



Principles of Economics

978-1-63545-039-2



To learn more about all our offerings
Visit [Knewton.com/highered](https://www.knewton.com/highered)

Source	Author(s) (Text or Video)	Title(s)	Link (where applicable)
OpenStax	Senior Contributing Authors: Steve Greenlaw - University of Mary Washington Timothy Taylor - Macalester College	Principles of Macroeconomics	OpenStax
OpenStax	Senior Contributing Authors: Steve Greenlaw - University of Mary Washington Timothy Taylor - Macalester College	Principles of Microeconomics	OpenStax
UC Irvine Open Courseware	Peter Navarro - The Paul Merage School of Business, University of California	The Power of Microeconomics	UC Irvine Open Courseware

Knewton Principles of Economics was developed to meet the scope and sequence of most introductory and customizable one to two semester Principles of Economics courses. To develop the course, Knewton used a variety of content, including OpenStax, UC Irvine Open Courseware, and a team of Subject Matter Experts (SMEs). The SMEs come from diverse backgrounds and are all accomplished academics in the field of Economics. Knewton Principles of Economics covers the breadth of introductory economics topics and also provides the necessary depth to ensure the course is manageable and engaging for instructors and students alike.

Knewton Survey of Economics has two to three pieces of instruction for every learning objective, giving students multiple, diverse opportunities to learn new concepts. Knewton Survey of Economics covers the typical breadth of economics topics and also provides the necessary depth to ensure the course is manageable and engaging for instructors and students alike.



Principles of Economics | Table of Contents

Chapter 1: Introduction to Economics

- Understanding the Importance of Economics
 - Evaluate the significance of scarcity
 - Explain the relationship between production and division of labor
 - Contrast microeconomics and macroeconomics
- Using Theories and Models
 - Explain the importance of economic theories and models
 - Interpret a circular flow diagram
- How Economies Can Be Organized
 - Contrast traditional economies, command economies, and market economies
 - Understand the basic relationship between government, regulations, and markets
 - Assess the importance and effects of globalization

Chapter 2: Choice in a World of Scarcity

- How Individuals Make Choices Based on Their Budget Constraint
 - Calculate and graph budget constraints
 - Explain opportunity costs
 - Define Sunk Costs
 - Evaluate the law of diminishing marginal utility
- The Production Possibilities Frontier and Social Choices
 - Interpret production possibilities frontier graphs
 - Explain the law of diminishing returns
 - Contrast productive efficiency and allocative efficiency
 - Explain comparative advantage

Chapter 3: Demand and Supply

- Demand in Markets for Goods and Services
 - Explain demand, quantity demanded, and the law of demand
 - Interpret a demand curve
 - Supply in Markets for Goods and Services
 - Explain supply, quantity supplied, and the law of supply
 - Interpret a supply curve
 - Equilibrium in Markets for Goods and Services
 - Explain equilibrium, equilibrium price, and equilibrium quantity
 - Define economic surpluses and shortages
 - Shifts in Demand for Goods and Services
 - Define the Ceteris Paribus Assumption
 - Identify the effects of income on the demand curve
 - Identify factors that affect the demand curve
 - Graph shifts in demand
-



- Shifts in Supply for Goods and Services
 - Identify the effects of production costs on the supply curve
 - Identify factors that affect the supply curve
 - Graph shifts in supply
- Changes in Equilibrium Price and Quantity
 - Changes in equilibrium price and quantity
 - Graph equilibrium price and quantity
- Price Ceilings and Price Floors
 - Explain price ceilings
 - Explain price floors
- Demand Supply and Efficiency
 - Contrast consumer surplus, producer surplus, and social surplus
 - Explain why price floors and price ceilings can be inefficient
 - Analyze demand and supply as a social adjustment mechanism

Chapter 4: Introduction to Labor and Financial Markets

- Demand and Supply at Work in Labor Markets
 - Analyze examples of equilibrium in the labor market
 - Identify factors that shift labor demand
 - Identify factors that shift labor supply
 - Analyze price floors in the labor market
- Demand and Supply in Financial Markets
 - Explain how interest rates can affect supply and demand
 - Explain equilibrium in the financial market
 - Define intertemporal decision making
- Effects of Price Controls in the Labor Market
 - Explain the role of price ceilings and usury laws in the U.S.
 - Apply demand and supply models to analyze prices and quantities
 - Explain the effects of price controls on the equilibrium of prices and quantities

Chapter 5: Elasticity

- Price Elasticity of Demand and Price Elasticity of Supply
 - Define Elasticity
 - Calculate price elasticity of demand
 - Calculate price elasticity of supply
 - Polar Cases of Elasticity and Constant Elasticity
 - Explain infinite elasticity
 - Explain zero elasticity
 - Analyze constant unitary elasticity
-

- Elasticity and Pricing
 - Analyze how price elasticities impact revenue
 - Explain the effects of tax incidence on elasticity
 - Explain the relationship between production and consumer cost
 - Analyze changes in elasticity over time
- Elasticity in Areas Other Than Price
 - Calculate the income elasticity of demand
 - Calculate the cross-price elasticity of demand
 - Analyze elasticity in labor and financial capital markets
 - Select and apply formulas to calculate elasticity

Chapter 6: Consumer Choices

- Consumption Choices
 - Understand the concept of total utility
 - Explain marginal utility
 - Derive the market demand curve from the demand curves of individuals
 - Explain the concept of maximizing utility
 - Derive an individual's demand curve
- How Changes in Income and Prices Affect Consumption Choices
 - Contrast the substitution effect and the income effect
 - Interpret the indifference curve

Chapter 7: Cost and Industry Structure

- Introduction to Cost and Industry Structure
 - Define firm and outline the scope of production
 - Explain and calculate explicit and implicit costs
- The Structure of Costs in the Short Run
 - Differentiate between fixed costs and variable costs
 - Analyze short-run costs
 - Understand average total cost, average variable cost, marginal cost
- The Structure of Costs in the Long Run
 - Define production technologies
 - Explain economies of scale, diseconomies of scale, and constant returns to scale
 - Describe implications of the long-run average cost curve on the size and number of firms in an industry

Chapter 8: Perfect Competition

- Introduction to Perfect Competition
 - Explain the characteristics of a perfectly competitive market
 - Describe how perfectly competitive firms react in the short run
-

- How Perfectly Competitive Firms Make Output Decisions
 - Identify profits and losses with the average cost curve
 - Calculate marginal revenue and interpret a marginal revenue curve
 - Calculate profits by comparing total revenue and total cost
 - Explain shutdown point
- Perfect Competition
 - Explain why firms enter and exit the market
 - Discuss the long-run adjustment process
 - Apply concepts of efficiency to perfectly competitive markets

Chapter 9: Monopolies

- How Monopolies Form Barriers to Entry
 - Explain the characteristics of a monopoly
 - Analyze how monopoly promotes innovation
 - Analyze demand in a monopoly
- The Inefficiency of Monopoly
 - Determine total cost and total revenue for a monopolist
 - Calculate marginal revenue and marginal cost for a monopoly
 - Explain efficiency in a monopoly

Chapter 10: Monopolistic Competition and Oligopoly

- Monopolistic Competition
 - Define monopolistic competition
 - Analyze the demand curve for a monopolistic competitor
 - Analyze profit-maximization in monopolistic competition
 - Discuss entry, exit, and efficiency in monopolistic competition
- Differentiated Products
 - Explain the consequences of variety and product differentiation
 - Discuss the possible effects of advertising on competition, price, and output
- Monopolistic Competition and Oligopoly
 - Explain the main characteristics of oligopoly
 - Explain the collusion model of oligopoly
 - Discuss how game theory can be used to understand the behavior of firms in an oligopoly

Chapter 11: Monopoly and Antitrust Policy

- Corporate Mergers
 - Explain antitrust law
 - Calculate concentration ratios
 - Calculate the Herfindahl-Hirschman Index
 - Evaluate methods of antitrust regulation
-

- Regulating Anticompetitive Behavior
 - Explain tying sales, bundling, and predatory pricing
 - Evaluate a real-world situation of possible anticompetitive and restrictive practices
 - Analyze restrictive practices
- Regulating Natural Monopolies
 - Evaluate the appropriate competition policy for a natural monopoly
 - Interpret a graph of regulatory choices
 - Contrast cost plus and price cap regulation
- The Great Deregulation Experiment
 - Evaluate the effectiveness of price regulation and antitrust policy
 - Explain regulatory capture and its significance

Chapter 12: Environmental Protection and Negative Externalities

- The Economics of Pollution
 - Define externalities
 - Discuss examples of positive externalities
 - Discuss examples of negative externalities
 - Evaluate how firms can contribute to market failure
 - Command-and-Control Regulation
 - Explain command and control regulation
 - Evaluate the effectiveness of command and control regulation
 - Market-Oriented Environmental Tools
 - Show how pollution charges impact firm decisions
 - Suggest other laws and regulations that could fall under pollution charges
 - Explain the significance of marketable permits and property rights
 - Evaluate which policies are most appropriate for various situations
 - The Benefits and Costs of U.S. Environmental Laws
 - Evaluate the benefits and costs of environmental protection
 - Apply marginal analysis to illustrate the marginal costs and marginal benefits of reducing pollution
 - Explain the effects of ecotourism
 - International Environmental Issues
 - Explain biodiversity
 - Analyze the partnership of high income and low income countries in efforts to address international externalities
 - The Tradeoff between Economic Output and Environmental Protection
 - Apply the production possibility frontier to evaluate the tradeoff between economic output and the environment
 - Interpret a graphic representation of the tradeoff between economic output and environmental protection
-

Chapter 13: Positive Externalities and Public Goods

- Public Goods
 - Identify a public good
 - Explain the free rider problem
 - Identify several sources of public goods
- Why the Private Sector Under Invests in Innovation
 - Identify the positive externalities of new technology
 - Explain the difference between private benefits and social benefits and give examples of each
 - Calculate and analyze rates of return
- How Governments Can Encourage Innovation
 - Explain the effects of intellectual property rights on social and private rates of return
 - Identify three U.S. Government policies and explain how they encourage innovation

Chapter 14: Poverty and Economic Inequality

- Earnings and Discrimination
 - Explain economic inequality and how the poverty line is determined
 - Identify potential issues in government programs that seek to reduce poverty
 - Explain a Lorenz curve
- The Safety Net
 - Identify the antipoverty government programs that compose the safety net
 - Explain the primary goals of the safety net programs and how these programs have changed over time
 - Discuss the complexities of these safety net programs and why they can be controversial
- Measurement and Causes of Income Inequality
 - Explain the distribution of income and analyze the sources of income inequality in a market economy
 - Measure income distribution in quintiles
 - Show income inequality through demand and supply diagrams
- Government Policies to Reduce Income Inequality
 - Explain the arguments for and against government intervention in a market economy
 - Identify beneficial ways to reduce the economic inequality in a society
 - Show the tradeoff between incentives and income equality

Chapter 15: Issues in Labor Markets

- Unions
 - Evaluate arguments for and against labor unions
 - Explain the concept of labor unions
 - Analyze reasons for the decline in U.S. union membership
 - Employment Discrimination
 - Explain the arguments for and against government intervention in a market economy
 - Explain the impact of discrimination in a competitive market
 - Analyze earnings gaps based on race and gender
-

Chapter 16: Information, Risk, and Insurance

- The Problem of Imperfect Information and Asymmetric Information
 - Analyze the impact of both imperfect information and asymmetric information
 - Evaluate the role of advertisements in creating imperfect information
 - Identify ways to reduce the risk of imperfect information
 - Explain how imperfect information can affect price, quantity, and quality
- Insurance and Imperfect Information
 - Explain how insurance works
 - Identify and evaluate various forms of government and social insurance
 - Discuss the problems caused by moral hazard and adverse selection
 - Analyze the impact of government regulation of insurance

Chapter 17: Financial Markets

- How Businesses Raise Financial Capital
 - Describe financial capital and how it relates to profits
 - Discuss the purpose and process of borrowing, bonds, and corporate stock
 - Explain how firms choose between sources of financial capital
- How Households Supply Financial Capital
 - Show the relationship between savers, banks, and borrowers
 - Calculate bond yield
 - Contrast bonds, stocks, mutual funds, and assets
 - Explain the tradeoffs between return and risk
- How to Accumulate Personal Wealth
 - Explain the random walk theory
 - Calculate simple and compound interest
 - Evaluate how capital markets transform financial capital

Chapter 18: Public Economy

- Voter Participation and Costs of Elections
 - Explain the significance of rational ignorance
 - Evaluate the impact of election expenses
 - Special Interest Politics
 - Explain how special interest groups and lobbyists can influence campaigns and elections
 - Describe pork barrel spending and logrolling
 - Flaws in the Democratic System of Government
 - Assess the median voter theory
 - Explain the voting cycle
 - Analyze the interrelationship between markets and government
-

Chapter 19: The Macroeconomic Perspective

- Measuring the Size of the Economy
 - Define Gross Domestic Product
 - Measure GDP using the income approach
 - Measure GDP using the expenditures approach
 - Measure GDP using the output approach
 - Understand the problem of double counting
- Implications of GDP
 - Understand Gross National Product
 - Differentiate between nominal GDP and real GDP
 - Understand tracking real GDP over time

Chapter 20: Economic Growth

- Labor Productivity and Economic Growth
 - Explain the conditions that have allowed for modern economic growth in the last two centuries
 - Identify factors that affect labor productivity
 - Analyze the sources of economic growth using the aggregate production function
- Components of Economic Growth
 - Discuss the components of economic growth
 - Identify factors that contribute to a healthy climate for economic growth
 - Explain capital deepening

Chapter 21: Unemployment

- Unemployment
 - Define employed, unemployed, and labor force
 - Calculate the unemployment rate and understand the labor force percentage
 - Explain types of unemployment
 - Evaluate the collection and interpretation of unemployment data
 - Understand government policies to reduce unemployment

Chapter 22: Inflation

- Inflation
 - Calculate the annual rate of inflation
 - Use the Consumer Price Index to calculate inflation rates
 - Differentiate among the Consumer Price Index, the Producer Price Index, and the GDP deflator
 - Identify patterns of inflation for the United States
 - Explain the economic challenges of inflation
-

Chapter 23: The International Trade and Capital Flows

- The International Trade and Capital Flows
 - Identify components of current account balance
 - Explain balanced trade in terms of investment and capital flows
 - Identify and calculate supply and demand for financial capital
 - Predict the effect of savings and investments on a nation's balance of trade
 - Identify the advantages and disadvantages of trade deficits and surpluses

Chapter 24: The Aggregate Demand/Aggregate Supply Model

- Macroeconomic Perspectives on Demand and Supply
 - Explain Say's Law and determine whether it applies in the short run or the long run
 - Explain Keynes' Law and determine whether it applies in the short run or the long run
- Building a Model of Aggregate Demand and Aggregate Supply
 - Explain the aggregate supply curve
 - Explain the aggregate demand curve
 - Identify the point of equilibrium in the aggregate demand/aggregate supply model
- Shifts in Aggregate Supply and Aggregate Demand
 - Explain how aggregate supply can shift
 - Explain how aggregate demand can shift
 - Evaluate why economists disagree on the topic of tax cuts
 - Explain how unemployment and inflation impact the aggregate demand/aggregate supply model
 - Recognize the neoclassical zone, the intermediate zone, and the Keynesian zone in the aggregate demand aggregate supply model

Chapter 25: The Keynesian Perspective

- Aggregate Demand in Keynesian Analysis
 - Identify recessionary gaps and inflationary gaps on the Keynesian AD/AS model
 - Identify the determining factors of both consumption expenditure and investment expenditure
 - Analyze the factors that determine government spending and net exports
 - The Building Blocks of Keynesian Analysis
 - Evaluate the Keynesian view of recessions
 - Understand the factors that contribute to price stickiness
 - Analyze the impact of the expenditure multiplier
 - The Phillips Curve
 - Understand the Phillips curve
 - Identify factors that cause the instability of the Phillips curve
-

Chapter 26: The Neoclassical Perspective

- The Building Blocks of Neoclassical Analysis
 - Explain the importance of potential GDP in the long run
 - Analyze the role of flexible prices
 - Evaluate different ways for measuring the speed of macroeconomic adjustment
- The Policy Implications of the Neoclassical Perspective
 - Analyze the impacts of fiscal policy and monetary policy on aggregate supply and aggregate demand
 - Explain the neoclassical Phillips curve
 - Discuss why and how inflation expectations are measured
 - Explain the differences between neoclassical economics and Keynesian economics
- Balancing Keynesian and Neoclassical Models
 - Evaluate how neoclassical economists and Keynesian economists react to recessions
 - Analyze the interrelationship between the neoclassical and Keynesian economic models

Chapter 27: Money and Banking

- Defining Money by Its Functions
 - Explain the various functions of money
 - Contrast commodity money and fiat money
 - Contrast M1 money supply and M2 money supply
- The Role of Banks and How Banks Create Money
 - Explain how banks act as intermediaries between savers and borrowers
 - Understand the money multiplier formula
 - Analyze and create T-account balance sheets

Chapter 28: Monetary Policy and Bank Regulation

- Bank Regulation and Monetary Policy
 - Explain the structure and organization of the U.S. Federal Reserve
 - Explain the functions of a central bank
 - Discuss the purpose of bank regulation
 - How a Central Bank Executes Monetary Policy
 - Explain the reason for open market operations
 - Evaluate reserve requirements and discount rates
 - Monetary Policy and Economic Outcomes
 - Explain how monetary policy impacts interest rates and aggregate demand
 - Evaluate Federal Reserve decisions over the last forty years
 - Explain the significance of quantitative easing (QE)
 - Pitfalls for Monetary Policy
 - Understand the velocity of money
 - Analyze whether monetary policy decisions should be made more democratically
-

Chapter 29: Exchange Rates and International Capital Flows

- How the Foreign Exchange Market Works
 - Define the foreign exchange market
 - Identify demanders and suppliers of currency
 - Explain how the appreciating or depreciating of currency affects exchange rates
 - Identify who benefits from a stronger currency and who benefits from a weaker currency
- Demand and Supply Shifts in Foreign Exchange Markets
 - Explain supply and demand for exchange rates
 - Define arbitrage
 - Explain relative inflation
 - Explain purchasing power parity's importance when comparing countries
- Macroeconomic Effects of Exchange Rates and Policies
 - Explain how exchange rate shifting influences aggregate demand
 - Define the various types of exchange rate systems
 - Identify the tradeoffs that come with a floating exchange rate, a soft peg, a hard peg, and a merged currency

Chapter 30: Government Budgets and Fiscal Policy

- Government Spending
 - Understand total U.S. government spending
 - Understand state and local government spending
- Taxation
 - Define federal taxes
 - Define state and local taxes
- Federal Deficits and the National Debt
 - Explain the debt / GDP ratio
 - Explain the path from surpluses to deficits
- Using Fiscal Policy to Fight Recession, Unemployment, and Inflation
 - Explain expansionary fiscal policy
 - Explain contractionary fiscal policy
 - Explain how to counterbalance recession and boom
- Fiscal Policy and Balanced Budget
 - Understand the connection between fiscal policy and interest rates
 - Understand different types of lags and fiscal policies

Chapter 31: The Impacts of Government Borrowing

- Fiscal Policy, Investment, and Economic Growth
 - Explain the national saving and investment identity in terms of demand and supply
 - Explain crowding out and its effect on physical capital investment
 - Explain the relationship between budget deficits and interest rates
 - Fiscal Policy and the Trade Balance
 - Discuss twin deficits as they relate to budget and trade deficit
 - Explain the relationship between budget deficits and exchange rates
-

Chapter 32: Macroeconomics Policy Around the World

- The Diversity of Countries and Economies across the World
 - Identify what classifies a country as low-income, middle-income, or high-income
 - Explain how standards of living are influenced by geography, demographics, industry structure, and economic institutions
 - Analyze growth policies for high-income, middle-income, and low-income countries
- Causes of Inflation and the Balance of Trade Concerns
 - Identify the causes and effects of inflation in various economic markets
 - Analyze concerns over international trade in goods and services and international flows of capital

Chapter 33: International Trade

- International Trade: Absolute and Comparative Advantage
 - Explain gains from trade
 - Understand production possibilities and comparative advantage
 - Identify situations of mutually beneficial trade
 - Identify at least two advantages of intra-industry trading

Chapter 34: Globalization and Protectionism

- Protectionism An Indirect Subsidy from Consumers to Producers
 - Explain protectionism and its three main forms
 - Analyze protectionism through concepts of demand and supply, noting its effects on equilibrium
 - Calculate the effects of trade barriers
 - International Trade and its Effects on Jobs, Wages, and Working Conditions
 - Discuss how international trade influences the job market
 - Explain and analyze various arguments that are in support of restricting imports
 - Arguments in Support of Restricting Imports
 - Explain dumping and race to the bottom
 - Evaluate the significance of countries' perceptions on the benefits of growing trade
-