

Book Review

Title: **The Little Book of Economics: How the Economy Works in the Real World**

Author: **Greg Ip**

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An instant to perceptive the depressing knowledge and how economic concepts and institutions affect our daily lives "...a must read in economic literacy." The Book **Little Book of Economics...**is divided into fifteen chapters.

The book opens with the literature that economic achievement comes from two elements: investment and ideas. In fundamental nature investment provides the foundation upon which ideas can grow and transform those investments into new products or the same products at a lower price. The United States does economically well which produce a lot of ideas and other economies are catching up it. Over the long run, investing in ideas is what drives us forward.

Every economy goes in cycles of expansion and recession. When things are going well, it is due to great expectations for the future. Eventually, expectations exceed reality and people start cutting back. Ultimately opportunities are far less than reality. People realize this and begin to spend again. It alternates back and forth. In the decades after World War II, Japan invested heavily in its human and economic capital. It educated its people and equipped them with cutting-edge technology adapted from the most advanced western economies in an effort to catch up. ... Once it had reached the frontier of technology, pushing that frontier outwards would mean letting old industries die so that capital and workers could move to new ones. Japan's leaders resisted the bankruptcies and layoffs necessary for that to happen. As a result, the next wave of technological progress, based on internet, took root in the United States, whose economic power led over Japan and Japan grew sharply over the course of the 1990s....p 2.

The four elements of economic growth are consumer spending, business investment, government spending, and exports. Combined, these are referred to as the gross domestic product of a nation. Forecasting changes in gross domestic product is notoriously difficult if we were perfect at it, we would have constant and steady

economic growth. **Until the eighteenth century, economic growth was so slight it was almost impossible to distinguish the average Englishman's standard of living from his parents.** ...Between 1945 and 2007 the United States economy went through 10 recessions yet still grew enough to end up six times larger with the average American three times richer p.6. ...China then stagnated under the pressure of rebellion, invasion, and a hidebound bureaucracy that was hostile to private enterprise. The average Chinese was poorer in 1952 than in 1820. So, why do some countries grow and some stand still? In a nutshell, growth rests on two building blocks: population and productivity....

In the short run, jobs go up and down with the economic cycles. In the long run, the number of jobs almost perfectly tracks the number of people who desire employment. Unemployment numbers are perhaps the best indicator of an economy's health at a given moment. There's also an interesting section about superstars' salaries and why some people are paid a lot more for only a little bit more skill.

Both high inflation and deflation are bad a low rate of inflation is the best situation. Inflation usually goes up when the economy is overheating, because employers are desperate to find more workers than are available and thus bump up salaries to attract them. Of course, when the economy is down, companies don't usually want to lower prices too much, which is a good hedge against deflation.

The economy is now globalized. The big problem with globalization, though, is that it encourages unequal wealth growth the people that can take advantage of it to earn more already have a lot in their pockets to begin with, or the people who have very highly marketable skills. Workers who do a job that can easily be exported to a place where labor costs are lower are particularly at risk of losing their job.

The government has an enormous budget and the choices made in developing and executing that budget has a great deal of impact on how the entire economy behaves. How these all functions in the United States are compared to other countries is also discussed in this book. One big difference is that the United States relies little on sales tax and consumption taxes compared to other countries, where sales taxes can reach 20% and gas prices are out of this world compared to what they are in the States.

A budget deficit is good or bad it is big question. The problems appear when the debt becomes excessive and investors become worried that the government will default. Regardless of the seemingly large size of the debt, our gross national product is incredibly large and we are far from any sort of "danger zone" of defaulting nations that default usually have many times larger debt loads than we have as compared to their gross national product.

Time and again economic crises happen. Usually, it's because people get caught up in a good thing and begin to ignore fundamentals. At some point, they've overspent and they need to sell what they've bought so much of. The problem happens when lots of people have done the same thing and there are more sellers than buyers.

Further importantly, it gives you just enough connections between events and economic theory to pull you deeper into topics that interest you and makes reading economic news that much easier. **The productive power of ideas is nothing short of miraculous. Investing in more buildings and machines are cost of money. But a new idea, if it's not protected by patent or copyright, can be reproduced endlessly for free.**

If you want to grow your understanding of *how* the economy works and *why* we're having trouble right now without digging into an arcane textbook, this is probably the single best book you can pick up.

The hopeful effect of the current financial market render down that toppled giant, century-old institutions and cost millions their jobs is that it created a strong desire among many Americans to better understand how the U.S. economy functions. In *The Little Book of Economics*, Greg Ip, one of the country's most recognized and respected economics journalists, walks readers through how the economy really works. Written for the interested layman who doesn't want to put into through academic jargon and Greek letters or pore over charts and tables, *The Little Book of Economics* offers indispensable close into how the American economy works or, doesn't.

In conclusion, an economics book that is neither monotonous nor unreadable. Greg Ip gives us a logical and enjoyable understanding of the dismal science and reveals how economic concepts and institutions affect our daily lives. This little prize can turn all of us into complicated and educated society.

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