

AP Economics

Unit Outline

MICROECONOMICS

- D) Unit I: Basic Economic Concepts
 - a. Founding Principles
 - i. Scarcity
 - ii. Trade-offs and Opportunity Cost
 - iii. Free-market system (Adam Smith's invisible hand)
 - b. Types of Economics
 - i. Microeconomics vs. Macroeconomics
 - ii. Positive vs. normative economics
 - c. Production Possibilities Graph
 - i. Straight vs. bowed PPF
 - ii. Underutilization, full employment, and unattainable
 - iii. Law of increasing opportunity cost
 - iv. 3 shifters of the PPF
 - v. Consumer goods vs. capital goods
 - d. Circular Flow Model
 - i. Product market, Factor market, and Public sector
 - e. Specialization and Trade
 - i. Absolute advantage
 - ii. Comparative advantage
- II) Unit II: Supply, Demand, And Consumer Choice
 - a. Demand (graph)
 - i. Law of demand
 - ii. Market demand curve
 - iii. Determinants of demand
 - iv. Normal vs. inferior goods
 - v. Substitutes and complements
 - b. Supply (graph)
 - i. Law of supply
 - ii. Market supply curve
 - iii. Determinants of supply
 - c. Equilibrium and Efficiency (graph)
 - i. Equilibrium price and quantity
 - ii. Disequilibrium: surplus and shortages (graphing)
 - d. Government policies (graphs)
 - i. Price floors and ceilings
 - ii. Excise taxes, subsidies, tariffs, quotas
 - e. Elasticity

- i. Price, income, and class price elasticity of demand
 - ii. The total revenue test (graph)
- f. Consumer choice
 - i. Law of diminishing marginal utility, substitution effect, income effect
 - ii. Marginal benefit/cost
 - iii. Utility maximizing rule

III) Unit III: Costs of Production and Perfect Competition

- a. Economists vs. Accountants
 - i. Total revenue
 - ii. Explicit and implicit costs
 - iii. Economic costs and profits
- b. Costs of Production (graph)
 - i. Fixed costs, variable costs, and total costs
 - ii. Per-unit costs (ASV, AFC, ATC)
 - iii. Shifts in MC, ATC, AVC, and AFC
 - iv. Marginal costs and Marginal Revenue
 - v. Sunk costs
- c. Law of Diminishing Marginal Returns (graph)
 - i. Stage I: increasing returns
 - ii. Stage II: decreasing returns
 - iii. Stage III: negative returns
- d. Long-run Production Costs (graph)
 - i. Economies of scale, Constant Returns to scale, Diseconomies of scale
- e. Characteristics of Perfect Competition
 - i. Price takers
 - ii. Demand =MR=Price
 - iii. Graph: Firm vs. industry (market)
 - iv. Short-run (profit or loss)
 - v. Long-run equilibrium (new firm enter and exit)
 - vi. Normal Profit
 - vii. Shutdown decision ($P < AVC$)
 - viii. Productive efficiency ($P = \text{Min ATC}$)
 - ix. Allocative efficiency ($P = MC$)

IV) Unit IV: Imperfect Competition

- a. Characteristics of Monopolies
 - i. Barriers to entry
 - ii. MR below demand (graphs)
 - iii. Profit-maximizing price and quantity
 - iv. Natural monopoly
- b. Effects on overall economy
 - i. Compared to competitive industry
 - ii. Dead-weight loss
 - iii. X-efficiency

- c. Price discrimination (graph)
 - i. Purpose and results
 - ii. Graph ($MR=D$)
- d. Regulation
 - i. Unregulated price, fair return price, and socially optimal price
 - ii. Taxes and subsidies
- e. Characteristics of Monopolistic Competition
 - i. Long-run equilibrium (graph)
 - ii. Excess capacity
 - iii. Non-price competition
 - iv. Product differentiation
- f. Characteristics of Oligopolies
 - i. Kinked demand curve-competitive pricing
 - ii. Game theory (chart) price leadership, Collusion and Cartels

V) Unit V: Resource Market

- a. Demand for labor
 - i. Derived demand
 - ii. Marginal revenue product
 - iii. Marginal resource cost
- b. Perfectly competitive labor market (graph)
 - i. Wage makers
 - ii. Perfectly elastic supply of labor
- c. Labor unions
 - i. Goals and methods
- d. Effects of minimum wage
- e. Wage differentials
 - i. Investment in human capital vs. physical capital

VI) Unit VI: International Trade, Market Failures and Government Involvement

- a. Public goods
 - i. Demand for public goods
 - ii. Supply of public goods
 - iii. Free-rider problem
 - iv. Non-excludability and Non-rivalry
- b. Positive externalities/spillover benefits (graph)
 - i. Marginal social benefits vs. private benefits
 - ii. Underallocation
 - iii. Government remedy
- c. Negative externalities/spillover costs (graph)
 - i. Marginal social cost vs. private cost
 - ii. Overallocation
 - iii. Government remedy
- d. Income distribution
 - i. Tax incidences

MACROECONOMICS

D) Unit I: Measurement of Economic Performance

Overview: Since the performance of the economy as a whole is usually measured by trends in gross national product, gross domestic product, inflation, and unemployment we will learn about how these are measured and used. This unit covers the components of gross income measures and the costs of inflation and unemployment. It will clarify the distinction between nominal and real values, and give us some exposure to the use of price indices to convert nominal magnitudes into real magnitudes. We will look at the actual levels of inflation, unemployment, gross national product, and gross domestic product, as well as the ways that changes in one may affect the others.

- a. Gross Domestic Product and National Income concepts
 - i. Components of GDP
 - ii. Calculating GDP using the Expenditure and Income Approach
 - iii. Real vs. Nominal GDP
 - iv. Per Capita GDP
 - v. Shortcomings of GDP
- b. Unemployment and the Business Cycle
 - i. Four phases of the business cycle
 - ii. Measuring unemployment
 - iii. Types of unemployment
 - iv. Natural rate of unemployment, actual rate of unemployment
- c. Inflation and price indices
 - i. Calculating Consumer Price Index (CPI)
 - ii. Types of inflation
 - iii. Consequences of inflation
 - iv. Real vs. nominal income/interest rates

II) Unit II: National Income and Price Determination

Overview: In this unit we will learn about national income and aggregate price levels. This is done through a general discussion of the nature and shape of the aggregate demand and supply curves. You will look at the differences between the Keynesian and classical views of the shape of the aggregate supply curve and the importance of the shape in determining the effect of changes in aggregate demand on the economy.

- a. Aggregate Demand Graph
 - i. Circular flow model
 - ii. Determinates of aggregate demand
 - iii. Multiplier
- b. Aggregate supply graph
 - i. Determinants of aggregate supply

- ii. Short-run vs. long-run analysis (AD/AS model)
- iii. Classical analysis
- iv. Keynesian analysis
- c. Macroeconomic equilibrium
 - i. Real output and price level (graph)
 - ii. Short run vs. long run output
 - iii. Actual vs. full employment output
 - iv. Income-consumption and Income-savings model
 - v. Average Propensity to Consume/Save
 - vi. Marginal Propensity to Consumer/Save
 - vii. Real interest rate-investment relationship
 - viii. Investment Demand Curve (graph)

III) Unit III: Financial Sector

Overview: As gas is to the automobile, so is money to the economy. In this unit we will learn how money is “created” and the functions that it performs. We will look at the role that the central bank plays in controlling the money supply to achieve certain economic goals.

- a. Money and banking
 - i. Definition of money and its functions
 - ii. Measurements of the money supply
 - iii. Banks and the creation of money
 - 1. Money market
- b. Role of the central bank and the money supply
 - i. Tools of the central bank
 - ii. Expansionary vs. contractionary monetary policy
 - iii. Real vs. nominal interest rates
- c. Fiscal policy
 - i. Expansionary vs. contractionary fiscal policy
 - ii. Demand-side vs. supply-side economics
 - iii. Budget deficits/surpluses
 - iv. Automatic stabilizers and crowding out
- d. Fiscal and monetary mix
 - i. Interaction of fiscal and monetary policies
 - ii. Monetarist-Keynesian controversy

IV) Unit IV: Macroeconomic Debates

Overview: John Maynard Keynes once remarked, “in the long run we are all dead”. In this unit we will apply some of the macroeconomic tools that have been learned to help produce some insights relating to aggregate supply and economic growth over time. We will look at the debates over the causes of macro instability and the stabilization policies used.

- a. Trade-offs between inflation and unemployment

- i. Unemployment-inflation relationship and the Phillips curve
 - ii. The long-run Phillips curve (graph)
- b. Economic growth
 - i. Production possibilities analysis of growth
 - ii. U.S. Economic growth rates
 - iii. Accounting for growth
- c. Disputes over macro theory and policy
 - i. Classical view vs. Keynesian view
 - ii. New classical view of self-correction

V) Unit V: International Trade and Finance

Overview: The formulation of macroeconomic policy has important ramifications for international economics, domestic growth, and gross domestic product. In this unit we will learn that the combination of monetary and fiscal policies used in addressing problems of inflation and unemployment has an effect on domestic growth and on international factors such as exchange rates and the balance of payments. We will also learn the reverse: that international forces, often beyond a country's control, affect a country's exchange rates, which in turn affect a country's interest rates, inflation, unemployment, and level of output.

- a. Comparative advantage revisited as to why nations trade
 - i. Supply and demand analysis of exports and imports
 - ii. Trade barriers: Tariffs, quotas & embargoes
 - iii. Protectionism vs. free trade arguments
- b. International finance
 - i. Balance of payments, current account, capital account
 - ii. Flexible vs. Fixed exchange rates
 - iii. Currency appreciation/depreciation
 - iv. U.S. trade deficit

****AP exam review****