

Graphic Edition



PRINCIPLES OF ECONOMICS

N. Gregory Mankiw

The Ten Principles of Economics

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Principles of Economics

Graphic Edition

Volume One

Ten Principles of Economics

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Grand Bazaar in Istanbul, Turkey

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Chapter 3

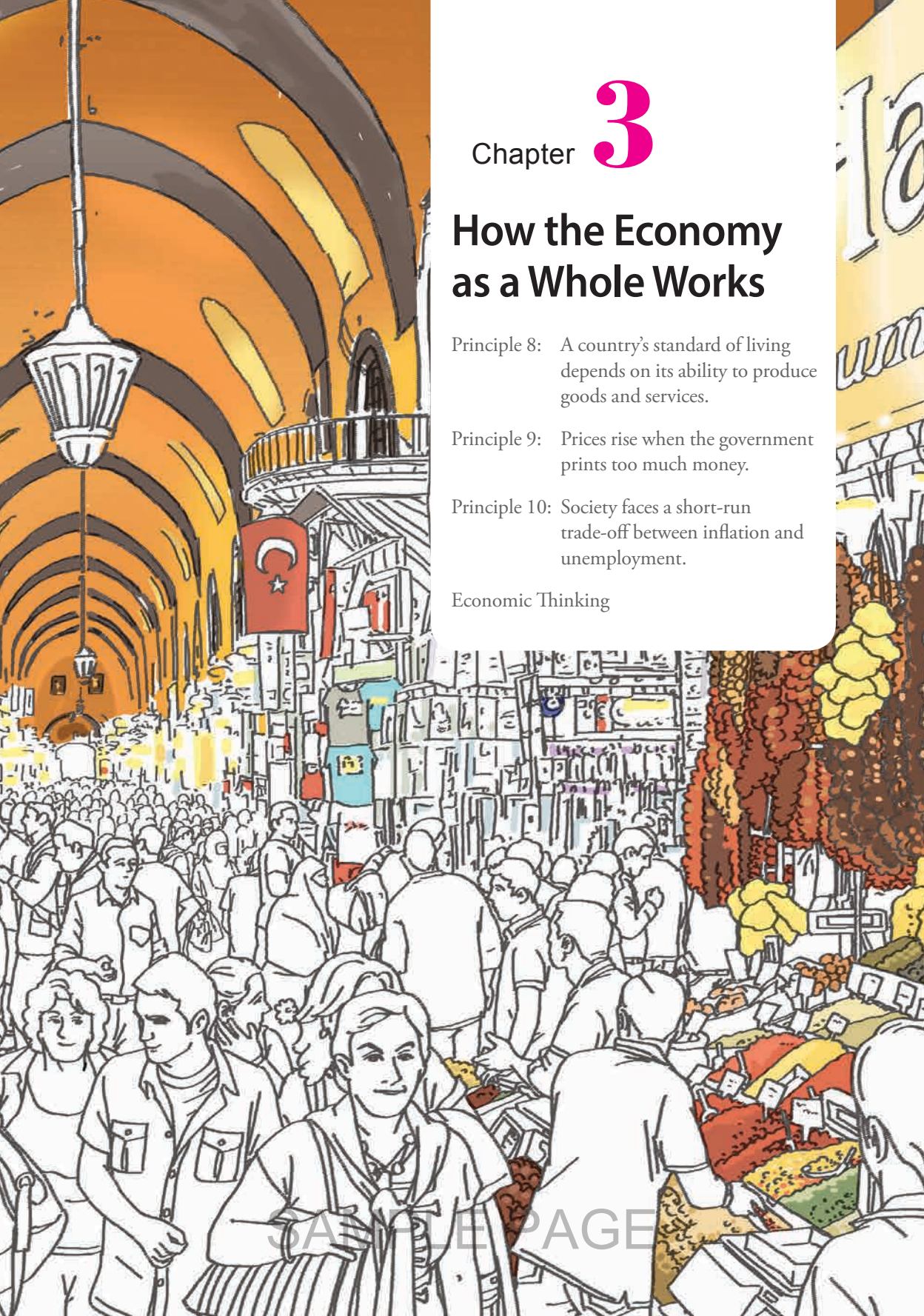
How the Economy as a Whole Works

Principle 8: A country's standard of living depends on its ability to produce goods and services.

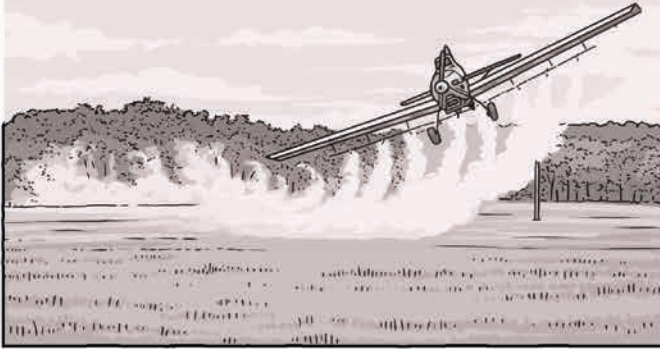
Principle 9: Prices rise when the government prints too much money.

Principle 10: Society faces a short-run trade-off between inflation and unemployment.

Economic Thinking



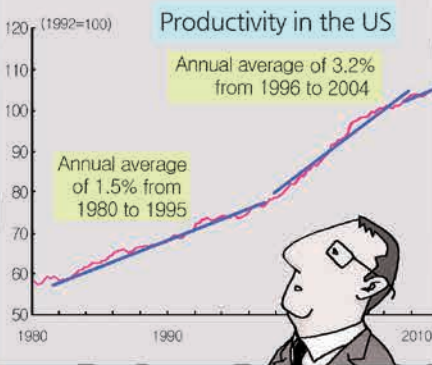
In countries that produce a high level of goods and services per working hour, people enjoy high living standards.



In countries with poor productivity, people endure a more meager existence.



Likewise, the increase in productivity in a country determines the growth of average income of the people living in that country.

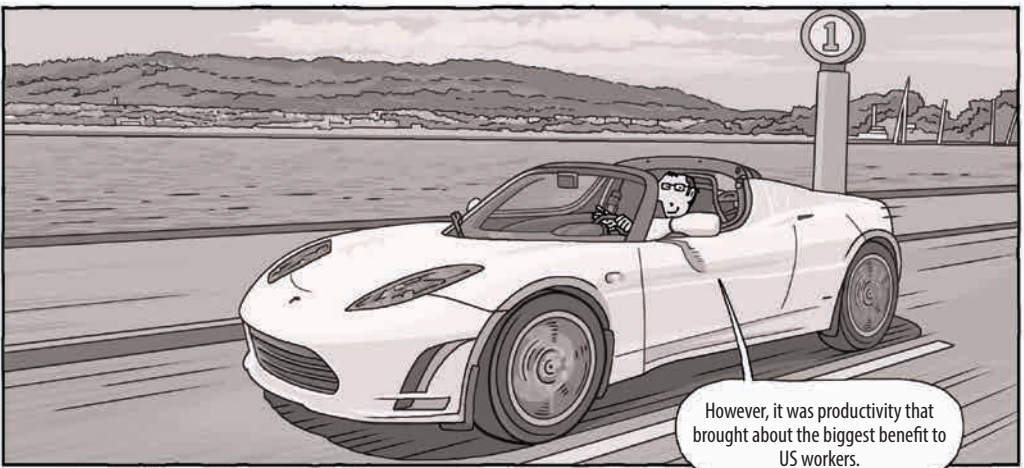


There is a clear correlation between productivity and living standards, but people are often confused.

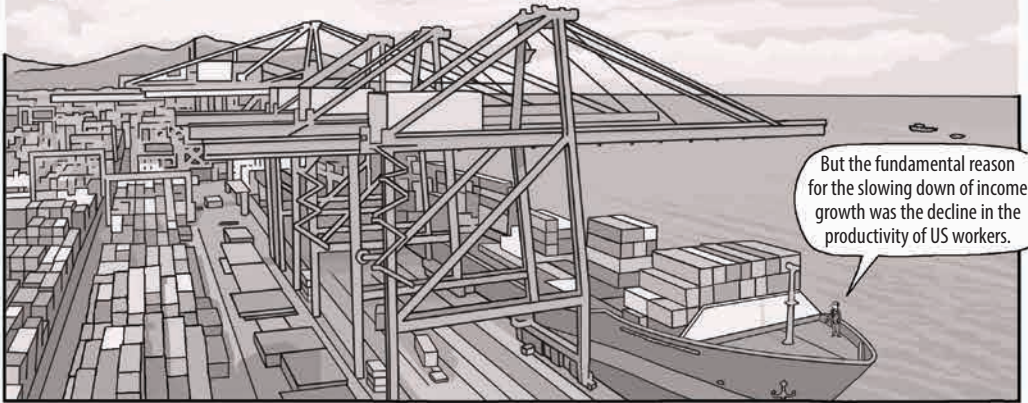


Productivity

Some may think that the activities of the labor union and the minimum wage system have raised the living standards of people living in the US.



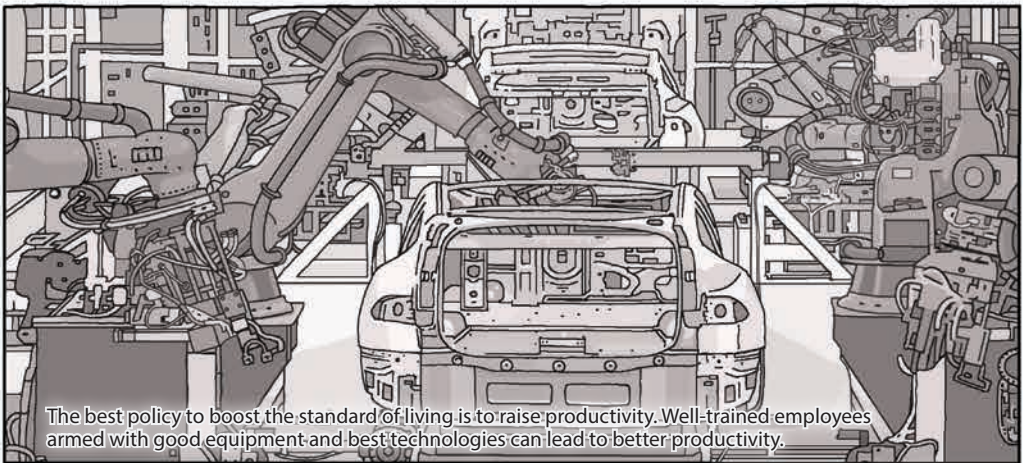
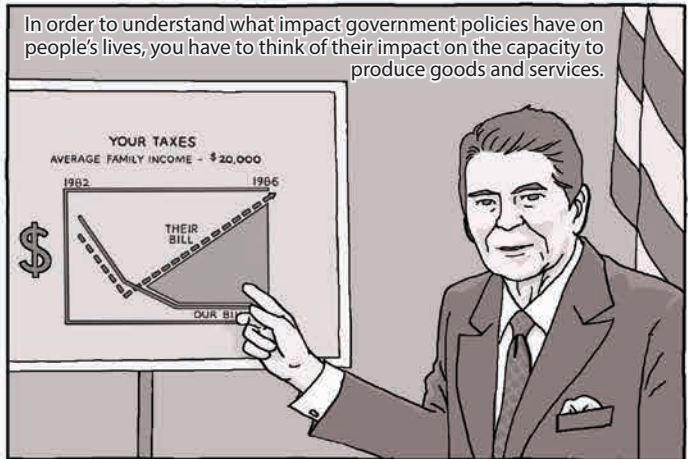
Some say that the growth in the income of Americans slowed down in 1970s and 1980s because of increasing imports from Japan and other countries and the subsequent market competition.



It is quite essential to understand the correlation between productivity and living standards in order to understand government policies.



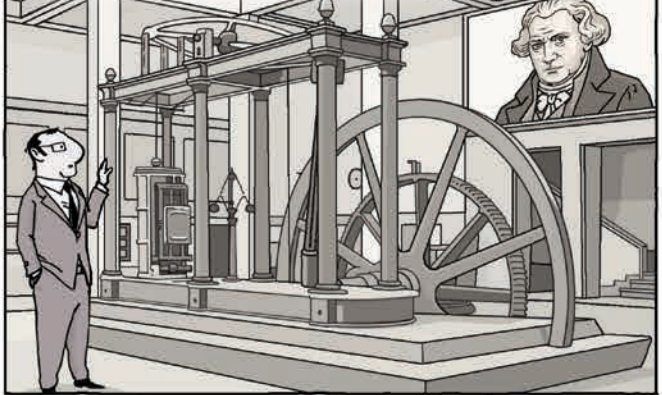
In order to understand what impact government policies have on people's lives, you have to think of their impact on the capacity to produce goods and services.



The Industrial Revolution and Employment



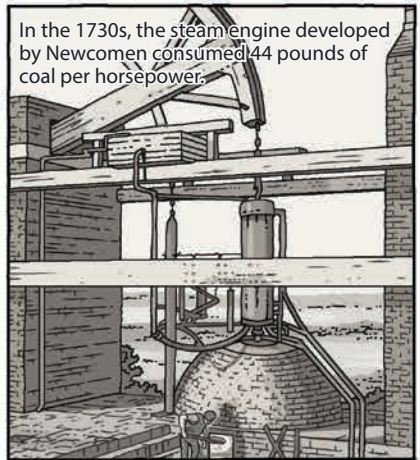
When the British scientist James Watt improved the steam engine, every industry introduced the steam engine.



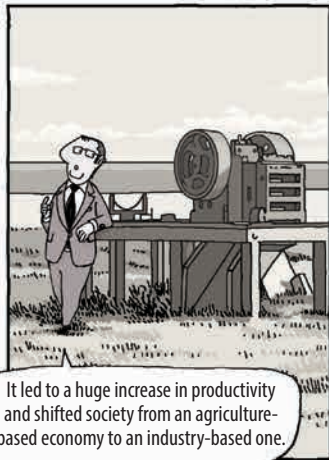
As a matter of fact, the principles behind the steam engine were well known across Europe but research and development had been done only in Britain.



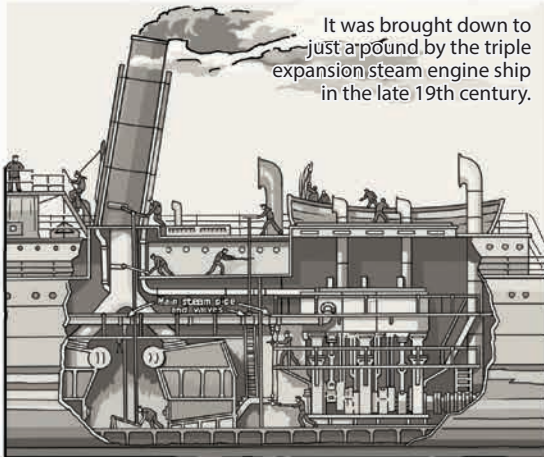
In the 1730s, the steam engine developed by Newcomen consumed 44 pounds of coal per horsepower.



It led to a huge increase in productivity and shifted society from an agriculture-based economy to an industry-based one.

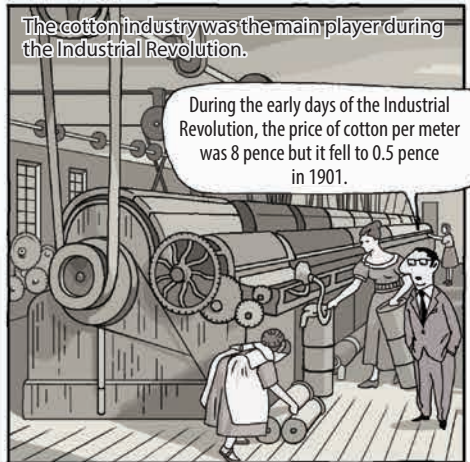


It was brought down to just a pound by the triple expansion steam engine ship in the late 19th century.



The cotton industry was the main player during the Industrial Revolution.

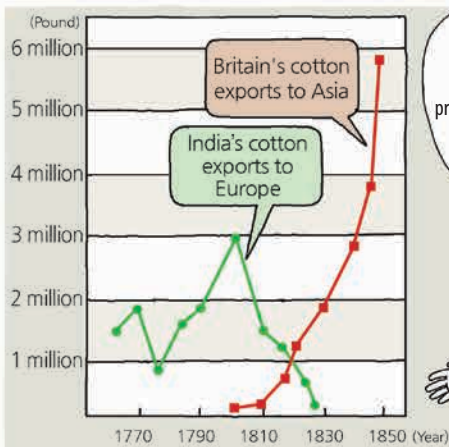
During the early days of the Industrial Revolution, the price of cotton per meter was 8 pence but it fell to 0.5 pence in 1901.



However, as the cotton products produced in Britain carried lower price tags due to higher productivity—the outcome of making capital investments—India had no other choice but to lower its prices too.



This led to the collapse of the cotton industry in India, bringing catastrophic damage to those Indian states which heavily relied on cotton manufacturing.



India became a cotton importer. Some spinning wheel-based businesses with low profitability survived but the spinning and weaving industry in general collapsed.



People in Britain started to fear that machines would replace humans as technological innovation continued into the future.



So there came the Luddites who destroyed weaving machines as a form of protest. There were individuals or countries that suffered from the development of machinery.



But it was only a temporary phenomenon.

When all the surplus workers look for jobs that yield better productivity, more diverse goods and services become available.



This was proven by the fact that the Industrial Revolution made people in England richer and led to higher rates of employment.

Such measures allow us to determine the welfare conditions of the people living in different parts of the world.



Annual labor hours

Unit: Time (hour)
OECD average: 1,766



Average actual wage per year

Based on purchasing power. Unit: Dollar
OECD average: 41,253



The labor productivity data produced by OECD in 2015 indicate Mexico as the most unproductive as Mexicans work 41.2 hours per week on average.



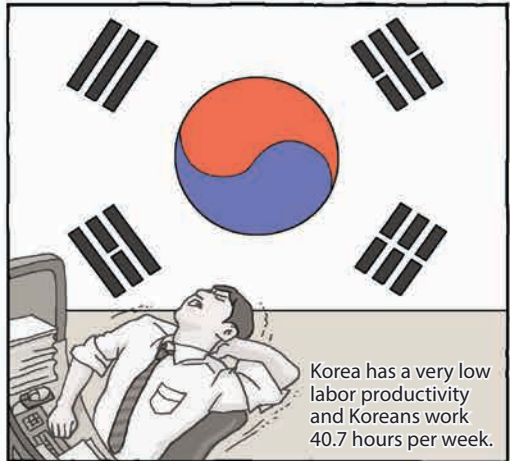
People in Luxembourg work 29 hours per week. With labor productivity of 93.4 dollars, it grabbed the top position in the ranking.



Americans have high labor productivity and work 33.6 hours per week.



Korea has a very low labor productivity and Koreans work 40.7 hours per week.





Economic Lecture

Across the world, the big gap in national income or living standards over time usually results from change in productivity. Productivity refers to how much products and services can be produced by labor input. In a nutshell, people living in countries with higher productivity are better off than those living in countries with lower productivity.

Productivity is the most fundamental variable that determines living standards while other variables such as labor union activities, minimum wage system and competition with other countries are secondary. Therefore, in order to understand the impact that government policies have on living standards, one has to grasp the impact that such policies have on the capacity to produce products and services.

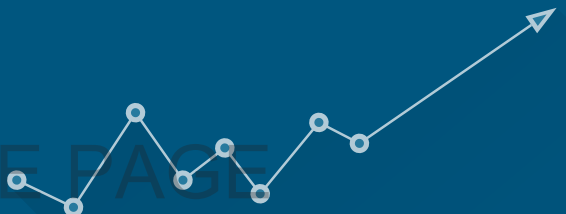
Principle

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Prices rise when the government prints too much money.

- The Fall of the Roman Empire and Inflation
- Hyperinflation in Germany
- Bitcoin
- Economic Lecture

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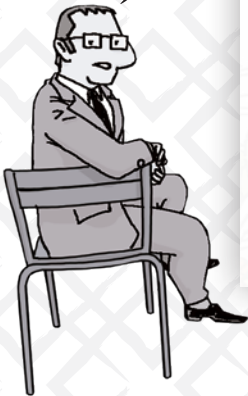
N. Gregory Mankiw



Productivity refers to the efficiency with which products are made. In a nutshell, people living in countries with higher productivity are better off than those living in countries with lower productivity.



Opportunity cost refers to everything that you give up in making a certain choice.



One of the goals of economics is to understand how this invisible hand works its magic.



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