



Economic Way of Thinking, The (11th Edition)

By Paul Heyne, Peter J. Boettke, David L. Prychitko

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Primarily for a one-semester survey course in general economics. The Economic Way of Thinking develops the basic principles of micro- and macroeconomic analysis, and employs them as tools rather than ends unto themselves. This text introduces students to a method of reasoning; to think like an economist through example and application. It even teaches by showing students how not to think, by exposing them to the errors implicit in much popular reasoning about economic events.

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Editorial Review

From the Publisher

Noted for its clear and informative style, this acclaimed text provides an in-depth discussion of a limited, but crucial set of economic principles and concepts, then applies these tools of analysis to a wide variety of familiar situations. Heyne presents conceptually demanding material in a lively, often witty fashion that is both accessible and pertinent for beginning students. The goal of this text is to help students think by developing the key insights into economic theory and applying these insights to numerous real-world examples.

From the Back Cover

Ideal for those with little or no background in economics, this book provides an in-depth discussion of a limited, but crucial set of economic principles and concepts--then applies these tools of analysis to a wide variety of familiar situations. It presents conceptually demanding material in an informal, lively, often witty fashion and prepares readers to be able to clarify, systematize, and make sense out of the economic "news" and "views" they encounter everyday in newspapers, political messages, etc. It covers sophisticated--but simple--economic theory and features extended applications that challenge customary ways of thinking. The Economic Way of Thinking. Substitutes Everywhere: The Concept of Demand. Opportunity Cost and the Supply of Goods. Supply and Demand: A Process of Cooperation. Supply and Demand: Issues and Applications. Efficiency, Exchange, and Comparative Advantage. Information, Middlemen, and Speculators. Price Setting and the Question of Monopoly. Price Searching. Competition and Government Policy. Profit. The Distribution of Income. Externalities and Conflicting Rights. Markets and Government. The Overall Performance of Economic Systems. The Supply of Money. Monetary and Fiscal Policies. National Policies and International Exchange. Employment and Unemployment. Promoting Economic Growth. Economic Performance and Political Economy. The Limitations of Economics. For anyone wanting an accessible introduction to economic principles and their application to everyday situations.

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The Economic Way of Thinking has reached a milestone. First appearing in 1973, it's now in its tenth edition. This text has enjoyed a steady and dedicated following for the past three decades. It looks different, feels different, and reads different compared with the mainstream fare.

Indeed, this book is different.

This text introduces students to the skills of the economist. It teaches students through example and application. It even teaches by showing students how not to think, by exposing them to the errors implicit in much popular reasoning about economic events. The text is designed primarily for a one-semester survey course in general economics. It has also been successfully used in M.B.A. economics courses and in Master's courses in economic education. *The Economic Way of Thinking* develops the basic principles of micro- and macroeconomic analysis, and rigorously employs them as tools rather than as ends unto themselves.

Authors of other introductory texts, understandably eager to display the formal beauty of economic analysis, unwittingly tend to overload students with abstract technical details. One principles text, written by an eminent economist, emphasizes in the first chapter that "economists build models." And, in fact, we all *do*

build models. But the uninitiated college freshman probably won't share our excitement over the models. Most, in fact, sit through our courses merely hoping to get a prerequisite out of the way. Let's show them *why* they're in the seats and we're at the podium. Let's show them why others who designed the curriculum believe economics is an important area of study. In the end, economics is not about production functions, perfectly competitive equilibria, or Phillips curves. Economics explains the logic of both the economizing process and the exchange process—it is about the everyday world around us. Students using this book will get that message not only at the end of their studies. They'll get it at the very beginning, too.

Paul Heyne never shied away from making his strategy explicit. In previous editions he insisted that "We must show them from the first day how the principles of economics make sense out of buzzing confusion, how they clarify, systematize, and correct the daily assertions of newspapers, political figures, ax grinders, and coffee shop pontificators." For thirty years *The Economic Way of Thinking* has taught students how to see through the nonsense and begin to understand the complex world around them. The tenth edition continues that tradition.

Accomplishing More With Less

This text accomplishes more—more thinking, more application, more insight—with less emphasis on formal modeling. But don't get us wrong. This is not an easy and watered-down exploration of economics. The tenth edition offers a solid discussion and development of economic principles, and a wealth of probing, illuminating applications to the everyday world around us. Even professional economists have informed the coauthors that they have learned more about economics by reading this book. And that's after they acquired their Ph.D.s.

The book is designed to develop the students' skills in *thinking* like an economist. If they become hooked, they will have ample opportunity to hone their modeling skills as they advance to other economics course offerings. We hope that the students continue their pursuit of this wonderful discipline—or at least retain its basic lessons.

Changes to the Tenth Edition

The Economic Way of Thinking is Paul Heyne's baby, his pedagogical legacy. It is richly steeped in the property-rights and coordinationist tradition of Alchian and Allen's *University Economics*, which is long out of print. We believe the success story of *The Economic Way of Thinking* stems from its accessibility and user-friendly approach. Its style is second to none.

So, when Rod Banister, our editor at Prentice Hall, approached us about coauthoring the tenth edition, both Boettke (pronounced Bet-key) and Prychitko (pronounced Per-chit-ko) were at once honored and hesitant. Prychitko was raised on Alchian and Allen's text and, while still an undergraduate, had tutored his fellow students using Paul's text in the early 1980s. Both Boettke and Prychitko have been teaching their survey courses for the past fifteen years using *The Economic Way of Thinking*—that's some thirty years of combined experience. We appreciate its style, its wit, its coordinationist themes, its clear focus on property rights, and its emphasis on the dynamic, informational characteristics of markets. But we originally hesitated to accept Rod's kind offer. What if we accidentally drop this sparkling baby into the dirty bathwater? We signed on as coauthors only after we convinced ourselves that we could maintain the text's integrity while making improvements at the margin. Rod already had faith in us. The fact that Paul himself gave us his blessings solidified our commitment. We think he would approve the changes reflected in the tenth edition. He always seemed to be lurking over our shoulders during this revision.

The tenth edition remains true to Paul's clear writing style, wit, and powerful reasoning. We live in

exciting—and uncertain—political and economic times. The examples have been updated to reflect many of the new questions and issues that students face today. Previous users will find that some chapters have few alterations while other chapters have been significantly reorganized and rewritten. Many end-of-chapter questions have been either cut or streamlined in the hope that more students will be willing to give the questions an honest try—the task looks less daunting without so many long and probing questions. New questions, of course, have been added. We believe we've improved the flow and logic of the presentation.

We followed our own comparative advantage and divided the labor with Prychitko revising Chapters 1 through 8, Boettke revising chapters 9 through 22, and each of us exchanging, discussing, and reworking our revisions. The final result is a true team effort.

Specific changes to the tenth edition:

- A greater emphasis on economics as the study of choice and the *unintended consequences* of choice is provided in Chapter 1 and continues throughout the book.
- The discussion of efficiency, exchange, and comparative advantage has been moved up front. Formerly Chapter 6, it is now Chapter 2 and has been almost totally rewritten. We felt that the case for the wealth-enhancing effects of specialization and voluntary trade should come before, rather than after, the market supply and demand presentation. The students are also presented with individual, linear production possibilities frontiers in Chapter 2.
- The theory of consumer demand and marginal values now appears in Chapter 3. Examples have been updated, with a clearer discussion of the factors that influence price elasticity.
- Chapter 4 further develops the notions of trade-offs and economizing behavior by focusing on opportunity cost and the supply of goods. The production possibilities frontier is developed further to explain increasing opportunity costs of production and the corresponding law of supply. Given the events after September 11, 2001, we decided to retain the discussion of a voluntary versus conscripted military force.
- The basic supply and demand model is developed and applied with many updated examples in Chapters 5 and 6. These chapters (formerly Chapters 4 and 5) have been thoroughly rewritten. We further clarify a continuing theme in all previous editions of *The Economic Way of Thinking*—the market as a *coordinating process*. Quantities demanded and supplied are interpreted as plans among consumers and producers. Market clearing is discussed as a meshing of these plans and as an unintended consequence of individual economizing behavior. The problem of nonmarket (socialist) coordination is discussed as well.
- In addition to thoroughly updating the examples in Chapter 6, we've also completely rewritten the analysis of the relationship between cost and price. A new appendix has been added to alert students to common errors and abuses in the economic way of thinking, such as confusions between demand and quantity demanded, and dire forecasts of growing and permanent shortages of oil (which invariably ignore relative prices!).
- We've applied the notion of *specialization and comparative advantage*—developed in Chapter 2—to explain the cost-reducing preface effects of middlemen and speculators in Chapter 7.
- Profit and Loss (formerly Chapter 11) now appears as Chapter 8, following directly after our discussion of middlemen, speculators, and information. We think this is most fitting. The chapter itself has been completely reorganized. We've added a lengthy discussion of the difference between accounting profit and economic profit, and we provide a focus on *entrepreneurship* and the role it plays in coordinating the plans of buyers and sellers. Entrepreneurship is the driving force of markets, yet it is something that few if any other principles books discuss. (You don't believe us? Go take a look for yourself.)
- Following on the theme of entrepreneurship as the driving force of the market economy, we have emphasized the dynamic element of competition and the importance of the competitive market process in teaching market participants how to behave in an economically rational manner. The optimality rules of marginal cost pricing are not the consequence of behavioral postulates assumed by the economists, but, as Armen Alchian and F. A. Hayek long maintained, emerge through the filter of the competitive process.

- In the macro chapters, we've updated the data through the year 2000 on income distribution, unemployment, inflation, economic fluctuations, and international economic growth.
- We've also added a discussion of the "boom-bust" theory of the business cycle. This explanation of industrial fluctuations emphasizes how a credit expansion can distort market signals and misguide entrepreneurial expectations of profit and loss, creating malinvestment in the industrial sector. Most mainstream textbooks, wedded exclusively to the aggregate supply and demand model, fail to discuss this elementary microfoundation of macroeconomic fluctuations. Our strategy is experimentally to offer this discussion now and, if it seems to work well, expand quite a bit upon the boom-bust theory in future editions.
- In our discussion of the performance of economic systems we incorporate data from the *Index of Economic Freedom* to emphasize our argument that the security of property, freedom of contract, open trade, and monetary and fiscal constraint are essential policy ingredients that explain why some countries perform well and others not so well. This discussion of recent empirical research on the relationship between economic freedom and economic growth fits well with the traditional theme of *The Economic Way of Thinking*—the coordinative properties of the market economy are largely a function of the institutional framework within which they operate.

Users Review

From reader reviews:

Ivory Hughes:

What do you think about book? It is just for students because they are still students or the idea for all people in the world, the actual best subject for that? Only you can be answered for that concern above. Every person has different personality and hobby for every other. Don't to be pressured someone or something that they don't would like do that. You must know how great along with important the book Economic Way of Thinking, The (11th Edition). All type of book would you see on many sources. You can look for the internet methods or other social media.

Brad Marcum:

As people who live in typically the modest era should be upgrade about what going on or information even knowledge to make these individuals keep up with the era that is certainly always change and move ahead. Some of you maybe will probably update themselves by looking at books. It is a good choice for you but the problems coming to you actually is you don't know what type you should start with. This Economic Way of Thinking, The (11th Edition) is our recommendation so you keep up with the world. Why, since this book serves what you want and need in this era.

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Raymond Hollander:

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