrialized world. By their senior year, American

high school students score lower on math and science tests than most of their foreign peers. Half of all teenagers can't understand basic fractions, half of all nine-year-olds can't perform basic multiplication or division, and although more American students than ever are taking college entrance exams, only 22 percent are prepared to take college-level classes in English, math, and science.

I don't believe government alone can turn these statistics around. Parents have the primary responsibility for instilling an ethic of hard work and educational achievement in their children. But parents rightly expect their government, through the public schools, to serve as full partners in the educational process—just as it has for earlier generations of Americans.

Unfortunately, instead of innovation and bold reform of our schools—the reforms that would allow the kids at Thornton to compete for the jobs at Google—what we've seen from government for close to two decades has been tinkering around the edges and a tolerance for mediocrity. Partly this is a result of ideological battles that are as outdated as they are predictable. Many conservatives argue that money doesn't matter in raising educational achievement; that the problems in public schools are caused by hapless bureaucracies and intransigent teachers' unions; and that the only solution is to break up the government's education monopoly by handing out vouchers. Meanwhile, those on the left often find themselves defending an indefensible status quo, insisting that more spending alone will improve educational outcomes.

Both assumptions are wrong. Money does matter in education—otherwise why would parents pay so much to live in well-funded suburban school districts?—and many

urban and rural schools still suffer from overcrowded classrooms, outdated books, inadequate equipment, and teachers who are forced to pay out of pocket for basic supplies. But there's no denying that the way many public schools are managed poses at least as big a problem as how well they're funded.

Our task, then, is to identify those reforms that have the highest impact on student achievement, fund them adequately, and eliminate those programs that don't produce results. And in fact we already have hard evidence of reforms that work: a more challenging and rigorous curriculum with emphasis on math, science, and literacy skills; longer hours and more days to give children the time and sustained attention they need to learn; early childhood education for every child, so they're not already behind on their first day of school; meaningful, performance-based assessments that can provide a fuller picture of how a student is doing; and the recruitment and training of transformative principals and more effective teachers.

This last point—the need for good teachers—deserves emphasis. Recent studies show that the single most important factor in determining a student's achievement isn't the color of his skin or where he comes from, but who the child's teacher is. Unfortunately, too many of our schools depend on inexperienced teachers with little training in the subjects they're teaching, and too often those teachers are concentrated in already struggling schools. Moreover, the situation is getting worse, not better: Each year, school districts are hemorrhaging experienced teachers as the Baby Boomers reach retirement, and two million teachers must be recruited in the next decade just to meet the needs of rising enrollment.

The problem isn't that there's no interest in teaching; I constantly meet young people who've graduated from top colleges and have signed up, through programs like Teach for America, for two-year stints in some of the country's toughest public schools. They find the work extraordinarily rewarding; the kids they teach benefit from their creativity and enthusiasm. But by the end of two years, most have either changed careers or moved to suburban schools—a consequence of low pay, a lack of support from the educational bureaucracy, and a pervasive feeling of isolation.

If we're serious about building a twenty-first-century school system, we're going to have to take the teaching profession seriously. This means changing the certification process to allow a chemistry major who wants to teach to avoid expensive additional course work; pairing up new recruits with master teachers to break their isolation; and giving proven teachers more control over what goes on in their classrooms.

It also means paying teachers what they're worth. There's no reason why an experienced, highly qualified, and effective teacher shouldn't earn $100,000 annually at the peak of his or her career. Highly skilled teachers in such critical fields as math and science—as well as those willing to teach in the toughest urban schools—should be paid even more.

There's just one catch. In exchange for more money, teachers need to become more accountable for their performance—and school districts need to have greater ability to get rid of ineffective teachers.

So far, teacher's unions have resisted the idea of pay for performance, in part because it could be disbursed at the whim of a principal. The unions also argue—rightly, I think—that most school districts rely solely on test scores to measure teacher performance, and that test scores may be highly dependent on factors beyond any teacher's control, like the number of low-income or special-needs students in their classroom.

But these aren't insoluble problems. Working with teacher's unions, states and school districts can develop better measures of performance, ones that combine test data with a system of peer review (most teachers can tell you with amazing consistency which teachers in their schools are really good, and which are really bad). And we can make sure that nonperforming teachers no longer handicap children who want to learn.

Indeed, if we're to make the investments required to revamp our schools, then we will need to rediscover our faith that every child *can* learn. Recently, I had the chance to visit Dodge Elementary School, on the West Side of Chicago, a school that had once been near the bottom on every measure but that is in the midst of a turnaround. While I was talking to some of the teachers about the challenges they faced, one young teacher mentioned what she called the "These Kids Syndrome"—the willingness of society to find a million excuses for why "these kids" can't learn; how "these kids come from tough backgrounds" or "these kids are too far behind."

"When I hear that term, it drives me nuts," the teacher told me. "They're not 'these kids.' They're our kids."

How America's economy performs in the years to come may depend largely on how well we take such wisdom to heart.

OUR INVESTMENT IN education can't end with an improved elementary and secondary school system. In a knowledge-based economy where eight of the nine fastest-growing occupations this decade require scientific or technological skills, most workers are going to need some form of higher education to fill the jobs of the future. And just as our government instituted free and mandatory public high schools at the dawn of the twentieth century to provide workers the skills needed for the industrial age, our government has to help today's workforce adjust to twenty-first-century realities.

In many ways, our task should be easier than it was for policy makers a hundred years ago. For one thing, our network of universities and community colleges already exists and is well equipped to take on more students. And Americans certainly don't need to be convinced of the value of a higher education—the percentage of young adults getting bachelor's degrees has risen steadily each decade, from around 16 percent in 1980 to almost 33 percent today.

Where Americans do need help, immediately, is in managing the rising cost of college—something with which Michelle and I are all too familiar (for the first ten years of our marriage, our combined monthly payments on our undergraduate and law school debt exceeded our mortgage by a healthy margin). Over the last five years, the average tuition and fees at four-year public colleges, adjusted for inflation, have risen 40 percent. To absorb these costs, students have been taking on ever-increasing debt levels, which discourages many undergraduates from pursuing careers in less lucrative fields like teaching. And an estimated two hundred thousand college-qualified students each year choose to forgo college altogether because they can't figure out how to pay the bills.

There are a number of steps we can take to control costs and improve access to higher education. States can limit annual tuition increases at public universities. For many nontraditional students, technical schools and online courses may provide a cost-effective option for retooling in a constantly changing economy. And students can insist that their institutions focus their fund-raising efforts more on improving the quality of instruction than on building new football stadiums.

But no matter how well we do in controlling the spiraling cost of education, we will still need to provide many students and parents with more direct help in meeting college expenses, whether through grants, low-interest loans, tax-free educational savings accounts, or full tax deductibility of tuition and fees. So far, Congress has been moving in the opposite direction, by raising interest rates on federally guaranteed student loans and failing to increase the size of grants for low-income students to keep pace with inflation. There's no justification for such policies—not if we want to maintain opportunity and upward mobility as the hallmark of the U.S. economy.

There's one other aspect of our educational system that merits attention—one that speaks to the heart of America's competitiveness. Since Lincoln signed the Morrill Act and created the system of land grant colleges, institutions of higher learning have served as the nation's primary research and development laboratories. It's through these institutions that we've trained the innovators of the future, with the federal government providing critical support for

the infrastructure—everything from chemistry labs to particle accelerators—and the dollars for research that may not have an immediate commercial application but that can ultimately lead to major scientific breakthroughs.

Here, too, our policies have been moving in the wrong direction. At the 2006 Northwestern University commencement, I fell into a conversation with Dr. Robert Langer, an Institute Professor of chemical engineering at MIT and one of the nation's foremost scientists. Langer isn't just an ivory tower academic—he holds more than five hundred patents, and his research has led to everything from the development of the nicotine patch to brain cancer treatments. As we waited for the procession to begin, I asked him about his current work, and he mentioned his research in tissue engineering, research that promised new, more effective methods of delivering drugs to the body. Remembering the recent controversies surrounding stem cell research, I asked him whether the Bush Administration's limitation on the number of stem cell lines was the biggest impediment to advances in his field. He shook his head.

"Having more stem cell lines would definitely be useful," Langer told me, "but the real problem we're seeing is significant cutbacks in federal grants." He explained that fifteen years ago, 20 to 30 percent of all research proposals received significant federal support. That level is now closer to 10 percent. For scientists and researchers, this means more time spent raising money and less time spent on research. It also means that each year, more and more promising avenues of research are cut off—especially the high-risk research that may ultimately yield the biggest rewards.

Dr. Langer's observation isn't unique. Each month, it

seems, scientists and engineers visit my office to discuss the federal government's diminished commitment to funding basic scientific research. Over the last three decades federal funding for the physical, mathematical, and engineering sciences has declined as a percentage of GDP—just at the time when other countries are substantially increasing their own R & D budgets. And as Dr. Langer points out, our declining support for basic research has a direct impact on the number of young people going into math, science, and engineering—which helps explain why China is graduating eight times as many engineers as the United States every year.

If we want an innovation economy, one that generates more Googles each year, then we have to invest in our future innovators—by doubling federal funding of basic research over the next five years, training one hundred thousand more engineers and scientists over the next four years, or providing new research grants to the most outstanding early-career researchers in the country. The total price tag for maintaining our scientific and technological edge comes out to approximately $42 billion over five years—real money, to be sure, but just 15 percent of the most recent federal highway bill.

In other words, we can afford to do what needs to be done. What's missing is not money, but a national sense of urgency.

THE LAST CRITICAL investment we need to make America more competitive is in an energy infrastructure that can move us toward energy independence. In the past, war or a direct threat to national security has shaken

Fakultät 1 – Wirtschaftswissenschaften / School of International Business

Modulhandbuch

Studiengang Betriebswirtschaft / Internationales Management (BIM)

Acht Semester

Stand: Dezember 2010

Anbietende Hochschule	Hochschule Bremen
Studiengang	Betriebswirtschaft Internationales Management (BIM)

Modulbezeichnung: VWL I: Grundlagen der VWL, Mikroökonomie

Modulcode	2.3.

Semester	2. Semester
Dauer / Häufigkeit	15 Wochen / einmal jährlich
Art	Pflichtmodul
ECTS-Punkte	6
Student. Arbeitsbelastung h	180
Kontaktstunden	60 + 15
Selbststudium in Stunden	120 (das Selbststudium beinhaltet auch den Arbeitsaufwand für die modulbezogene Übung als angeleitetes Selbststudium im Umfang 15 h)
Voraussetzungen für die Teilnahme	
Verwendbarkeit	Studiengang BIM
Prüfungsform / Prüfungsdauer (Voraussetzung für die Vergabe von Leistungspunkten)	Klausur (120 Minuten), Referat, Hausarbeit, Portfolio oder mündliche Prüfung.
Lehr- und Lernmethoden	seminaristischer Unterricht, angeleitetes Selbststudium, Übungen im Einzel- und Gruppenarbeit
Modulverantwortliche/r	Prof. Dr. Peter Schmidt
Kompetenzziele	Nach Abschluss der Veranstaltung können die Teilnehmer/innen • das Wesen ökonomischer Entscheidungen erfassen und daraus selbstständig Schlussfolgerungen für sinnvolles individuelles und kollektives Handeln ziehen, • in ökonomischen Argumentationen theoriebasiert zielgerichtet argumentieren und mikroökonomische Zusammenhänge erklären, • theoretische volkswirtschaftliche Modelle interpretieren und anwendungsorientiert aus einem unternehmerischen Blickwinkel anwenden, • Märkte und Preisbildungen analysieren und daraus praxisorientiert Schlussfolgerungen ziehen, wie z.B. Preisstrategien für Zielmärkten entwickeln, • Entscheidungen von Wirtschaftssubjekten mittels ökonomischer Kriterien kritisieren.
Lehrinhalte	Die Veranstaltung dient der Vermittlung von systematischen Kenntnissen im Fach Volkswirtschaftslehre. Dabei werden in diesem Modul zunächst die grundlegenden Prinzipien vermittelt, um anschließend in der Mikroökonomie Entscheidungen einzelner Wirtschaftssubjekte aus theoretischer und angewandter Sicht zu erörtern. Die Grundlagen der Volkswirtschaftslehre umfassen dabei die Grundfragen des Wirtschaftens, elementare Begriffe und

	Konzepte der ökonomischen Denkweise, Denkschulen und Grundfragen von Wirtschaftssystemen. Die Mikroökonomie analysiert einzelwirtschaftliche Entscheidungen der Haushalte und Unternehmen und deren Zusammenwirken auf Märkten. Hier werden u.a. Preistheorie, Marktformen sowie Möglichkeiten und Konsequenzen staatlicher Eingriffe in Marktprozesse erarbeitet.
Literatur	Die aktuellen Literaturlisten werden den Studierenden zu Beginn des Semesters bekannt gegeben.

	Lehrveranstaltungen	SWS
Dozent(in)	VWL I: Grundlagen der VWL, Mikroökonomie	4
Dozent(in)	Modulbezogene Übung	1

Anbietende Hochschule	Hochschule Bremen
Studiengang	Betriebswirtschaft Internationales Management (BIM)

Modulbezeichnung: Volkswirtschaftslehre II: Makroökonomie und Wirtschaftspolitik

Modulcode	3.3.

Semester	3. Semester
Dauer / Häufigkeit	15 Wochen / einmal jährlich
Art	Pflichtmodul
ECTS-Punkte	6
Student. Arbeitsbelastung h	180
Kontaktstunden	60 + 15
Selbststudium in Stunden	120 (das Selbststudium beinhaltet auch den Arbeitsaufwand für die modulbezogene Übung als angeleitetes Selbststudium im Umfang 15 h)
Voraussetzungen für die Teilnahme	
Verwendbarkeit	Studiengang BIM
Prüfungsform / Prüfungsdauer (Voraussetzung für die Vergabe von Leistungspunkten)	Klausur (120 Minuten), Referat, Hausarbeit, Portfolio oder mündliche Prüfung.
Lehr- und Lernmethoden	seminaristischer Unterricht, angeleitetes Selbststudium, Übungen im Einzel- und Gruppenarbeit
Modulverantwortliche/r	Prof. Dr. Peter Schmidt
Kompetenzziele	Nach Abschluss der Veranstaltung können die Teilnehmer/innen • die Teilbereiche der Volkswirtschaftslehre abgrenzen und die Modelle dieser verschiedenen Teilbereiche zielgerichtet für unternehmerische Fragestellungen anwenden, • die aktuelle politische Diskussion über wirtschaftspolitische Maßnahmen und Grundfragen theoriebasiert nachvollziehen und in Diskussionen fundiert eine eigene Stellung beziehen, • wirtschaftspolitische Argumente den unterschiedlichen Denkschulen zuordnen, • die Ermittlungsmethoden der Volkswirtschaftlichen Gesamtrechnung unterscheiden und auf dieser Basis die verschiedenen Inlandsproduktkonzepte interpretieren, • zwischen Fiskal- und Geldpolitik unterscheiden und deren Relevanz innerhalb des Europäischen Wirtschaftsraumes einordnen, • angemessene wirtschaftspolitische Maßnahmen als Antwort auf die Veränderung gesamtwirtschaftlicher Indikatoren formulieren.
Lehrinhalte	Die Veranstaltung dient der Vermittlung systematischer Kenntnisse im Fach Volkswirtschaftslehre. In diesem Modul wird auf Basis der im vorhergehenden VWL-Modul gelegten Grundlagen der VWL und Mikroökonomik der Fokus auf die

	gesamtwirtschaftliche Ebene gelegt. Im ersten Schritt wird die volkswirtschaftliche Gesamtrechnung (VGR) vorgestellt und auf dieser Basis die makroökonomische Theorie behandelt, so dass mit den gesamtwirtschaftlichen Märkten das „Business Environment“ behandelt wird, welches das Umfeld für unternehmerische Entscheidungen bildet. Ein Fokus wird hierbei auf die unterschiedlichen Erklärungsansätze (Dogmen) der Wirtschaftstheorie gelegt. Der zweite Schritt stellt auf dieser theoretischen Basis die Möglichkeiten der wirtschafspolitischen Akteure sowie die potentiellen Implikationen politischer Eingriffe dar.
Literatur	Die aktuellen Literaturlisten werden den Studierenden zu Beginn des Semesters bekannt gegeben.

	Lehrveranstaltungen	SWS
Dozent(in)	VWL II: Makroökonomie und Wirtschaftspolitik	4
Dozent(in)	Modulbezogene Übung	1