

MACRO ECONOMICS

Australia in the Global Environment

Parkin  Bade

About the Authors



Michael Parkin is Professor Emeritus in the Department of Economics at the University of Western Ontario, Canada. Professor Parkin studied economics in England and began his university teaching career immediately after graduating with a B.A. He learned the subject on the job at the University of Essex, England's most exciting new university of the 1960s, and at the age of 30 became one of the youngest full professors. His many visiting positions include spells at the Reserve Bank of Australia, the University of New South Wales, Bond University and the Bank of Japan. He is a past president of the Canadian Economics Association and has served on the editorial boards of the *American Economic Review* and the *Journal of Monetary Economics*. His research in macroeconomics, monetary economics and international economics has resulted in more than 160 publications in journals and edited volumes, including the *American Economic Review*, the *Journal of Political Economy*, the *Review of Economic Studies*, the *Journal of Monetary Economics* and the *Journal of Money, Credit, and Banking*. He became most visible to the public with his work that discredited the use of wage and price controls to tame inflation.



Robin Bade was an undergraduate at the University of Queensland where she earned degrees in mathematics and economics. After a spell teaching high school mathematics and physics, she enrolled as a Ph.D. student at ANU, from which she graduated in 1970. She has held faculty appointments at the University of Edinburgh, Bond University, and at the Universities of Manitoba, Toronto, and Western Ontario. Her research on international capital flows appears in the *International Economic Review* and the *Economic Record*.

Robin has been teaching introductory economics (alongside macroeconomics and international economics) since 1970. She developed many of the ideas found in this text while conducting tutorials with her students at the University of Western Ontario.

Robin and Michael are a wife-and-husband team. Their most notable joint research created the Bade-Parkin Index of central bank independence and spawned a vast amount of research on that topic. They don't claim credit for the independence of the new European Central Bank, but its constitution and the movement towards greater independence of central banks around the world were aided by their pioneering work. Their joint textbooks include *Macroeconomics* (Prentice-Hall), *Modern Macroeconomics* (Pearson Education Canada), *Economics: Canada in the Global Environment*, the Canadian adaptation of Parkin, *Economics* (Pearson) and *Foundations of Economics* (Pearson). They are dedicated to the challenge of explaining economics ever more clearly to a growing body of students.

Music, theatre, opera, art and walking on the beach provide their relaxation and fun.

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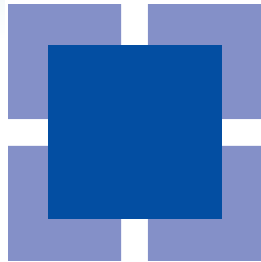
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Why?

With a crowded market of established macroeconomics textbooks, why have we written *Macroeconomics: Australia in the Global Environment* and its microeconomics companion? Is this rational behaviour?

We think so. We have been driven to write this book by what our own students and several hundred of our fellow economists in universities around the world have repeatedly told us. Economics is a core competency for the responsible citizen and a foundation tool for every type of career. But the challenges of learning and teaching economics are formidable. Students have diverse backgrounds and learning styles. We must fit an entire course in macroeconomics into too few weeks. And we must meet the challenge of using new technologies in our classrooms.

As we contemplated these challenges, it became clear to us that to meet them, we needed to rethink the way we teach our subject and to create a new learning system for our students.

LOWERING THE BARRIERS TO ENTRY

Most economists want to teach a serious, analytical course that explains the core principles of our subject and helps students apply these principles in their lives and jobs. We are not content to teach “dumbed-down” economics. But most students drown rather than learn to swim when thrown into the deep end of the pool. In this book and its accompanying learning tools, we make painstaking efforts to lower the barriers to learning and to reach out to the beginning student.

We focus on core concepts. We steer a steady path between an overload of detail that swamps the students and a minimalist approach that leaves the student dangling with too much unsaid. We explain tough concepts with the simplest, most straightforward language possible, and we reinforce them with clear, fully explained graphs. And we offer students a rich array of active learning tools that provide alternative ways of accessing and mastering the material.

■ Focus on Core Concepts

Each chapter concentrates on a manageable number of main ideas (most commonly three or four) and reinforces each idea several times throughout the chapter. This patient, confidence-building approach guides students through unfamiliar terrain and helps them to focus their efforts on the most important tools and concepts of our discipline.

■ Figures That Tell the Whole Story

We developed the style of our figures with extensive feedback from focus group participants and student reviewers. All our figures make consistent use of colour to show the direction of shifts and contain detailed, numbered captions designed to direct students' attention step by step through the action. Because beginning students of economics are often apprehensive about working with graphs, we have made a special effort to present material in three ways—with graphs, words and tables—in the same figure. And in an innovation that seems necessary but is to our knowledge unmatched, nearly all of the information supporting a figure appears on the same page as the figure itself. No more flipping pages back and forth!

■ Many Learning Tools for Many Learning Styles

Our text and its integrated print and electronic learning package recognise that our students have a variety of learning styles. Some learn easily by reading the textbook; others benefit from audio and visual reinforcement. All students can profit from an active learning approach. The textbook comes with access to a suite of innovative learning tools, including tutorial software.

PRACTICE MAKES PERFECT

Everyone agrees that the only way to learn economics is to do it! Reading and remembering doesn't work. Active involvement, working problems and repeated self-testing: These are the ingredients to success in this subject. We have structured this text and its accompanying electronic and print tools to encourage learning by doing. The central device that accomplishes this goal is a tightly knit learning system based on our Learning Objectives–Review structure.

■ Learning Objectives

Each chapter opens with the chapter's Learning Objectives—a list of (usually) three or four tasks the student will be able to perform after completing the chapter. Each item in the Learning Objective corresponds to a major section of the chapter that engages the student with a conversational writing style, well-chosen examples and rich, carefully designed illustrations.

■ Reviews

A full-page Review containing Practice Problems and an In the News exercise, each with solutions, immediately follows each chapter section. The Reviews serve as stopping points and encourage students to review the concept and to practise using it before moving on to new ideas. Graphs and tables bring added clarity to the Review problems and solutions.

■ Chapter Summaries

At the end of each chapter, a Chapter Summary summarises what the student has just learned with a set of key points and a list of key terms.

■ Chapter Reviews

Following the Chapter Summary, the Chapter Review includes a set of Study Plan Problems and Applications, a set of Additional Problems and Applications, and a Multiple Choice Quiz.

■ Conveying the Excitement

Students learn best when they can see the point of what they are studying. We show the point in a series of *Eye On ...* features. Current and recent events appear in *Eye on the Australian Economy* boxes. We place our present experience in global and historical perspectives with *Eye on the Global Economy* and *Eye on the Past* boxes. *Eye on the News*, which appears once each chapter, is an extract from a news article with a related economic analysis. All of our *Eye On ...* boxes connect theory with reality.

ORGANISATION

We cover all the standard topics of the principles of macroeconomics curriculum. And we do so in the order that is increasingly finding favour. We believe that a powerful case can be made for teaching the subject in the order in which we present it here.

We begin with the fundamental questions of economics and an overview of the economic way of thinking; the key facts about the performance of the Australian and global economies and the circular flows through markets for goods and factors of production; the production possibilities frontier and the gains from trade; and demand and supply and the effects of price controls and sticky prices. We present the rest of the material in three broad parts, monitoring, understanding and policy.

A key organising device is the idea that at full employment, the real economy is influenced by only real variables and the price level is proportional to the quantity of money. This so-called “classical dichotomy” has been incredibly fruitful in advancing our understanding of both the full-employment economy and the ever-present cycles around full employment. By having a firm understanding of the real forces that determine potential GDP (and the natural unemployment rate), the student better appreciates the more complex interactions of real and monetary forces that make our economy fluctuate. Further, the student sees that the long-term trends in our economy play a larger role in determining our standard of living and cost of living than do the fluctuations around those trends.

Deciding the order in which to teach the components of macroeconomics involves a tradeoff between building all the foundations and getting to policy issues early in the course. There is little disagreement that the place to begin after the preliminaries of production possibilities and demand and supply, is with coverage of the definitions and measurement of the key economic aggregates. We provide a carefully paced and thoroughly modern treatment of this material with separate chapters devoted to GDP, jobs and unemployment, and inflation and the cost of living.

Our chapters on understanding the macroeconomy begin with the real forces that determine potential GDP and its long-term growth rate, followed by an explanation of how financial markets work to channel saving and harness it to bring the capital accumulation that feeds economic growth.

We then turn to the monetary economy and explain what money is, how it is created, and how its quantity determines the price level and the cost of living.

With all the prerequisites in place, we provide a well-paced and comprehensive account of the aggregate supply-aggregate demand model of the determination of real GDP and the price level. We follow this material with an optional explanation of the traditional Keynesian model of aggregate demand and round off the part with an explanation of the short-run Phillips curve tradeoff between inflation and output (and unemployment).

Four policy chapters, including an explanation of how the foreign exchange market works, round off the coverage of macroeconomics.

Extensive reviewing suggests that most people like this structure. But we recognise that there is a range of opinion about sequencing, and we have designed our text so that it works equally well if other sequences are preferred. The **Flexibility Chart** on p. xxvi provides a guide to the alternative pathways.

RESOURCES FOR EDUCATORS AND STUDENTS

A suite of resources is provided to assist with delivery of the text, as well as to support teaching and learning. These resources can be downloaded from the Pearson website: www.pearson.com.au/9781488625596.

■ Solutions Manual

The Solutions Manual provides educators with worked solution to all of the end-of-chapter problems in the textbook.

■ Test Bank

Available in Word[®] format, the Test Bank provides educators with a wealth of accuracy-verified testing material for homework and quizzing. Revised to match the 2nd edition, each Test Bank chapter offers a wide variety of multiple-choice and short-answer questions, ordered by key topics.

■ PowerPoint[®] Resource

We have created three sets of PowerPoint[®] lecture presentations based on our own 20 years of experience using this tool in our own classrooms. The three sets are:

- Lectures with full-colour, animated figures, and textbook tables
- Figures and tables from the textbook, animated with step-by-step walk-through to enliven a user's own personal slides
- *Eye On* features

A student version of the lecture presentations is also available on MyLab Economics.

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We thank the several thousand students whom we have been privileged to teach. The instant response that comes from that look of puzzlement or enlightenment has taught us how to teach economics.

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