Solution Manual For

Macroeconomics, 2025 9th edition Glenn Hubbard Anthony Patrick O'Brien

Chapter 1-18

CHAPTER 1 | Economics: Foundations and Models

Brief Chapter Summary and Learning Objectives

1.1 Three Key Economic Ideas, page 4

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

- Because resources are scarce, people must make choices to attain their goals.

1.2 The Economic Problem That Every Society Must Solve, page 9

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?

- Because of scarcity, producing more of one good or service means that less of some other good or service will be produced.

1.3 Economic Models, page 10

Explain how economists use models to analyze economic events and government policies.

- Economists use models—simplified versions of reality—to analyze real-world issues.

1.4 Microeconomics and Macroeconomics, page 12

Distinguish between microeconomics and macroeconomics.

- Microeconomics is the study of how households and firms make choices, while macroeconomics is the study of the economy as a whole

1.5 Economic Skills and Economics as a Career, page 13

Describe economics as a career and the key skills you can gain from studying economics.

- Individuals, managers, and government policymakers can all benefit from applying economic concepts when they make decisions.

1.6 A Preview of Important economic Terms, page 13

Define important economic terms.

Appendix: Using Graphs and Formulas, page 14

Use graphs and formulas to analyze economic situations.

Key Terms

Allocative efficiency, p. 8 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 consumers equal to the marginal cost of producing it.

Centrally planned economy, p. 8 An economy in which the government decides how economic resources will be allocated.

Economic model, p. 10 A simplified version of reality used to analyze real-world economic situations.

Economic variable, p. 11 Something measurable that can have different values, such as the number of people employed in manufacturing.

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

Equity, p. 8 The fair distribution of economic benefits.

Macroeconomics, p. 12 The study of the economy as a whole, including topics such as inflation, unemployment, and economic growth.

Marginal analysis, p. 4 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. 8 An economy in which the decisions of households and firms as they interact in markets determine the allocation of economic resources.

Microeconomics, p. 12 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. 8 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. 11 Analysis concerned with what ought to be.

Opportunity cost, p. 7 The highest-valued alternative that must be given up to engage in an activity.

Positive analysis, p. 11 Analysis concerned with what is.

Productive efficiency, p. 8 A state of the economy in which every 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. 7 The idea that, because of scarcity, producing more of one good or service means producing less of another good or service.

Voluntary exchange, p. 8 A situation that occurs in markets when both the buyer and the seller of a product are made better off by the transaction.

Chapter Outline

Should Apple Manufacture the iPhone in the United States?

Although Apple designs the iPhone at its headquarters in Cupertino, California, most iPhones are assembled in China. Many products that were once manufactured in the United States are now manufactured overseas. Tariffs lead to higher prices for imported goods, making it more likely that U.S. and foreign companies will manufacture goods in the United States. In the summer of 2022 Congress passed the Chips and Science Act of 2022, which included $53 billion in federal government assistance to private firms that construct new semiconductor factories in the United States or to expand existing factories. In a market system, firms respond to economic incentives. In the case of Apple, lower wages earned by Chinese workers reduce the costs of assembling iPhones. Technological progress often creates incentives for firms to change how they produce goods and services. Firms also respond to changes in consumer tastes. When more people began using smartphones rather than computers, they reduced their demand for computers. Firms like Apple responded by shifting resources from producing computers in order to produce smartphones.

Teaching Tips

Here are special features in the textbook:

1. The introduction, or chapter opener, uses a real-world business example to preview the economic issues discussed in the chapter. Examples within the chapter often link back to that chapter-opening example. A video of each chapter opener appears within MyLab Economics and the eText.
2. At the end of each of the first four textbook chapters is a feature titled An Inside Look that consists of a recent news article plus analysis, graph, and questions. The article links back to a topic discussed in the chapter opener. Visit MyLab Economics for additional current news articles.
3. A boxed feature titled Economics in Your Life & Career complements the business example that opens the chapter. This feature poses questions that help students make a personal connection with the chapter theme. At the end of the chapter, the authors use the concepts described in the chapter to answer these questions. *Extra* Economics in Your Life & Career features are included in select chapters of this Instructor's Manual.
4. A boxed feature titled Don't Let This Happen to You alerts students to common pitfalls covered in that chapter.
5. There are between two and four *Apply the Concept* features in each chapter that provide real-world reinforcement of key concepts by citing news stories that focus on business and policy issues. A video of each *Apply the Concept* appears within MyLab Economics and the eText. *Extra Apply the Concept* features appear in this Instructor's Manual.
6. *Solved Problems* use a step-by-step process for solving economic problems. *Extra Solved Problems* are included in this Instructor's Manual.
7. *Real-Time Data* (*RTDA*) *Exercises* are included with problems at the end of macroeconomics chapters. These exercises refer to data and graphs that students will find at the web site of the Federal Reserve Bank of St. Louis (FRED). Many exercises require more elaborate calculations than other problems and the use of Excel spreadsheets.

You can use these features as the basis for classroom discussion, homework assignments, and examination questions.