

**Solution Manual for Economics 4th Edition by Hubbard Obrien ISBN  
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# Preface

## *Features of this Instructor's Manual*

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Each chapter of this Instructor's Manual contains the following elements:

**Chapter Summary:** An overview of the main economic concepts covered.

**Learning Objectives:** A list of the student learning goals listed at the beginning of each text chapter.

**Chapter Outline with Teaching Tips:** Detailed descriptions of the economic concepts in the book, key term definitions, and teaching tip boxes. The teaching tip boxes include recommendations on how to integrate key figures.

**Extra Solved Problems:** Each chapter of the main text has a *Solved Problem* to support two of the chapter's learning objectives. This Instructor's Manual includes *Solved Problems* for the remaining learning objectives. You can assign these extra *Solved Problems* as homework or present them during classroom lectures.

**Extra Economics in Your Life:** Each chapter of the book opens and closes with a special feature entitled *Economics in Your Life* that emphasizes the connection between the material and the students' personal experiences and questions. This Instructor's Manual includes an extra *Economics in Economics in Your Life* for each chapter to present in class.

**Extra Making the Connection:** Each chapter of the main text has two or more *Making the Connection* features to provide real-world reinforcement of key concepts. This Instructor's Manual includes extra *Making the Connections* to present in class.

**Solutions to Review Questions and Problems and Applications:** Each chapter of this Instructor's Manual includes solutions to all questions and problems in the main text:

- Solutions to the two *Thinking Critically* questions that accompany the *An Inside Look* newspaper feature located at the end of each chapter

- Solutions to the end-of-chapter Review Questions

- Solutions to the end-of-chapter Problems and Applications

## *Revisions to the Main Text*

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If you used Hubbard/O'Brien, *ECONOMICS, THIRD EDITION*, here is a summary of the changes the authors made to the main text. Knowing about these changes will help you revise your current teaching notes and class presentations.

A new Chapter 7, “The Economics of Health Care,” covers health care around the world, information problems and externalities in the market for health care, and the debate over President Obama’s Patient Protection and Affordable Care Act.

There is new coverage of the slow recovery from the recession and financial crisis of 2007–2009.

There is new coverage of initiatives by the Federal Reserve, including quantitative easing and Operation Twist.

There is new coverage of fiscal policy, including analysis of the debate over fiscal stimulus and the magnitude of multipliers for government spending and taxes.

All companies in the chapter openers have been either replaced with new companies or updated with current information.

All chapters include new *An Inside Look* newspaper articles and analyses to help students apply economic thinking to current events and policy debates.

There are twenty-eight new *Making the Connection* features to help students tie economic concepts to current events and policy issues.

Figures and tables have been updated, using the latest data available.

Many of the end-of-chapter problems have been either replaced or updated.

In this new edition, we have taken the opportunity to make many changes throughout the text, while concentrating on the key areas described in the following sections.

***Policy debates, including health care, trade, and pollution.*** The number of jobs in the health care sector continues to increase. In Chapter 1, “Economics: Foundations and Models,” we use the debate about whether public policy is resulting in physicians leaving private practice to introduce students to positive and normative economic analysis. In Chapter 9, “Comparative Advantage and the Gains from International Trade,” we explore the “Buy American” provision in the 2009 stimulus package.

As this book goes to press, the debate continues over the consequences of the 2010 overhaul of the U.S. health care system. In Chapter 2, “Trade-offs, Comparative Advantage, and the Market System,” we discuss the trade-offs involved in health care spending and the Medicare and Medicaid programs. We revisit the topic of health care in the new Chapter 7, “The Economics of Health Care,” where we discuss projections of health care spending and the role of the U.S. government in the health care system. In Chapter 17, “The Markets for Labor and Other Factors of Production,” we discuss whether U.S. firms are handicapped in competing with foreign firms by paying for their employees’ health insurance. We return to the health care topic in Chapter 18, “Public Choice, Taxes, and the Distribution of Income,” with a news article and analysis on a proposed soda tax to pay for health care.

The United States has made progress in reducing air pollution in the years since Congress passed the Clean Air Act in 1970. In Chapter 5, “Externalities, Environmental Policy, and Public Goods,” we use

the economic concepts of marginal cost, marginal benefit, and efficiency to discuss environmental policy, including President Barack Obama's proposed cap-and-trade policy to reduce emissions of carbon dioxide.

***The recession and financial crisis of 2007–2009 and its aftermath.*** Today’s students feel the effects of the slow recovery from the worst economic crisis since the Great Depression of the 1930s. The problems in the financial system in the United States and the euro zone have proven that it is important for students in both microeconomics and macroeconomics courses to understand the basics of how financial markets work and the role of government in financial regulation. In Chapter 8, “Firms, the Stock Market, and Corporate Governance,” we cover the basics of the stock and bond markets, discuss why stock prices fluctuate, and examine the role of the principal–agent problem in the financial meltdown of 2007–2009. Chapter 24, “Aggregate Demand and Aggregate Supply Analysis,” covers the origins of the recession and includes a new discussion of how long it takes the economy to return to potential GDP. The housing bust and subprime crisis are discussed in Chapter 25, “Money, Banks, and the Federal Reserve System,” and Chapter 26, “Monetary Policy.”

***New initiatives by the Federal Reserve.*** During 2008, the Fed dramatically broke with precedent by setting up a number of new “lending facilities” and by participating in actions such as the purchase of Bear Stearns by JPMorgan Chase. In this new edition, we provide students with a basic background on investment banks and the process of securitization; the mortgage-backed securities market, including the roles of Fannie Mae and Freddie Mac; and the debate among economists concerning the Fed’s two rounds of quantitative easing and “Operation Twist.”

***Real-world company examples and newspaper articles.*** As in previous editions, we open each chapter by highlighting a company to establish a real-world context for learning and to spark students’ interest in economics. We have chosen new companies for some chapters and updated the information in the other chapters. As in previous editions, each chapter closes with the *An Inside Look* feature, which shows students how to apply the concepts from the chapter to the analysis of a news article. We have replaced all the *An Inside Look* features in this edition.

## ***Organizing Your Syllabus***

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The Instructor’s Manual can be a valuable resource for both experienced and first-time instructors. Both the textbook and Instructor’s Manual provide comprehensive coverage of economic theory, monetary policy, fiscal policy, and real-world applications.

### **Microeconomic Chapters**

The microeconomics chapters cover relatively new developments in the field, such as the economics of information (Chapter 7, “The Economics of Health Care”) and personnel economics (Chapter 17, “The Markets for Labor and Other Factors of Production”). The authors include business applications in each chapter and have a dedicated chapter on firms, the stock market, and corporate governance (Chapter 8, “Firms, the Stock Market, and Corporate Governance”) . The comprehensive coverage of microeconomics and business topics allows instructors to select chapters for diverse groups of students.

Most instructors will not want to cover indifference curve analysis or isoquant and isocost curves, but those who wish to will find these topics covered in the appendices to Chapter 10, “Consumer Choice and Behavioral Economics,” and Chapter 11, “Technology, Production, and Costs,” respectively. Chapter 14 of this instructor’s manual, “Oligopoly: Firms in Less Competitive Markets,” includes coverage of the kinked demand curve that *does not* appear in the main book.

First-time users of the textbook should be aware that some topics introduced in one chapter are applied in a later chapter. Chapter 4, “Economic Efficiency, Government Price Setting, and Taxes,” introduces



consumer, producer and economic surplus to describe the impact of government- imposed price controls. The appendix to chapter 4, “Quantitative Demand and Supply Analysis,” explains in detail how consumer

and producer surplus are calculated using linear demand and supply curves. Chapter 9, “Comparative Advantage and the Gains from International Trade,” uses the same tools to measure the effect of tariffs and quotas on international trade.

## Macroeconomic Chapters

Chapter 19, “GDP: Measuring Total Production and Income,” and Chapter 20, “Unemployment and Inflation” carefully provide definitions of macroeconomic statistics such as GDP, CPI, and payroll employment, that dominate news headlines.

The comprehensive coverage of macroeconomic models and policy issues allows instructors with somewhat different course objectives the flexibility to choose different chapter sequences. The authors provide an overview of issues of long-run growth, business cycles, and the financial system in Chapter 21, “Economic Growth, the Financial System, and Business Cycles.” Instructors who wish to explore more deeply the sources of long-run growth and government policies towards growth can also assign Chapter 22, “Long-Run Economic Growth: Sources and Policies.” Monetary policy has a central role in the economy, so the book includes two chapters on monetary policy: Chapter 26, “Monetary Policy,” and Chapter 28, “Inflation, Unemployment, and Federal Reserve Policy.” Chapter 28 discusses the role of the Fed and inflation targeting with an insider’s perspective.

Chapter 23, “Aggregate Expenditure and Output in the Short Run,” contains a thorough discussion of the traditional Keynesian 45°-line aggregate expenditure model. Many instructors find this model useful in introducing students to the short-run relationship between spending and production. However, instructors may also safely omit Chapter 23 and proceed directly to Chapter 24, “Aggregate Demand and Aggregate Supply Analysis.”

Chapter 24 carefully develops the *AD-AS* model and then makes the model dynamic in an *optional section* to account better for actual movements in real GDP and the price level. Chapter 24 includes a three-layer, full-color acetate for the key introductory dynamic *AD-AS* graph (Figure 24.8, “A Dynamic Aggregate Demand and Aggregate Supply Model” on page 813.) We created this acetate to help students see how the graph builds step by step and to help make the graph easier for instructors to present. The acetate will help instructors who want to use dynamic *AD-AS* in class but believe the model needs to be developed carefully. Instructors may safely omit the sections on the dynamic *AD-AS* model in Chapter 26, “Monetary Policy” and in Chapter 27, “Fiscal Policy,” without any loss in continuity to the discussion of macroeconomic theory and policy.

The following chart helps you organize your syllabus based on your teaching preferences and objectives:

CORE	POLICY	OPTIONAL
Chapter 1: Economics: Foundations and Models	Chapter 4: Economic Efficiency, Government Price Setting, and Taxes	Chapter 1 Appendix: Using Graphs and Formulas
Chapter 2: Trade-offs, Comparative Advantage, and the Market System	Chapter 5: Externalities, Environmental Policy, and Public Goods <i>This chapter may be delayed until after Chapter 15.</i>	Chapter 4 Appendix: Quantitative Demand and Supply Analysis
Chapter 3: Where Prices Come From: The Interaction of Demand and Supply	Chapter 7: The Economics of Health Care	Chapter 8: Firms, the Stock Market, and Corporate Governance
Chapter 6: Elasticity: The Responsiveness of Demand and Supply	Chapter 18: Public Choice, Taxes, and the Distribution of Income	Chapter 8 Appendix: Tools to Analyze Firms' Financial Information
Chapter 9: Comparative Advantage and the Gains from International Trade <i>May be delayed until after Chapter 28.</i>	Chapter 26: Monetary Policy	Chapter 10: Consumer Choice and Behavioral Economics
Chapter 11: Technology, Production, and Costs	Chapter 27: Fiscal Policy	Chapter 10 Appendix: Using Indifference Curves and Budget Lines to Understand Consumer Behavior
Chapter 12: Firms in Perfectly Competitive Markets	Chapter 28: Inflation, Unemployment, and Federal Reserve Policy	Chapter 11 Appendix: Using Isoquants and Isocost Lines to Understand Production and Cost
Chapter 13: Monopolistic Competition: The Competitive Model in a More Realistic Setting		Chapter 16: Pricing Strategy
Chapter 14: Oligopoly: Firms in Less Competitive Markets		Chapter 23: Aggregate Expenditure and Output in the Short Run
Chapter 15: Monopoly and Antitrust Policy <i>May be covered after chapter 12.</i>		Chapter 23 Appendix: The Algebra of Macroeconomic Equilibrium
Chapter 17: The Markets for Labor and Other Factors of Production		Chapter 24 Appendix: Macroeconomic Schools of Thought
		Chapter 27 Appendix: A Closer Look at the Multiplier

Chapter 19: GDP: Measuring  
Total Production and Income

Chapter 29: Macroeconomics in an  
Open Economy

CORE	POLICY	OPTIONAL
Chapter 20: Unemployment and Inflation		Chapter 30: The International Financial System
Chapter 21: Economic Growth, the Financial System, and Business Cycles		Chapter 30 Appendix: The Gold Standard and the Bretton Woods System
Chapter 22: Long-Run Economic Growth: Sources and Policies		
Chapter 24: Aggregate Demand and Aggregate Supply Analysis <i>This chapter carefully develops the AD-AS model and then makes the model dynamic to better account for actual movements in real GDP and the price level. The dynamic AD-AS model is covered in an optional section, which instructors can omit without loss of continuity.</i>		
Chapter 25: Money, Banks, and the Federal Reserve System		

## *MyEconLab for Instructors & Students*

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### MyEconLab

MyEconLab is a unique online course management, testing, and tutorial resource.

#### MyEconLab for the Professor

Instructors can choose how much or how little time to spend setting up and using MyEconLab.

Each chapter contains two preloaded homework exercise sets that can be used to build an individualized study plan for each student. These study plan exercises contain tutorial resources, including instant feedback, links to the appropriate learning objective in the eText, pop-up definitions from the text, learning objective summaries, and step-by-step guided solutions, where appropriate. After the initial setup of the course by the instructor, student use of these materials requires no further instructor setup. The online grade book records each student's performance and time spent on the tests and study plan and generates reports by student or by chapter.

Alternatively, instructors can fully customize MyEconLab to match their course exactly, including reading assignments, homework assignments, video assignments, current news assignments, and quizzes and tests. Assignable resources include:

Preloaded homework exercise sets for each chapter that include the student tutorial resources mentioned above.

Preloaded quizzes for each chapter that are unique to the text and not repeated in the study plan or homework exercise sets.

Study plan problems that are similar to the end-of-chapter problems and numbered exactly like the book to make assigning homework easier.

*Economics in the News* articles that are updated weekly with appropriate exercises.

ABC News clips, which explore current economic applications and policy issues, along with exercises.

Real-Time Data Problems load the latest available data in real time from FRED, a comprehensive up-to-date data set maintained by the Federal Reserve Bank of St. Louis. The problems are graded with feedback in exactly the same way as those based on static data.

Experiments in MyEconLab are a fun and engaging way to promote active learning and mastery of important economic concepts. Pearson's Experiments program is flexible and easy for instructors and students to use.

Single-player experiments allow your students to play against virtual players from anywhere at anytime so long as they have an Internet connection.

Multiplayer experiments allow you to assign and manage a real-time experiment with your class.

Pre- and post-questions for each experiment are available for assignment in MyEconLab.

For a complete list of available experiments, visit [www.myeconlab.com](http://www.myeconlab.com).

Test Item File questions that allow you to assign quizzes or homework that will look just like your exams

Econ Exercise Builder, which allows you to build your own customized exercises, include multiple-choice, graph drawing, and free-response items, many of which are generated algorithmically so that each time a student works them, a different variation is presented. MyEconLab grades every problem type except essays, even problems with graphs. When working homework exercises, students receive immediate feedback, with links to additional learning tools.

## Customization and Communication

MyEconLab in MyLab/Mastering provides additional optional customization and communication tools. Instructors who teach distance-learning courses or very large lecture sections find the MyLab/Mastering format useful because they can upload course documents and assignments, customize the order of chapters, and use communication features such as Document Sharing, Chat, ClassLive, and Discussion Board.

## MyEconLab: Moving to a New Edition

When a new edition of your textbook publishes, you do not have to recreate all your assignments. You can import assignments from a previous edition of the same book.

Not every exercise from the previous edition is included in the new edition. Once your assignments have been imported, a list of any exercises that did not convert will be displayed as well as emailed to you. Please use this list to help you find suitable replacement exercises in the new edition. You must first allow assignments from old edition to be imported.

In the old edition course:

1. Click on **Homework Manager**.
2. Click **Show All** to see all assignments (HW, Quizzes, Tests).
3. Choose **Change Assignment Settings** from Drop down menu.

Coord: Template Principles of Microeconomics [0] > HOMEWORK/TEST MANAGER

Manage Course List

**Homework/Test Manager** [Member List](#)

Create Assignment

Show All Homework Quizzes & Tests Other Chapters

Order	Ch.	Assignment Name		
1	1	Chapter 1 Homework	H	✓
2	1	Chapter 1 Quiz	Q	✓
3	2	Chapter 2 homework	H	✓
4	2	Chapter 2 Quiz	Q	✓
5	3	Chapter 3 Homework	H	✓
6	3	Chapter 3 Quiz	Q	✓

4. Check box for **Allow Import**.
5. Click **Update**.

Ch.	Assignment	Category	# of Results	<input checked="" type="checkbox"/> Allow Import	<input checked="" type="checkbox"/> Partial Credit
1	Chapter 1 Homework	H	191	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2	Chapter 2 homework	H	182	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
3	Chapter 3 Homework	H	190	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
4	Chapter 4 homework	H	183	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
5	Chapter 5 homework	H	175	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
20	Chapter 20 homework	H	162	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
21	Chapter 21 Homework	H	169	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
33	Chapter 33 Homework	H	154	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
34	Chapter 34 Homework	H	145	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
22	Chapter 22 Homework	H	138	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
23	Chapter 23 Homework	H	156	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
24	Chapter 24 Homework	H	153	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
25	Chapter 25 Homework	H	158	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
26	Chapter 26 Homework	H	156	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
27	Chapter 27 Homework	H	155	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
29	Chapter 29 Homework	H	154	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Cancel/Done Update



## Import Assignments into New Edition Course

1. Create course based on **new edition** of the book.
2. Click on **Homework Manager**.
3. Under **Create Assignment**, choose **Import/Copy Assignments from another course**.

The screenshot shows the 'Assignment Manager' interface for a course titled 'Hubbard Economics 4e [0]'. The left sidebar contains navigation options: Course Home, News, Assignments, Study Plan, Results, Pearson eText, Document Sharing, Multimedia Library, Chapter Resources, Communication Tools, and Instructor Tools. The 'Assignment Manager' tool is selected. The main content area is titled 'Homework/Test Manager' and includes a 'Create Assignment' dropdown menu. The dropdown menu is open, showing options such as 'Create Homework', 'Create Quiz', 'Create Test', 'Create Media Assignment', 'Create Experiment Assignment', 'Add Offline Item', 'Import/Copy Assignments from another course' (which is highlighted), 'Copy and Assign Sample Assignments', and 'Create Custom Question'. Below the dropdown, there are buttons for 'Change Dates & Assign Status', 'Set Prerequisites', and 'More Assignment Tools'. A note at the bottom states: 'This course is based on Hubbard/O'Brien: Economics 4e Copyright 2012 Pearson Education'.

4. Choose **Convert and import assignments from courses using a previous edition of this book or related books with similar coverage**.
5. Click **Next**.

The screenshot shows the 'Assignment Manager' interface for the same course. The main content area is titled 'Import Assignments' and features a progress bar with four steps: 1 Start, 2 Select Import Options, 3 Choose Course, and 4 Select Assignments. The 'Import into' field shows 'Hubbard Economics 4e' and 'Hubbard/O'Brien: Economics 4e'. Below this, there is a section titled 'Choose an import option:' with two radio button options. The first option is 'Import assignments from other courses using this book.' The second option, 'Convert and import assignments from courses using a previous edition of this book or related books with similar coverage.', is selected. At the bottom, there are 'Cancel' and 'Next' buttons. A note at the bottom states: 'This course is based on Hubbard/O'Brien: Economics 4e Copyright 2012 Pearson Education'.

6. Choose if you wish to convert from **one your courses** or one from **another instructor** at your institution.
7. Click **Next**.

The screenshot shows the 'Assignment Manager' interface. On the left is a navigation menu with 'Assignment Manager' selected. The main content area is titled 'Import Assignments' and includes a progress bar with four steps: 1 Start, 2 Select Import Options (current), 3 Choose Course, and 4 Select Assignments. Below the progress bar, the 'Import into' field shows 'Hubbard Economics 4e' and 'Hubbard/O'Brien: Economics 4e'. A dashed line separates the header from the instructions: 'Choose from one of the following options for converting and importing assignments for this book. Only assignments marked as "Allow others to import" may be imported from other instructors.' There are three radio button options:
 

- Convert and import assignments from my courses.
- Convert and import assignments from other instructors at Pearson Education.
- Assignments from instructors at: [Course Compass /XL] with this log-in: [ ]

 At the bottom of the form are 'Cancel', 'Back', and 'Next' buttons. A footer note states: 'This course is based on Hubbard/O'Brien: Economics 4e Copyright 2012 Pearson Education'.

8. Click **Next**.

The screenshot shows the 'Assignment Manager' interface at step 3: 'Choose Course'. The progress bar now highlights step 3. The 'Import into' field remains 'Hubbard Economics 4e' and 'Hubbard/O'Brien: Economics 4e'. The instructions below the dashed line are: 'Choose the book and course from which you would like to import, then click Next to see a list of assignments.' There are two dropdown menus:
 

- Book:** Hubbard/O'Brien: Economics 3e
- Course:** Hubbard: Economics 3e

 At the bottom of the form are 'Cancel', 'Back', and 'Next' buttons. The footer note is the same as in the previous screenshot: 'This course is based on Hubbard/O'Brien: Economics 4e Copyright 2012 Pearson Education'.

9. **Select** all the assignments you wish to import.

10. Click **Import**

Show All
Homework
Quizzes
Tests

10

<input checked="" type="checkbox"/>	Ch.	Assignment	Category	Creator	Creation Date
<input checked="" type="checkbox"/>	1	Chapter 1 Quiz		Sondgeroth	07/15/08
<input checked="" type="checkbox"/>	2	Chapter 2 Quiz		Sondgeroth	07/16/08
<input checked="" type="checkbox"/>	3	Chapter 3 Quiz		Sondgeroth	07/17/08
<input checked="" type="checkbox"/>	4	Chapter 4 quiz		Sondgeroth	07/20/08
<input checked="" type="checkbox"/>	5	Chapter 5 Quiz		Sondgeroth	07/21/08
<input checked="" type="checkbox"/>	20	Chapter 20 Quiz		Sondgeroth	07/22/08
<input checked="" type="checkbox"/>	21	Chapter 21 Quiz		Sondgeroth	07/23/08
<input checked="" type="checkbox"/>	22	Chaper 22 Quiz		Sondgeroth	08/22/08
<input checked="" type="checkbox"/>	23	Chapter 23 Quiz		Sondgeroth	08/23/08
<input checked="" type="checkbox"/>	24	Chapter 24 Quiz		Sondgeroth	08/23/08
<input checked="" type="checkbox"/>	25	Chapter 25 Quiz		Sondgeroth	08/23/08
<input checked="" type="checkbox"/>	26	Chapter 26 Quiz		Sondgeroth	08/23/08
<input checked="" type="checkbox"/>	27	Chapter 27 Quiz		Sondgeroth	08/23/08
<input checked="" type="checkbox"/>	29	Chapter 29 Quiz		Sondgeroth	08/23/08
<input checked="" type="checkbox"/>	33	Chapter 33 Quiz		Sondgeroth	08/07/08
<input checked="" type="checkbox"/>	34	Chapter 34 Quiz		Sondgeroth	08/07/08

Import Assignment Settings
 11

Cancel
◀ Back
Import

You will then see a summary screen detailing which exercises were not converted so you can find replacements. This same information will be sent to your MyEconLab registered email address.

## MyEconLab for the Student

MyEconLab puts students in control of their learning through a collection of testing, practice, and study tools tied to the online, interactive version of the textbook and other media resources.

Students can study on their own, or they can complete assignments created by their instructor. Within MyEconLab's structured environment, students practice what they learn, test their understanding, and pursue a personalized study plan generated from their performance on sample tests and from quizzes created by their instructors. In Homework or Study Plan mode, students have access to a wealth of tutorial features, including:

- Instant feedback on exercises that helps students understand and apply the concepts;

- Links to the eText to promote reading of the text just when the student needs to revisit a concept or explanation;

- Step-by-step guided solutions that force students to break down a problem in much the same way an instructor would do during office hours;

- Pop-up summaries of the appropriate learning objective to remind students of key ideas while studying;

Pop-up key term definitions from the eText to help students master the vocabulary of economics;

Links to the important features of the eText, such as *Solved Problems*, *Making the Connection*, *An Inside Look*, and *Don't Let This Happen to You*;

A graphing tool that is integrated into the various exercises to enable students to build and manipulate graphs so that students better understand how concepts, numbers, and graphs connect.

3.1 The Demand Side of the Market

End of Chapter 1.5Alt2

2 correct | 6 of 10 complete

**Problem 1.5 (variation).**  
 [Related to Making the Connection] Jiffy peanut butter and Smucker's Strawberry jam are considered to be complementary goods.

Definitions: [substitute goods](#), [complementary goods](#)

In the diagram to the right, use the line drawing tool to show

**Definition**

**Substitutes:** Goods and services that can be used for the same purpose.

Done

Question is complete.

All parts showing

Similar Exercise | Close

End of Chapter 4.4

0 correct | 0 of 8 complete

**Problem 4.4.** In the graph on the right, the demand for hamburger buns has changed because the price of hamburgers has risen from \$2.50 to \$2.60 per package.

**Guided Solution**

Cross-price elasticities measure the change in quantity demanded of one product when the price of a *related* good changes. For example, hamburger buns are related to hamburger meat. The two goods complement each other. When consumption of one good increases, the amount consumed of the related good increases, also.

We calculate the cross-price elasticity of demand using the formula below.

$$\text{Cross-price elasticity of demand} = \frac{\text{Percentage change in quantity demanded of one good}}{\text{Percentage change in price of another good}} = \frac{(Q_2 - Q_1)}{\left(\frac{Q_1 + Q_2}{2}\right)} \div \frac{(P_2 - P_1)}{\left(\frac{P_1 + P_2}{2}\right)}$$

As when computing the price elasticity of demand, we use the midpoint formula. The only difference is instead of computing the percentage change in the good's own price, we use the percentage change in the price of the related good.

Press Continue to see more.

5 parts remaining

Continue | Close

## Additional MyEconLab Tools

MyEconLab includes the following additional features:

**eText**—In addition to the portions of eText available as pop-ups or links, a fully searchable eText is available for students who wish to read and study in a fully electronic environment.

**Print upgrade**—For students who wish to complete assignments in MyEconLab but read in print, Pearson offers registered MyEconLab users a loose-leaf version of the print text at a significant discount.

**Glossary flashcards**—Every key term is available as a flashcard, allowing students to quiz themselves on vocabulary from one or more chapters at a time.

**MySearchLab**—Research **MySearchLab** provides extensive help on the research process and four exclusive databases of credible and reliable source material, including the *New York Times*, the *Financial Times*, and peer-reviewed journals.

## *Other Supplements for Instructors*

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Four Test Item Files

TestGen Computerized Test Program

PowerPoint Lecture Presentation

Instructor's Resource Disk with Test Item Files, Instructor's Manual, and PowerPoint presentations

Classroom Response Systems

BlackBoard and WebCT Course Content

### Four Test Item Files (in print format and electronic TestGen format)

Four Test Item Files accompany the text. Each Test Item File includes more than 2,000 multiple-choice, short answer, and graphing questions.

Test questions are annotated with the following information:

**Difficulty:** 1 for straight recall, 2 for some analysis, 3 for complex analysis

**Type:** multiple-choice, true/false, short-answer, essay

**Topic:** the term or concept the question supports

**Learning outcome**

**AACSB** (see description that follows)

**Page number**

**Special feature in the main book:** chapter-opening business example, *Economics in YOUR Life!*, *Solved Problem*, *Making the Connection*, *Don't Let this Happen to You!* and *An Inside Look*.

### The Association to Advance Collegiate Schools of Business (AACSB)

The test bank authors have connected select test bank questions to the general knowledge and skill guidelines found in the AACSB standards.

## What Is the AACSB?

AACSB is a not-for-profit corporation of educational institutions, corporations, and other organizations devoted to the promotion and improvement of higher education in business administration and accounting. A collegiate institution offering degrees in business administration or accounting may volunteer for AACSB accreditation review. The AACSB makes initial accreditation decisions and conducts periodic reviews to promote continuous quality improvement in management education. Pearson Education is a proud member of the AACSB and is pleased to provide advice to help you apply AACSB Learning Standards.

## What Are AACSB Learning Standards?

One of the criteria for AACSB accreditation is the quality of the curricula. Although no specific courses are required, the AACSB expects a curriculum to include learning experiences in such areas as:

Communication

Ethical Reasoning

Analytic Skills

Use of Information Technology

Multicultural and Diversity

Reflective Thinking

These six categories are AACSB Learning Standards. Questions that test skills relevant to these standards are tagged with the appropriate standard. For example, a question testing the moral questions associated with externalities would receive the Ethical Reasoning tag.

## How Can Instructors Use the AACSB Tags?

Tagged questions help you measure whether students are grasping the course content that aligns with the AACSB guidelines noted above. In addition, the tagged questions may help instructors identify potential applications of these skills. This in turn may suggest enrichment activities or other educational experiences to help students achieve these skills.

## TestGen

The computerized TestGen package allows instructors to customize, save, and generate classroom tests. The test program permits instructors to edit, add, or delete questions from the test banks; edit existing graphics and create new graphics; analyze test results; and organize a database of tests and student results. This software allows for extensive flexibility and ease of use. It provides many options for organizing and displaying tests, along with search and sort features. The software and the test banks can be downloaded from the Instructor's Resource Center ([www.pearsonhighered.com/hubbard](http://www.pearsonhighered.com/hubbard)).

## PowerPoint Slides (Three Sets)

Three sets of PowerPoint slides are available:

1. A comprehensive set of PowerPoint slides can be used by instructors for class presentations or by students for lecture preview or review. These slides include all the graphs, tables, and equations in the textbook. Two versions are available—step-by-step mode, in which you can build graphs as you would on a blackboard, and automated mode, in which you use a single click per slide.
2. A comprehensive set of PowerPoint slides have Classroom Response Systems (CRS) questions built in so that instructors can incorporate CRS “clickers” into their classroom lectures. For more information on Pearson Education's partnership with CRS, see the description that follows.



Instructors can download these PowerPoint presentations from the Instructor's Resource Center ([www.pearsonhighered.com/hubbard](http://www.pearsonhighered.com/hubbard)).

3. A student version of the PowerPoint slides is available as .pdf files. This version allows students to print the slides and bring them to class for note taking. Instructors can download these PowerPoint presentations from the Instructor's Resource Center ([www.pearsonhighered.com/hubbard](http://www.pearsonhighered.com/hubbard)).

### Instructor's Resource Disk

The Instructor's Resource Disk contains all the faculty and student resources that support this text. Instructors have the ability to access and edit the

Instructor's Manual, Test  
Item Files, and  
PowerPoint presentations.

By simply clicking on a chapter or searching for a keyword, faculty can access an interactive library of resources. Faculty can pick and choose from the various supplements and export them to their hard drives.

### Blackboard and WebCT Course Content

Pearson Education offers fully customizable course content for the Blackboard and WebCT Course Management Systems.

### Classroom Response Systems

Classroom Response Systems (CRS) is an exciting new wireless polling technology that makes large and small classrooms even more interactive because it enables instructors to pose questions to their students, record results, and display the results instantly. Students can answer questions easily, using compact remote-control transmitters. Prentice Hall has partnerships with leading classroom response systems providers and can show you everything you need to know about setting up and using a CRS system. We'll provide the classroom hardware, text-specific PowerPoint slides, software, and support, and we'll also show you how your students can benefit! See your Pearson Education sales representative for more information.



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### *Other Supplements for Students*

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#### Two Study Guides: One for Microeconomics and One for Macroeconomics

The study guides contains the following features:

Chapter summary  
Discussion of each learning objective

Section-by-section review of the concepts presented

Helpful study hints

Additional *Solved Problems* to supplement those in the text

Key terms with definitions

A self-test, including forty multiple-choice questions, plus a number of short-answer and true/false questions, with accompanying answers and explanations

### PowerPoint Slides

For student use as a study aide or note-taking guide, PowerPoint slides, may be downloaded from the companion Web site, at [www.pearsonhighered.com/hubbard](http://www.pearsonhighered.com/hubbard). The slides include:

All graphs, tables, and equations in the text

Figures in step-by-step, automated mode, using a single click per graph

End-of-chapter key terms with hyperlinks to relevant slides



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# CHAPTER 1 | Economics: Foundations and Models

## *Brief Chapter Summary and Learning Objectives*

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### **1.1 Three Key Economic Ideas (pages 4–8)**

Explain these three key economic ideas: People are rational, people respond to incentives, and optimal decisions are made at the margin.

People must make choices as they try to attain their goals. People make choices because resources are scarce. Most of economics analyzes what happens in markets.

### **1.2 The Economic Problem That Every Society Must Solve (pages 8–12)**

Discuss how an economy answers these questions: What goods and services will be produced? How will the goods and services be produced? Who will receive the goods and services produced?

A limited amount of resources can produce a limited amount of goods and services. The cost of producing more of one good is the value of what must be given up to produce it.

### **1.3 Economic Models (pages 12–16)**

Understand the role of models in economic analysis.

Economists use models—simplified versions of reality—to analyze real-world issues. Economists accept a model if it leads to hypotheses that are confirmed by statistical analysis.

### **1.4 Microeconomics and Macroeconomics (pages 16–17)**

Distinguish between microeconomics and macroeconomics.

### **1.5 A Preview of Important Economic Terms (pages 17–19)**

Define important economic terms.

### **Appendix: Using Graphs and Formulas (pages 26–37)**

Review the use of graphs and formulas.

## Key Terms

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**Allocative efficiency**, p. 11. A state of the economy in which production is in accordance with consumer preferences; in particular, every good or service is produced up to the point where the last unit provides a marginal benefit to society equal to the marginal cost of producing it.

**Centrally planned economy**, p. 10. An economy in which the government decides how economic resources will be allocated.

**Economic model**, p. 4. A simplified version of reality used to analyze real-world economic situations.

**Economic variable**, p. 13. Something measurable that can have different values, such as the incomes of doctors.

**Economics**, p. 4. The study of the choices people make to attain their goals, given their scarce resources.

**Equity**, p. 12. The fair distribution of economic benefits.

**Macroeconomics**, p. 17. The study of the economy as a whole, including topics such as inflation, unemployment, and economic growth.

**Marginal analysis**, p. 7. Analysis that involves comparing marginal benefits and marginal costs.

**Market**, p. 4. A group of buyers and sellers of a good or service and the institution or arrangement by which they come together to trade.

**Market economy**, p. 10. An economy in which the decisions of households and firms interacting in markets allocate economic resources.

**Microeconomics**, p. 17. The study of how households and firms make choices, how they interact in markets, and how the government attempts to influence their choices.

**Mixed economy**, p. 11. An economy in which most economic decisions result from the interaction of buyers and sellers in markets but in which the government plays a significant role in the allocation of resources.

**Normative analysis**, p. 14. Analysis concerned with what ought to be.

**Opportunity cost**, p. 8. The highest-valued alternative that must be given up to engage in an activity.

**Positive analysis**, p. 14. Analysis concerned with what is.

**Productive efficiency**, p. 11. A situation in which a good or service is produced at the lowest possible cost.

**Scarcity**, p. 4. A situation in which unlimited wants exceed the limited resources available to fulfill those wants.

**Trade-off**, p. 8. The idea that because of scarcity, producing more of one good or service means producing less of another good or service.

**Voluntary exchange**, p. 11. A situation that occurs in markets when both the buyer and seller of a product are made better off by the transaction.