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When George Lucas was asked why he made *Star Wars*, he replied, ‘It’s the kind of movie I like to see, but no one seemed to be making them. So I decided to make one.’ We realised that no one seemed to be writing the kind of textbook we wanted to use in our courses. So, after years of supplementing texts with fresh, lively, real-world examples from websites, newspapers, magazines and professional journals, we decided to write an economics text that delivers complete economics coverage with many real-world examples.

NEW TO THE FOURTH EDITION

The core ideas of economics remain unchanged: opportunity costs, demand and supply, comparative advantage, marginal analysis, efficiency in competitive markets, the role of the entrepreneur in markets, the role of the government, aggregate demand and aggregate supply, the importance of long-run economic growth to rising living standards and the role of economic incentives in the design of policy. What does change is the context in which lecturers and instructors present these ideas in class and the policy debates of the time. In the past few years, to take just a few relevant examples, we have witnessed the runaway success of smartphones and tablet computers, seen the rapid growth of the sharing economy including companies such as Uber and Airbnb, experienced increased policy debate about how best to address climate change, and experienced the impact of the global economic contractions and recessions. This new edition helps students understand these changing economic realities.

In this fourth edition we retain the focus of presenting economics in the context of real-world businesses and real-world policy debates which have proved effective for teaching and learning. We have made a number of important improvements, which include suggestions from lecturers currently using the text, and from reviewers. We hope these changes will make the text an even more effective teaching tool. The fourth edition includes the following key changes:

- A new chapter—Chapter 12, Social Policy and Inequality—which covers income redistribution and the taxation system, and domestic and international income inequality and poverty.
- New material on the rapid growth in the use of robotics in the workplace in Chapters 1 and 10.
- Analysis of the rise of the sharing economy through companies such as Uber and Airbnb in Chapter 7.
- Coverage of the *Harper Report* on competition in Chapter 8.
- Extended coverage of compensating differentials in Chapter 10.
- Updated material on the policy debate on climate change policy in Chapter 11.
- New discussion and case studies on money and monetary policy in Chapters 16 and 17, including the use of bitcoin.
- New material on the Millennium Development Goals in Chapters 12 and 20.
- Updated coverage of government debt crises in Europe in Chapters 18 and 20.
- New material on world currencies, including the management of the Chinese yuan in Chapter 20.
- More international case studies, including China, Japan, Greece, Germany, countries in Africa, the United States and the United Kingdom.
- Updated and new chapter-opening cases for every chapter.
- A number of new and substantially revised Making the Connection features, with others containing updated data and information, to help students to tie economic concepts to current events and policy debates.
- New An Inside Look news articles and analysis, to enable students to apply economic concepts to current events and policy debates.
- Updated figures and tables, using the latest data available.
We believe a course is a success if students can apply what they have learned in both personal and business settings and if they have developed the analytical skills to understand what they read in the media. That's why we explain economic concepts by using many real-world business examples and applications, in both Australia and other countries, in the chapter openers, graphs, Making the Connection features, An Inside Look features, and end-of-chapter problems. This approach helps students to become educated consumers, voters and citizens. In addition, we also have a modern organisation and place interesting policy topics early in the book to pique student interest.

We are convinced that students learn to apply economic principles best if they are taught in a familiar context. Whether they fill a graduate role in business or government, trade on the securities exchange or open their own business, students must understand the economic forces behind their work. And though business and economics students will have many opportunities to see economic principles in action in various courses, students from other disciplines may not. We therefore use many diverse real-world business and policy examples to illustrate economic concepts.

The following points illustrate our approach:

- **A strong set of introductory chapters.** Our introductory chapters provide students with a solid foundation in the basics. We emphasise the key issues of scarcity, trade-offs, marginal analysis and economic efficiency. In Chapter 1 we introduce students to the economic way of thinking through the growing use by Australian businesses of robotics and offshoring, the debate on minimum wages and the debate on immigration to Australia. Chapter 2 examines the trade-offs and marginal analysis that managers and economies have to face, presented in the context of Tesla deciding on the mix of vehicles to produce. Chapters 3 and 4 introduce demand and supply and how the market works, using the examples of demand and supply of tablet computers, the rising demand for fitness trackers, the price of petrol and the increased tax on ‘alcopops’, to help contextualise the issues and concepts.

- **Early coverage of policy issues.** To pique interest and expose students to policy issues early in the course, we discuss the effect on jobs of Australia’s growing use of robotics and offshoring in Chapter 1, the free market and the illegal downloading of movies and music from the Internet in Chapter 2, the market for housing in Australia in Chapter 3, government policy towards illegal drugs in Chapter 4 and whether the government should control rent prices for apartments in Chapter 5. The remainder of the chapters continue this approach by relating concepts to relevant business examples and current economic policy and events.

- **Immediate relevance to students.** This new edition of *Essentials of Economics* has been revised to provide students with the most up-to-date and relevant content they need to succeed in the field of economics. Once again, all chapters contain examples to demonstrate the practicality and relevance of economics to decision making that students may be currently involved with. Here are a few examples: Chapter 4 examines the pricing of alcoholic drinks, Chapter 8 analyses whether companies such as Netflix can provide competition with Foxtel in the subscription video-on-demand market, Chapter 9 looks at whether there is a ‘best’ strategy for bidding on eBay, Chapter 10 analyses the effect of robotics on the labour market, Chapter 16 poses the question ‘Are bitcoins money?’, and Chapter 19 touches on the controversial subject of whether we should buy products made with child labour.

- **Applications to contemporary issues.** Our chapters are written to reveal the relevance and importance of economic analysis to current significant issues that affect individuals, business and society. Chapter 6 looks at whether economies of scale can lead to cheaper electric cars. In Chapter 8 we look at the impact of Foxtel’s dominance in sports in the pay TV market. In Chapter 11 we look at the effectiveness of government policy in reducing air lead levels in Melbourne and examine policies to address climate change. The new Chapter 12 addresses the growing focus on inequality and poverty, including a study of the role of taxation policy in income redistribution, and an examination of domestic and international income inequality and poverty. Chapters 16 and 17 examine the issue of sovereign debt, while Chapter 20 looks at how exchange rates affect the number of overseas students studying in Australia.
• **Extensive, realistic game theory coverage.** In Chapter 9 we use game theory to analyse competition between oligopolists. Game theory helps students to understand how companies with market power make strategic decisions in many competitive situations. We use familiar companies such as Big W, Kmart, eBay, Coca-Cola and Pepsi in our game theory applications.

• **Extensive and contemporary coverage of externalities and environmental policy.** A major part of Chapter 11 focuses on externalities and the associated environmental policy. We believe that in the current context of industrialisation and air pollution, greenhouse gases and climate change, it is important to dedicate the major part of a chapter to the economic analysis of these issues and the corresponding policies.

• **A broad discussion of macro statistics.** Many students pay at least some attention to the financial news and know that the release of statistics by government departments can cause movements in share and bond prices. A background in macroeconomic statistics helps to clarify some of the policy issues encountered in later chapters. In Chapter 13, ‘GDP: Measuring Total Production, Income and Economic Growth’, and in Chapter 14, ‘Unemployment and Inflation’, we provide students with an understanding of the uses and potential shortcomings of the key macroeconomic statistics, without getting bogged down in the finer points of how the statistics are constructed.

• **A dynamic model of aggregate demand and aggregate supply.** We take a fresh approach to the standard aggregate demand–aggregate supply (AD–AS) model. We realise there is no good, simple alternative to using the AD–AS model when explaining movements in the price level and in real GDP. But we know that more instructors are dissatisfied with the AD–AS model than with any other aspect of the macroeconomics principles course. The key problem, of course, is that the AD–AS model is a static model that attempts to account for dynamic changes in real GDP and the price level. Our approach retains the basics of the AD–AS model but makes it more accurate and useful by making it more dynamic. We emphasise two points: first, changes in the position of the short-run (upward-sloping) aggregate supply curve depend mainly on the state of expectations of the inflation rate; and second, the existence of growth in the economy means that the long-run (vertical) aggregate supply curve shifts to the right every year. This ‘dynamic’ AD–AS model provides students with a more accurate understanding of the causes and consequences of fluctuations in real GDP and the price level. We introduce this model in Chapter 15, ‘Aggregate Demand and Aggregate Supply Analysis’, and use it in Chapter 17, ‘Monetary Policy’, and Chapter 18, ‘Fiscal Policy’.

• **Extensive coverage of monetary policy.** Because of the central role money and monetary policy plays in the economy and in students’ curiosity about business and financial news, we devote two chapters—Chapters 16 and 17—to these topics. We emphasise the way in which monetary policy is carried out in Australia through interest rate targeting (not the outdated approach of targeting the money supply that still appears in some textbooks) and the role of credit in the economy. We also cover the use of monetary policy during the economic contraction that followed the Global Financial Crisis.

• **Fiscal policy analysis.** Our discussion of fiscal policy in Chapter 18 carefully distinguishes between automatic stabilisers and discretionary fiscal policy. We include analysis based on real data on government budgets and debt levels. The issue of the structural budget deficit is also introduced. We also have significant coverage of the supply-side effects of fiscal policy.

• **Extensive international coverage.** We include two chapters devoted to international topics: Chapter 19, ‘Comparative Advantage and the Gains from International Trade’, and Chapter 20, ‘Macroeconomics in an Open Economy’. Having a good understanding of the international trading and financial systems is essential to an understanding of the macroeconomy and to satisfying students’ curiosity about the economic world around them. In addition to the material in our two international chapters, we weave international comparisons into the narrative of several chapters, including our discussions of unemployment, inflation, central banking and government debt.
SPECIAL FEATURES
A REAL-WORLD, HANDS-ON APPROACH TO LEARNING ECONOMICS

OPENING CASES AND AN INSIDE LOOK NEWS ARTICLES
Each chapter-opening case provides a real-world context for learning, sparks students’ interest in economics and helps to unify the chapter. The case describes real situations facing actual companies or countries. The company or economic issue is integrated into the narrative, graphs and pedagogical features in the chapter. For example, we look at companies such as Tesla, Uber, Apple, Sony, Rio Tinto, Coles, Woolworths, JB Hi-Fi, Hills, David Jones, Harvey Norman, Foxtel, Netflix, Telstra, and The Coffee Club.

An Inside Look is a two-page feature that shows students how to apply the concepts of a chapter to the analysis of a news article. Articles are from sources such as ABC News, The Sydney Morning Herald, The Age, The Financial Times, The Australian, and The Conversation. The An Inside Look feature presents analysis of the article, a graph[s], and critical-thinking questions.

Here are a few examples of chapter opening cases:

- How Uber brought competition to the taxi industry [Chapter 7].
- Rio Tinto mines with robots [Chapter 10].
- Can economic policy help to protect the environment? [Chapter 11].
- How JB Hi-Fi survived the economic cycle [Chapter 15].
- Australian universities experience crunch from high dollar [Chapter 20].

Here are some examples of the articles features in An Inside Look:

- ‘Rise of the machines: What jobs will survive as robots move into the workplace?’ ABC News [Chapter 1].
- ‘Tesla: The gigafactory is the key’. Seeking Alpha [Chapter 6].
- ‘Too big to fail: China pledges to set up landmark emissions trading scheme.’ The Conversation [Chapter 11].
- ‘Innovation in electronic payments to accelerate demise of cheques.’ Canberra Times [Chapter 16].
- ‘Brexit tipped to push $A higher, RBA to cut rate’, The Age [Chapter 20].
ECONOMICS IN YOUR LIFE

After the chapter-opening real-world case, we have added a personal dimension to the chapter opener, with a feature titled Economics in Your Life, which asks students to consider how economics affects their own lives. This feature piques the interest of students and emphasises the connection between the material they are learning and their own experiences.

At the end of the chapter, we use the chapter concepts to answer the questions asked at the beginning of the chapter.

The following are examples of the topics we cover in the Economics in Your Life feature:

- Will you buy an Apple iPad or a Samsung Galaxy Tab? (Chapter 3).
- How can you convince your boss to give you a pay rise? (Chapter 10).
- Should you change your career plans if you graduate during a recession? (Chapter 14).
- Should you buy a house during an economic contraction? (Chapter 17).
- The Australian dollar and your new car price (Chapter 20).

MAKING THE CONNECTION

In each chapter, Making the Connection features present relevant, stimulating and provocative cases from various countries, primarily about business but sometimes related to other significant world economic events or policy issues. These features link the concepts and models covered in the chapter with a real-world application.

Here are some examples of the Making the Connection features:

- The rise and rise of fitness trackers (Chapter 3).
- Can a price on carbon reduce global warming? (Chapter 11).
- Does technological change create unemployment? (Chapter 15).
- Are bitcoins money? (Chapter 16).
- Greece and Germany: Diverse economies, common currency (Chapter 20).
SOLVED PROBLEMS

Many students have great difficulty handling applied economics problems. We help students to overcome this hurdle by including worked-out problems tied to select chapter learning objectives and the associated quantitative information. Our goals are to keep students focused on the main ideas of each chapter and to give students a model of how to solve an economic problem by breaking it down step by step. Additional exercises in the end-of-chapter material are tied to every Solved Problem.

DON’T LET THIS HAPPEN TO YOU

We know from many years of teaching which concepts students find most difficult. Each chapter contains a box feature called Don’t Let This Happen to You which alerts students to the most common pitfalls in that chapter’s material. We follow up with a related question in the end-of-chapter Problems and Applications section.

GRAPHS AND SUMMARY TABLES

Graphs are an indispensable part of the principles of an economics course but are a major stumbling block for many students. Every chapter includes end-of-chapter problems that require students to draw, read and interpret graphs. Interactive graphing exercises can be found on the book’s supporting MyLab website. We use four devices to help students read and interpret graphs:

1. Detailed captions
2. Boxed notes
3. Colour-coded curves
4. Summary tables with graphs.
REVIEW QUESTIONS AND PROBLEMS AND APPLICATIONS—GROUPED BY LEARNING OBJECTIVE TO IMPROVE ASSESSMENT

All the end-of-chapter material—Summary, Review Questions and Problems and Applications—is grouped under learning objectives. The goals of this organisation are to make it easier for instructors to assign problems based on learning objectives, both in the book and in MyLab, and to help students to efficiently review material that they find difficult. If students have difficulty with a particular learning objective, an instructor can easily identify which end-of-chapter questions and problems support that objective and assign them as homework or discuss them in class. Similar exercises to every exercise in a chapter’s Problems and Applications section are available in MyLab. Using MyLab, students can complete these and many other exercises online, get tutorial help and receive instant feedback and assistance on exercises they answer incorrectly. Also, student learning will be enhanced by having the summary material and problems grouped together by learning objective, which will allow students to focus on the parts of the chapter they found most challenging. Each major section of the chapter, paired with a learning objective, has at least two review questions and three problems.

As in the previous editions, we include one or more end-of-chapter problems that test students’ understanding of the content presented in the Solved Problem and Don’t Let This Happen to You special features in the chapter. Instructors can cover a feature in class and assign the corresponding problem for homework.
RESOURCES FOR EDUCATORS AND STUDENTS

A suite of resources are provided to assist with delivery of the text, as well as to support teaching and learning. These resources are downloadable from the Pearson website: www.pearson.com.au/9781488616983.

SOLUTIONS MANUAL
The Solutions Manual provides educators with answers to all of the end-of-chapter questions and 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 4th edition, each Test Bank chapter offers a wide variety of multiplechoice and short-answer questions, ordered by key topics.

POWERPOINT LECTURE SLIDES
A comprehensive set of PowerPoint slides can be used by educators for class presentations or by students for lecture preview or review. They include key figures and tables, as well as a summary of key concepts and examples from the text.

DIGITAL IMAGE POWERPOINT SLIDES
All the diagrams and tables from the course content are available for lecturer use.
A guided tour for students and educators

Auto-generated tests and assignments
Each MyLab™ comes with preloaded assignments, all of which are automatically graded and include selected end-of-chapter questions and problems from the textbook.

Unlimited Practice
Many Study Plan and Instructor-assigned exercises contain algorithms to ensure students get as much practice as they need. As students work through Study Plan or Homework exercises, instant feedback and tutorial resources guide them towards understanding.
MyLab Economics www.pearsonmylabsandmastering.com

Learning resources
To further reinforce understanding, Study Plan and Homework problems link to additional learning resources.

- Step-by-step Guided Solutions
- Graphing Tool
- eText linked to sections for all Study Plan questions

Study plan
A Study Plan is generated from each student’s results on quizzes and tests. Students can clearly see which topics they have mastered and, more importantly, which ones they need to work on.
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