

Contents

PREFACE	XV
ACKNOWLEDGMENTS	XIX
1 Key Concepts of Economics and Its Application in the Financial Well-Being of Society	1
1.1. The Core Concept of Economics and Opportunity Cost: Making Alternative Decisions in Allocating Time and Resources	1
1.2. Concept of Opportunity Cost and Real-World Applications	2
1.2.1. <i>Opportunity Cost Application in Sports Economics</i>	3
1.3. Examples of Economics in Everyday Life and Entertainment	3
1.3.1. <i>Real-World Examples and Applications of Marginal Value</i>	4
1.4. Economics, Technology, and Society: A New Perspective on Economics in the Digital Age	5
1.5. Understanding Economics with Graphs, Equations, and Data	6
1.5.1. <i>The Slope of an Equation: Linear and Nonlinear Equations</i>	6
1.5.2. <i>The Data and Equation to Draw the Graph</i>	7
Chapter Summary	9
2 Market Systems and Determination of Price	13
2.1. Market Behavior and Efficient Allocations of Resources: Foundation of Demand and Supply Behavior	13
2.1.1. <i>Law of Demand</i>	14
2.1.2. <i>Changes in the Demand Curve (the Shifts of the Demand Curve)</i>	16
2.1.3. <i>Law of Supply</i>	17
2.1.4. <i>Changes in Supply Curve (the Shifts of the Supply Curve)</i>	19
2.1.5. <i>Demand and Supply Interaction and Determination of Market Equilibrium</i>	21
2.1.6. <i>Changes in Equilibrium Price and Quantity Owing to the Shift in Demand and Supply</i>	22
2.1.7. <i>The Scope and Limitations of Demand and Supply Models under Imperfect Competition</i>	23
2.2. Applications of Demand and Supply in Sports Economics	24

2.3. Demand and Supply Model in the Music Industry	25
2.4. Demand and Supply Model for College Education	27
Chapter Summary	28
3 Measures of Market Efficiency Versus Economics of Government Intervention in the Free Market Mechanism	31
3.1. Criteria of Measuring Efficiency and Equity	31
3.1.1. <i>What Is Economic Efficiency?</i>	32
3.2. Foundation of the Free Market System: The Case for Laissez-Faire	34
3.3. The Sources of Free-Market Failure and Their Effects on Society	35
3.4. The Case for Government Intervention in the Free Market System and Its Effects on Society	36
3.4.1. <i>The Great Depression of the 1930s and FDR's New Deal</i>	36
3.4.2. <i>Market Power and the Antitrust Act</i>	36
3.4.3. <i>Externalities and Government Legislation</i>	36
3.5. Pros and Cons of Government Intervention in the Free Market System	38
Chapter Summary	39
4 Application of Demand and Supply to Measure the Economics of the Retirement and Health-Care Industries with Case Studies in the US Economy	43
4.1. Demand and Supply Model in Microeconomics and Macroeconomics	43
4.1.1. <i>Demand and Supply Model in Microeconomics</i>	43
4.1.2. <i>Aggregate Demand and Aggregate Supply Curve Model in Macroeconomics</i>	45
4.2. Application of Demand and Supply of Health Care and Pensions for an Aging Population and Its Policy Implications	47
4.2.1. <i>Policy Implications for Rising the Cost of Health Care</i>	50
4.3. Examples of General Economics of the Health-Care Industry	50
4.3.1. <i>Issues with Data Sharing and Information Asymmetry</i>	51
4.3.2. <i>Positive and Negative Externalities in Health-Care Services</i>	52
4.4. The Health-Care Industry in the Context of Macroeconomics	54
Chapter Summary	54
5 Economics of the Stock Market, Bond Market, Loanable Funds, and Currency Market	57
5.1. Understanding the Bond Market, Stock Market, Loanable Funds Market, and Currency Market	57
5.1.1. <i>Bond Market: Corporate Bonds and Government Bonds</i>	57
5.1.2. <i>Stock Market</i>	58
5.1.3. <i>Loanable Funds Market</i>	59
5.1.4. <i>Currency Market</i>	59

5.2. Application of Demand and Supply Behavior in the Bond Market	59
5.3. Application of the Demand and Supply Model in the Stock Market	61
5.4. Application of Demand and Supply in the Loanable Funds Market and Currency Market	63
5.4.1. <i>Demand and Supply Interaction in the Loanable Funds Market</i>	63
5.4.2. <i>Application of Demand and Supply in the Currency Market</i>	64
Chapter Summary	65
6 Measures of Economic Performance for Macroeconomic Fundamentals	69
6.1. Understanding the Fundamentals of Macroeconomics	69
6.1.1. <i>NGDP and RGDP</i>	70
6.1.2. <i>Inflation Index: GDPD and CPI</i>	70
6.1.3. <i>Shortcomings of CPI in Measuring the Inflation Rate</i>	73
6.1.4. <i>GDP per Capita</i>	73
6.1.5. <i>RGDP Growth Rate and Living Standard</i>	74
6.1.6. <i>Unemployment and Full Employment</i>	75
6.1.7. <i>Recession, Depression, Inflation, and Stagflation</i>	76
6.2. Numerical Data Analysis of Key Macroeconomic Variables	78
Chapter Summary	80
7 Understanding and Measuring Short-Run and Long-Run Economic Growth with Real-World Examples	83
7.1. Aggregate Supply Model in the Short Run and Long Run	83
7.2. Comparison between Short-Run and Long-Run Aggregate Supply Curves and Their Implications	85
7.3. Analysis of Shapes of Aggregate Demand and Aggregate Supply Curves in the Short Run and Long Run with Economic Implications	86
7.3.1. <i>The Slope of the SRAS and LRAS Curves</i>	86
7.3.2. <i>The Shift of SRAS and LRAS in the Very Long Run</i>	87
7.3.3. <i>The Shift of the AD Curve and Economic Implications</i>	88
7.3.4. <i>Keynesian Multiplier and the Shift of AD</i>	89
Chapter Summary	90
8 The Real Sector Model of Keynesian Macroeconomics and Data Analysis	93
8.1. Introduction to the Foundations of the Keynesian Macroeconomic Model versus the Classical Theory of Macroeconomics	93
8.2. The Aggregate Demand and Aggregate Supply of Keynesian Economics with Price Level Consideration	95

8.3. The AE Model (the Demand) and Aggregate Production (the Supply) of Keynesian Economics without the Price Level Consideration:	
The 45-Degree Equality Line Model	96
8.3.1. <i>The AE Model of Keynesian Economics</i>	97
8.3.2. <i>The Equation for Consumption Expenditure</i>	98
8.3.3. <i>Investment Function</i>	100
8.3.4. <i>Government Expenditure</i>	100
8.3.5. <i>Net Export (EX—IM)</i>	101
8.3.6. <i>Determination of Equilibrium RGDP Without the Price Level</i>	101
Chapter Summary	104
9 Macroeconomic Policies	109
9.1. The Causes of Free-Market Failure and Rationale for Policy Actions as Opposed to the Classical View of Laissez-Faire	109
9.2. Working Mechanism of Fiscal Policy under Keynesian Perspectives	112
9.2.1. <i>Fiscal Policy Process</i>	112
9.2.2. <i>Expansionary Fiscal Policy</i>	112
9.3. Working Mechanism of Monetary Policy under Keynesian Perspectives	114
9.3.1. <i>Monetary Policy Process</i>	114
9.3.2. <i>Reserve Requirements</i>	115
9.3.3. <i>Discount Rate</i>	115
9.3.4. <i>Open Market Operations</i>	116
9.3.5. <i>Expansionary Monetary Policy</i>	116
9.3.6. <i>Contractionary Monetary Policy</i>	116
9.3.7. <i>Federal Funds Rate</i>	117
Chapter Summary	117
10 Foundations of Money Demand and Money Supply and Policy Implications	121
10. Theories of Money Demand and Money Supply	121
10.1. Money Supply Process and Measures of Money Supply Aggregates	122
10.1.1. <i>Functions of Money</i>	122
10.1.2. <i>Types of Money Supply Aggregates</i>	123
10.1.3. <i>Other Measures of the Money Supply Process</i>	123
10.2. The Fed—The Central Bank of the United States and Its Functions and Control of the Money Supply	124
10.2.1. <i>Structure and Functions of the Fed</i>	124
10.2.2. <i>Key Functions of the Fed</i>	125
10.3. The Fed's Control of the Money Supply and the Process of Money Creation through the Lending Processes of Commercial Banks	125
10.3.1. <i>Bank Reserve</i>	126
10.3.2. <i>Money Creation by a Bank's Lending and Reserve Requirements</i>	126

10.3.3. <i>Money Creation Using the Fed's Discount Rate and Federal Funds Rate Policy</i>	130
10.3.4. <i>Money Creation Using the Fed's OMO</i>	131
10.3.5. <i>Federal Funds Rate Target and Money Creation by the Fed</i>	133
10.3.6. <i>The Federal Funds Market and Its Applications</i>	134
10.3.7. <i>The Process of Changing Equilibrium Interest Rates in the Federal Funds Market</i>	134
10.3.8. <i>The Role of the Fed in Controlling the Federal Funds Rate by OMO</i>	135
10.4. Theories of Money Demand under Keynesian Economics: Interest Rate and Income as Determinants of Money Demand	136
10.4.1. <i>Money Demand Function and Changes in the Interest Rate</i>	136
10.5. Determinations of Money Market Equilibrium under Keynesian Theories of Money and Interest	138
10.5.1. <i>Determination of Short-Run Interest Rate Equilibrium</i>	138
10.5.2. <i>Monetary Policy Implications of Money Market Equilibrium</i>	139
10.5.3. <i>Transmission Process of Monetary Policy Actions from the Money Market to Goods Market</i>	139
10.5.4. <i>Monetary Policy and Determination of Equilibrium Interest Rates in the Long Run</i>	140
Chapter Summary	140
11 Budget Deficit, Public Debt, and Fiscal and Monetary Policy Implications	145
11.1. Fiscal Policy and Budget Deficit (and Surplus)	146
11.1.1. <i>The Balanced Budget Approach and Its Limitations</i>	148
11.1.2. <i>The Role of Fiscal and Monetary Policy in Reducing the Budget Deficit</i>	149
11.2. The Effects of the Deficit and Public Debt in the Short Run and the Long Run	151
11.2.1. <i>What Are the Short-Run Effects of the Deficit and Public Debt?</i>	151
11.2.2. <i>What Are the Long-Run Effects of the Deficit and Public Debt?</i>	152
11.2.3. <i>How to Pay the Debt in the Long Run</i>	152
11.2.4. <i>What If the Debt Is Not Paid or the Government Defaults on Its Monthly Payment?</i>	152
11.2.5. <i>What If the Government Defaults in the Future?</i>	153
11.2.6. <i>What Is the Worst-Case Scenario of Public Debt in the Long Run?</i>	153
11.3. The Fiscal and Monetary Policy Debate in the Context of Price Stability and Full Employment	154
11.3.1. <i>Relative Effectiveness of Fiscal Policy and Monetary Policy</i>	154
11.4. The Monetary and Fiscal Policy Debate: Discretionary versus Rules	157
11.4.1. <i>Economic Arguments against Discretionary Policies</i>	157
11.4.2. <i>Economic Arguments for Discretionary Policies</i>	157

11.4.3. <i>Case Studies for Rules versus Discretionary Policies in the US Economy</i>	158
Chapter Summary	159
12 Comparative Analysis of Classical and Keynesian Monetary Theories and Their Policy Implications	163
12.1. Classical Quantity Theory of Money versus Keynesian Monetary Theory	164
12.1.1. <i>Classical Quantity Theory of Money</i>	164
12.1.2. <i>Empirical Evidence of the Velocity of Monetary Aggregates</i>	165
12.1.3. <i>Keynesian Arguments against the Classical Quantity Theory of Money</i>	166
12.1.4. <i>Keynesian Complete Theory of Money, Interest rates, and Income</i>	167
12.1.5. <i>Monetary Policy in Action</i>	168
12.2. Monetarism versus Keynesianism in the Debate on Rules versus Discretionary Monetary Policies in Fine-Tuning Business-Cycle Fluctuations	169
12.2.1. <i>Which of the Two Approaches Is Reliable for Policy Purposes?</i>	170
12.3. Debate on Lags in Monetary Policy Effectiveness in Stabilizing the Economy	171
12.4. The Role of Monetary Policy in Controlling Business-Cycle Fluctuations	172
Chapter Summary	172
13 Inflation and Unemployment Trade-Off—the Phillips Curve	175
13.1. The Relationship between Inflation and Unemployment under the Phillips Curve Theory	176
13.1.1. <i>Sources of Inflation: AD Shift and AS Shift</i>	176
13.1.2. <i>The Phillips Curve and the Inflation-Unemployment Trade-Off</i>	178
13.2. Phillips Curve in the Short Run and the Long Run with Real-World Evidence	179
13.2.1. <i>Short-Run Phillips Curve</i>	179
13.2.2. <i>Long-Run Phillips Curve</i>	179
13.3. Policy Implications for the Phillips Curve in the Short Run versus the Long Run	181
Chapter Summary	183
14 International Trade and Macroeconomics	185
International Trade and the Open-Economy Macroeconomics Model: Theory and Practice	185
14.1. The Theories of International Trade and Its Rationale for Economic Growth and Employment under the Keynesian Macroeconomics Model	186

14.1.1. <i>What Is International Trade?</i>	186
14.1.2. <i>The Case for Trade</i>	186
14.1.3. <i>The Theory of Comparative Advantage versus Absolute Advantage and Benefits of Trade</i>	187
14.1.4. <i>Keynesian Macroeconomics Model with Foreign Trade</i>	191
14.2. The Bretton Woods Agreement of 1945 and the Fixed Exchange Rate Regime for Promoting International Trade and Globalization	192
14.2.1. <i>Gold Standard Versus the Bretton Woods System of Fixed Exchange Rate</i>	192
14.2.2. <i>The Fixed Exchange Rate System</i>	193
14.3. Fixed versus Floating Exchange Rate System	194
14.4. Exchange Rate Fluctuation and Its Effect on Economic Growth and Employment	195
14.5. Purchasing Power Parity and Interest Rate Parity in Determining Foreign Exchange Rates in the Long Run and the Short Run	197
14.5.1. <i>PPP and the Long-Run Exchange Rate</i>	198
14.5.2. <i>IRP and Exchange Rate Determination</i>	199
Chapter Summary	199
15 Foreign Exchange Market and Globalization	203
15.1. Working Mechanism of the Foreign Exchange Rate with Examples	203
15.1.1. <i>Exchange Rate Fluctuation and Effect on Export and Import</i>	204
15.1.2. <i>Sources of Change in Exchange Rates in a Floating Exchange Rate Regime</i>	204
15.2. The Effect of Changes in Currency Value on Trade Balance and Economic Growth and Employment	205
15.3. Trade Deficit and Budget Deficit and Their Policy Implications	207
15.3.1. <i>Monetary Policy Effectiveness under Twin Deficits</i>	207
15.3.2. <i>Fiscal Policy Effectiveness under Twin Deficits and the Case for Policy Mix</i>	208
15.4. Balance of Trade versus Balance of Payment and Policy Implications	208
Chapter Summary	210
INDEX	213
ABOUT THE AUTHOR	217