



advanced placement macroeconomics 2011/2012

<u>UNIT</u>	<u>TITLE</u>	<u>CHAPTER</u>
1	FUNDAMENTALS	1
2	SMITH and the MARKET SYSTEM	2
3	SUPPLY and DEMAND	3
4	MARX and MARKET FAILURE	24, 26
5	KEYNES and FISCAL POLICY	29, 30
6	FRIEDMAN and MONETARY POLICY	31, 33
7	COMPARATIVE ADVANTAGE and TRADE	37, 38



AP MICROECONOMICS UNIT I FUNDAMENTALS			
OUTLINE	UNIT OBJECTIVES	READINGS FROM McCONNELL/BRUE	GRAPHS
I. The Economic Perspective A. Scarcity B. Choice 1. TINSTAFL 2. Opportunity Cost C. Profit 1. Cost-Benefit Analysis 2. Subjective/Normative D. Rational 1. Investment 2. Risk E. Marginal Analysis F. Trade creates Wealth II. Social Science A. Macro and Micro B. Positive or Theoretical Economics C. Normative or Policy Economics D. Pitfalls 1. Bias 2. Definition 3. Causation 4. Composition III. Production Possibilities Frontier A. Efficiency and Full Employment B. Capital and Consumer Goods C. Growth 1. Technology 2. Resources 3. Trade IV. Models A. X and Y Axis B. Direct and Inverse Relationships	-Why is scarcity a key economic concept even in an affluent society? -How does scarcity differ from poverty? -Why does scarcity necessitate rationing and cause competition? -What are the basic principles underlying the economic way of thinking? -What is opportunity cost? -Why do economists place so much emphasis on Opportunity Cost? -How do economists look at choices and human decision-making? -Why do people trade? -What is the difference between positive and normative economics? What are Resources? -What are the limits of production? -What are the gains to both society and individuals from trade and exchange?	Chapter 1 Limits and Choices <u>SUPPLEMENTAL SOURCES</u> <i>Economic Reasoning: Three-Ten Combination Once to the Side</i> <u>MEDIA</u> Economics USA #1	<p>The graph illustrates a concave Production Possibility Frontier (PPF) for Wine (Product A) and Cotton (Product B). The vertical axis is labeled 'Product A: Wine' and the horizontal axis is labeled 'Product B: Cotton'. The PPF curve is concave to the origin. Point A is on the curve, and point B is also on the curve but further down and to the right. Point C is on the curve at the far right. Point X is inside the curve, and point Y is outside the curve. Dashed lines connect points A, B, and C to their respective values on the axes. An arrow points to the curve with the label 'Production Possibility Frontier (PPF)'.</p>



AP MICROECONOMICS UNIT II ADAM SMITH AND THE MARKET SYSTEM

OUTLINE	UNIT OBJECTIVES	READINGS FROM McCONNELL/BRUE	GRAPHS
<p>I. Four Fundamental Questions -What, How, Who, More?</p> <p>II. Economic Systems</p> <p>A. Traditional/Barter B. Capitalism C. Socialism</p> <p>III. Adam Smith -The Wealth of Nations</p> <p>IV. Capitalism</p> <p>A. Self-Interest B. Private Property C. Freedom of Choice D. Markets E. No Government F. Results</p> <p> 1. Specialization 2. Kapital 3. Capital</p> <p>V. The Circular Flow</p> <p>A. Institutions</p> <p> 1. Households 2. Firms</p> <p>B. Markets</p> <p> 1. Product Market 2. Resource Market</p> <p>C. Real Flow</p> <p> 1. Goods and Services 2. Resources</p> <p>D. Money Flow</p> <p> 1. Income/Expenditures 2. Revenue/Costs</p> <p>VI. Business Organizations</p> <p>A. Sole Proprietorship B. Partnership C. Corporation</p>	<p>- How does private ownership affect the use of resources?</p> <p>-What are the three major methods of economic organization and how do they differ?</p> <p>-What is barter?</p> <p>-What are the six characteristics of capitalism?</p> <p>-What are three aspects of a capitalist economic system?</p> <p>What is Money? Why is it important?</p> <p>-How are firms organized in market economies?</p> <p>-What are the advantages and disadvantages of each type of business organization?</p> <p>-How do costs guide a firm's production and pricing decisions?</p> <p>-What is Accounting profit?</p> <p>-What is Economic profit and why is it important?</p> <p>-What are the strengths and weaknesses of the three types of businesses?</p> <p>-Are mergers beneficial for the U.S. economy?</p> <p>-Open-ended: Discuss the pros and cons of the existence of multinational companies</p>	<p><u>Chapter 2</u> The Circular Flow</p> <p><u>SUPPLEMENTAL SOURCES</u></p> <p><i>A Nibble from the Free Lunch</i> - Frank Armstrong</p> <p><u>MEDIA</u></p> <p>Economics USA #2</p> <p>M*A*S*H</p> <p><u>EXERCISE</u></p> <p>ECONOLAND</p>	<p>The diagram illustrates the circular flow of income and products between Firms and Households. It features four main components: Firms, Households, Markets for Goods and Services, and Markets for Factors of Production.</p> <ul style="list-style-type: none"> MARKETS FOR GOODS AND SERVICES: Firms sell goods and services; Households buy goods and services. MARKETS FOR FACTORS OF PRODUCTION: Households sell labor, land, and capital; Firms buy factors of production. Flow of Money: Households spend money on goods and services from firms, and firms pay wages, rent, and profit to households. Flow of Real Resources: Firms produce and sell goods and services to households, and households provide labor, land, and capital to firms.



AP MICROECONOMICS UNIT III MARKETS

OUTLINE	UNIT OBJECTIVES	READINGS FROM McCONNELL/BRUE	GRAPHS
<p>1. DEMAND</p> <p>a. LAW OF DEMAND</p> <p>i. CHANGE IN P= INVERSE CHANGE</p> <p>a) DMU, INCOME, SUBSTITUTION EFFECT</p> <p>b. NPD = CHANGE IN D</p> <p>i. TASTES</p> <p>ii. INCOME</p> <p>iii. MORE OR FEWER BUYERS</p> <p>iv. EXPECTATIONS</p> <p>v. RELATED GOODS' PRICES</p> <p>a) SUBS = SAME; COMPS = OPPOSITE</p> <p>CHANGE IN D \uparrow = P \uparrow Q \uparrow</p> <p>CHANGE IN D \downarrow = P \downarrow Q \downarrow</p> <p>2. SUPPLY – Chapter 3, pp. 53-55</p> <p>a. LAW OF SUPPLY</p> <p>i. CHANGE IN P = DIRECT CHANGE</p> <p>a) DIMINISHING RETURNS</p> <p>a) TOTAL REVENUE =PRICE X QUANTITY</p> <p>b. NPD= CHANGE IN S</p> <p>i. GOVERNMENT</p> <p>a) TAXES/SUBSIDIES</p> <p>a) PRICE CONTROLS</p> <p>ii. OTHER PROFIT OPPORTUNITIES</p> <p>iii. NUMBER OF SUPPLIERS</p> <p>iv. INVESTMENT IN TECHNOLOGY</p> <p>v. COST OF RESOURCE</p> <p>vi. EXPECTATIONS</p> <p>CHANGE IN S \uparrow = P \downarrow Q \uparrow</p> <p>CHANGE IN S \downarrow = P \uparrow Q \downarrow</p> <p>3. EQUILIBRIUM – Chapter 3, pp. 56-69</p> <p>a. SHORTAGE and SURPLUS</p> <p>b. EQUILIBRIUM and EFFICIENCY</p>	<p>1. Describe the behavior of buyers and sellers in a competitive market</p> <p>2. Explain the determinants of Demand</p> <p>3. Explain the determinants of Supply</p> <p>4. Distinguish between the Income and Substitution effect</p> <p>5. Define Diminishing Marginal Utility and apply it to the Demand curve</p> <p>6. Draw a graph from Supply and Demand schedules</p> <p>7. Define Equilibrium</p> <p>8. Determine what Equilibrium price and quantity will be given the Demand and Supply data for a good</p> <p>9. Differentiate "changes in demand" and "changes in quantity demanded"</p> <p>10. Differentiate between a "change in supply" and a "change in quantity supplied"</p> <p>11. Analyze factors and situations that cause Supply and Demand curves to shift</p> <p>12. Predict the effects of changes in the prices and quantities of Substitute and Complementary goods on the equilibrium price and quantity of a good</p> <p>13. Explain shifts in the Supply and Demand curves based on changes in Supply and Demand</p>	<p>Chapter 3 Understanding Individual Markets: Demand and Supply</p> <p>SUPPLEMENTAL SOURCES</p> <p><i>The New Kings of Capitalism</i> Paul Krugman</p> <p>MEDIA</p> <p>Economics USA #16</p> <p>Trading Places</p> <p>EXERCISE</p> <p>COFFEE SHOP</p>	<p>The graph plots Price on the vertical axis and Quantity on the horizontal axis. A downward-sloping Demand curve and an upward-sloping Supply curve intersect at the equilibrium point, where Price is 7 and Quantity is 7. A horizontal dashed line at Price 8 is labeled 'FLOOR', and a horizontal dashed line at Price 6 is labeled 'CEILING'. The area between the floor and the equilibrium is labeled 'Surplus', and the area between the ceiling and the equilibrium is labeled 'Shortage'. The equilibrium point is labeled 'Equilibrium Qs=Qd'. The equilibrium price is labeled 'Equilibrium price' and the equilibrium quantity is labeled 'Equilibrium quantity'.</p>



AP MICROECONOMICS UNIT IV MARX AND MARKET FAILURE			
UNIT OF STUDY	UNIT OBJECTIVES	READINGS FROM McCONNELL/BRUE	GRAPHS
<ol style="list-style-type: none"> 1. KARL MARX and SOCIALISM 2. FLAWS OF CAPITALISM <ol style="list-style-type: none"> a. EXTERNALITIES -PUBLIC COSTS b. ASYMMETRIC INFORMATION c. PUBLIC GOODS d. IMPERFECT COMPETITION -MONOPOLY e. INEQUITY f. BUSINESS CYCLES 3. GROSS DOMESTIC PRODUCT -NATIONAL INCOME ACCOUNTING 4. INFLATION <ol style="list-style-type: none"> a. COST-PUSH b. DEMAND-PULL c. MARKET BASKETS and CPI 5. UNEMPLOYMENT <ol style="list-style-type: none"> a. FRICTIONAL b. STRUCTURAL c. CYCLICAL 	<ol style="list-style-type: none"> 1. Define and Describe public goods 2. Develop a rationale for determining private and public sector goods 3. Develop a criteria for evaluating the effectiveness of government programs 4. Define and give examples of externalities and third-party costs 5. Describe the purpose of National Income Accounting 6. Define Gross Domestic Product 7. Explain GDP is measured 8. Explain what Goods and Services are counted in GDP as Consumption, Investment, Government Expenditures, and Net Exports 9. Compute GDP using both the Income and Expenditure methods 10. Describe the purpose of a Price Index 11. Explain how a Price Index is calculated 12. Use a Price Index to calculate the rate of Inflation 13. Describe the difference between Nominal and Real GNP 14. Explain how Unemployment is measured 15. Calculate Unemployment and Employment Rates from appropriate data 16. Differentiate between Frictional, Cyclical, Structural and Seasonal Unemployment 17. Describe the phases of the Business Cycle 18. Identify the phases of the Business Cycle when given the appropriate economic data 	<p>Chapter 5 Market Failure</p> <hr/> <p>Chapter 24 Measuring Aggregate Output</p> <hr/> <p>Chapter 26 Business Cycles: Unemployment and Inflation</p> <hr/> <p><u>SUPPLEMENTAL SOURCES</u></p> <p><i>The Contradictions of Joseph Schumpeter</i> -Heilbroner</p> <p><u>MEDIA</u></p> <p>Economics USA #3 Economics USA #24</p>	<p>The Circular Flow Revisited</p>



AP MICROECONOMICS UNIT V KEYNESIANISM			
UNIT OF STUDY	UNIT OBJECTIVES	READINGS FROM McCONNELL/BRUE	GRAPHS
<ol style="list-style-type: none"> 1. Keynesianism <ol style="list-style-type: none"> a. Modified Circular Flow b. Aggregate Supply c. Aggregate Demand <ol style="list-style-type: none"> i. Components of Aggregate Demand 2. PC/AC curve 3. Fiscal Policy <ol style="list-style-type: none"> a. Spending Multipliers b. Discretionary c. Automatic Stabilizers 	<ol style="list-style-type: none"> 1. Define Aggregate Demand, Aggregate Supply and Aggregate Equilibrium 2. List the basic causes of shifts in Aggregate Demand and Aggregate Supply 4. Describe what determines the amount of goods and services produced and the level of employment in the Classical theory. 5. Describe what determines the amount of goods and services produced and the level of employment in the Keynesian theory 6. Explain how Consumption and Saving are related to Income in the Keynesian model 7. Describe and calculate from given data the Marginal Propensity to Consume and the Marginal Propensity to Save 8. Describe and calculate the values the Keynesian Multiplier 9. Explain and show graphically how Fiscal Policy can be used to reduce and Inflationary or Recessionary Gap 10. Distinguish between Automatic and Discretionary Stabilizers 11. Distinguish between Contractionary and Expansionary Fiscal Policy 12. Use a Keynesian 45° Total Expenditure Diagram to analyze economic problems and proposed solutions to those problems 13. List and explain the complications encountered in employing Fiscal Policy 	<p>Chapter 29 Aggregate Supply and Aggregate Demand</p> <hr/> <p>Chapter 30 Fiscal Policy</p> <hr/> <p>SUPPLEMENTAL SOURCES</p> <p><i>The Heresies of John Maynard Keynes</i> -Heilbroner</p> <p>MEDIA</p> <p>"Dave"</p> <p>Economics USA #5</p> <p>Economics USA #6</p>	<p>The top graph is an AD-AS model. The vertical axis is labeled P_{ncc} level and the horizontal axis is labeled National Income Y_2, Y_F, Y_3 Goods & Services (real GDP). It shows a vertical $LRAS$ line and two upward-sloping short-run aggregate supply curves, $SRAS_1$ and $SRAS_2$. Two downward-sloping aggregate demand curves, AD_1 and AD_2, are shown. Arrows indicate shifts: AD LEFT (PRICES DOWN, UNEMPLOYMENT UP), AD RIGHT (PRICES UP, UNEMPLOYMENT DOWN), $SRAS$ LEFT, and $SRAS$ RIGHT. Equilibrium points are marked with price levels P_{100}, P_{95}, and P_{90}. A recessionary gap is shown between Y_2 and Y_F, and an inflationary gap is shown between Y_F and Y_3. Text annotations include: "WAGES UP INTEREST RATES UP" near the top equilibrium, "WAGES DOWN INTEREST RATES DOWN" near the bottom equilibrium, and "SRAS RIGHT" near the bottom right.</p> <p>The bottom graph is a Keynesian 45-degree total expenditure diagram. The vertical axis is labeled "Planned expenditure" and the horizontal axis is labeled "Income, Output" Y. A 45-degree line is labeled $Y=E$. A downward-sloping line is labeled $E=C(Y-T)+I+G$. The equilibrium point is where the two lines intersect, indicated by a vertical dashed line.</p>



AP MICROECONOMICS UNIT VI MONETARISM			
UNIT OF STUDY	UNIT OBJECTIVES	READINGS FROM McCONNELL/BRUE	GRAPHS
<ol style="list-style-type: none"> 1. Monetarism <ol style="list-style-type: none"> a. Money and Banking b. Definition of Money c. The Tools of Federal Policy 2. Monetary Policy and Aggregate Demand <ol style="list-style-type: none"> a. Determinants of Demand for Money b. Interest Rates and the Money Market 3. Using Fiscal and Monetary Policy 	<ol style="list-style-type: none"> 1. Define and explain the functions of money 2. Explain what determines the value of money 3. Define and contrast the definitions of M1, M2, and M3 4. Define and compare Required Reserves and Excess Reserves 5. Explain how the banking system creates money 6. Calculate the Money Multiplier 7. Define and explain Open Market Operations 8. Evaluate the effectiveness of the three main tools of Monetary Policy 9. Write and explain the Equation of Exchange 10. Compare and contrast the Keynesian and Monetarist views 11. Given a series of data, identify the economic problem and prescribe the proper Monetary Policy to correct that problem 12. Compare and contrast the effectiveness of Monetary and Fiscal Policy 13. Discuss the various problems and tradeoffs that policymakers face in the real world 	<p>Chapter 31 Money and Banking</p> <hr/> <p>Chapter 32 Money Creation</p> <hr/> <p>Chapter 33 Monetary Policy</p> <hr/> <p><u>SUPPLEMENTAL SOURCES</u></p> <p><i>The Monetarist Battle Against Keynes</i> -Buchholz</p> <p><u>MEDIA</u></p> <p>Economics U\$A #8</p> <p>Economics U\$A #9</p>	



AP MICROECONOMICS UNIT VII TRADE			
UNIT OF STUDY	UNIT OBJECTIVES	READINGS FROM McCONNELL/BRUE	GRAPHS
<p>1. Economic Growth and International Trade</p> <p>a. Trade</p> <p>b. Specialization</p> <p>c. Comparative and Absolute Advantage</p> <p>2. International Trade</p> <p>a. Payment Systems and Exchange Rates</p> <p>b. The Balance of Payments</p> <p>c. Trade Barriers</p> <p>d. The Impact of Domestic Policies</p> <p>3. Issues of Growth and Stability</p> <p>a. Human and Physical Capital</p> <p>b. Research and Development</p>	<p>1. Define Comparative and Absolute Advantage</p> <p>2. Describe and give examples of the Law of Comparative Advantage</p> <p>3. Define Specialization and Exchange</p> <p>4. Explain how both parties to a trade gain from voluntary exchange</p> <p>5. Explain Comparative Advantage in terms of Opportunity Cost</p> <p>6. When given necessary data, compute the costs of producing two commodities in two countries, determine which nation has the Comparative Advantage in the production of each commodity, calculate the trading ratio, and explain the gains to each nation and the world from Specialization and Trade</p> <p>7. Describe and evaluate the case for Free Trade</p> <p>8. Describe and evaluate the case for Protectionism</p> <p>9. Describe the Balance of Payments</p> <p>10. Describe how Exchange Rate Systems work and convert currency using current exchange rates</p> <p>11. Describe the effects of Depreciating or Appreciating Currency Rates on a nation's imports and exports</p> <p>12. Identify the six main determinants of economic growth.</p> <p>13. Explain the link between technological advance, efficiency, and growth.</p> <p>14. Analyze economic growth using the Production Possibilities Frontier.</p> <p>15. Use Dennison's Theories to comment on growth.</p> <p>16. Explain why growth may or may not be desirable and sustainable.</p>	<p><u>Chapter 37</u> <u>International Trade</u></p> <hr/> <p><u>Chapter 38</u> <u>Foreign Exchange</u></p> <hr/> <p><u>Chapter 17</u> <u>Economic Growth</u></p> <hr/> <p><u>SUPPLEMENTAL SOURCES</u></p> <p><i>The Cry for Free Trade</i> -Buchholz</p> <p><u>MEDIA</u></p> <p>Economics U\$A #27</p> <p>Economics U\$A #28</p>	<p>Dollar market in China</p> <p>RMB market in the US</p> <p><i>Free-floating exchange rates eliminate trade imbalances: American demand for Chinese goods increases demand for RMB and supply of \$. Dollar weakens, eventually making Chinese goods less attractive to Americans. RMB strengthens, making US goods more attractive to Chinese consumers. Current account moves towards balance as exchange rates adjust to trade flows.</i></p>