CONTENTS

	List of Figures List of Tables List of Illustrations	ix xii xiii
1	Welcome to Real-World Economics	1
	My Credo	3
	Humanistic Economics	5
	A Primer on Blackboard Economics	6
	Toward a Paradigm Shift in Economics	8
	Real-World Economics Is Preferable	10
	Simple Is for Simple Minded	11
	"It's Only a Model!"	13
2	Markets Are Neither Omniscient Nor Omnipotent	19
	Markets Are Not Created by Divine Power	19
	The Downside of Free Markets	19
	Government Is an Essential Component of the Economy	26
	Markets Have Limitations	28
	The "Achilles Heel" of Markets	31
	Morality Should Take Precedence over Markets	31
	Economics Is a Social Science and Not a Natural Science	32
	Ideology Is Unavoidable	33
3	The Nature of Demand	39
•	What Is Scarce?	39
	Consumer Sovereignty and Endogenous Tastes	40
	Wants and Basic Needs	45
	The Metaphor of the Invisible Hand	49
	The Magic of Competition	50
	Consumerism	51

vi Contents

4	Homo Oeconomicus Is Extinct: The Foundations of Behavioral Economics	57
	Utility Maximization	57
	Optimization Is Impossible for Finite Minds	58
	Our Brain Is Imperfect	59
	Neuroeconomics	60
	Bounded Rationality	61
	Satisficing Instead of Optimizing	62
	Biases and Wonders of Intuition	64
	Heuristics	65
	Framing, Accessibility, and Anchoring	66
	Prospect Theory	68
	Behavioral Economics	74
	Cognitive Endowment	76
	Genetic Endowment	77
5	Taste Makers and Consumption	81
	The Influence of Corporate Power	81
	Interdependent Utility Functions	83
	Society	85
	Culture	86
	Fairness	88
	Efficiency vs. Equity	88
	Self-Interest and Altruism	90
	Positive and Normative Economics	91
	Expected vs. Realized Utility	92
	Imperfect Information	93
	Signaling	94
6	Firms and Imperfect Competition	99
	Firms	99
	The Illusion of Perfect Competition	101
	Imperfect Competition: Oligopolies and Monopolies	101
	Prices	104
	Equilibrium and Disequilibrium	106
	Adverse Selection	107
7	Returns to the Factors of Production	109
	Marginal Theory	109
	Wages	110
	The Returns on Capital	119
	Profits	120
	Institutions as Capital	121
	Intangible Forms of Capital	121
	Natural Resources	122

		Contents	vii
	Income Distribution		122
	The Second Gilded Age		125
	Growth in Welfare		132
	Ethics and the Skewed Distribution of Income		133
8	The Case for Oversight, Regulation, and Control of Markets	1	42
	Principal-Agent Problem		142
	Moral Hazard		144
	Transaction Costs		144
	Opportunistic Behavior		145
	Regulation in the Public Interest		147
	Regulatory Capture		148
	Moral Constraints		149
	Market Failures		150
	Exploitation		151
	Time and Space		152
	Path Dependence Limits and Standards		152
			155
9	Microeconomic Applications on and off the Blackboard		59
	Minimum Wage Is Good Economics		159
	Price Controls Can Be Good		161
	Unions and Countervailing Power		162
	The American Medical Association Is a Cartel		166
	Discrimination Is Pernicious		167
	Redistribution Would Help	1	168
10	What Is Macroeconomics?	-	72
	Keynes the Savior		172
	Keynesian Fiscal Policy		175
	Monetary Policy		176
	The Liquidity Trap		177
	Neoclassical Synthesis The Monetarist Counterrevolution		178
			80 181
	A Macroeconomic Policy Void GNP Is an Estimate of Production and Not of Welfare		183
	Production Possibilities Frontier		84
	FIODUCION FOSSIBILITES FIORITE	'	04
11	Macroeconomics Part II		89
	Unemployment and Underemployment		89
	The Natural Rate of Unemployment		93
	Economic Growth		94
	Economic Growth Does Not Increase Life Satisfaction		94 06
	Technological Change Is a Two-Edged Sword	1	96

viii	Contents	
	Missing Markets	198
	Environment	200
12	Macroeconomics Part III	205
	The Government Is Part of the Solution	205
	The Challenges of Keynesian Fiscal Policy	205
	Crowding Out	206
	The Threat of a Mushrooming National Debt	207
	Taxes Are Good for Us	208
	Savings or the Lack Thereof	213
	Inflation and Deflation	214
	Nominal vs. Real Wages	215
	The Obama Stimulus	215
13	International Trade: Open Economy Macroeconomics	219
	The Theory of Comparative Advantage	219
	The Effects of Tariffs on Welfare Are Complicated by Underemployment	220
	Free Trade Is Not an Engine of Growth	223
	The Protection of Infant Industries	224
	Unbalanced Trade Creates Underemployment	224
	Import Certificates Are the Only Safe Way to Eliminate the Trade Deficit	226
	New Trade Theory	227
14	The Financial Crisis of 2008	231
	Preliminaries	232
	Financial Innovations	234
	Double Trouble: Greenspan's Bubbles	236
	Early Warnings Fell on Deaf Ears	238
	The Minsky Moment: The Meltdown of 2008	241
	Thirty-One Factors That Contributed to the Crisis	243
	The Bailout: A Crisis Obama Wasted	253
	Nationalization of the Banks as Pre-privatization	256
15	Conclusion: The Foundations of Real-World Economics	265
	Imaginary vs. Real Markets	265
	The Inconvenient Truth about the Current State of the U.S. Economy The U.S. Economy Is Facing 14 Headwinds, None of Which Is Fixable	266
	in the Foreseeable Future	269
	Index	
	nuex	273