

# Advanced Placement Macro Economics

*“Economics is a study of mankind in the ordinary business of life.”* – Alfred Marshall

Through the AP Macroeconomics course, students will have a better understanding of the world in which they live. They will develop into informed and active citizens in the economy. They will also have a better understanding of their economic potential and the impact of governmental policy.

**Required Text:** N. Gregory Mankiw, *Principles of Macroeconomics: Second Edition*, Harcourt Publishers, 2001.

**Supplementary Text:** Paul Krugman and Robin Wells, *Macro Economics: First Edition*, Worth Publishers, 2006.

**Exams:** Test will be a mixture of free response questions and multiple choice questions pulled from released AP exams and text provided tests.

**Course Outline:** *\*Graphing Activities are in Italics.*

## Unit 1: What is Economics?

- Individual Choice: The Core of Economics
  1. The fundamental problem of economics: Scarcity of resources
  2. Opportunity Cost: what you give up when you make a choice
  3. Decisions are made at the margin
- Interaction: How Economies Work
  1. Gains from trade
  2. Free markets move towards equilibrium
  3. Free markets lead to efficiency: the “invisible hand” and Adam Smith
  4. When free markets require government intervention
- Economic Models
  1. The production possibilities frontier
  2. Comparative advantage and gains from trade
  3. Understanding the circular flow diagram
  4. Positive vs. normative economics: what is and what should be
- *Graphs in Economics*
  1. *Understanding two variable graphs*
  2. *Drawing curves on a graph*
  3. *Calculating the slope of a linear curve*
  4. *Horizontal and vertical curves and their slopes*
  5. *Calculating the slope along a nonlinear curve*
  6. *Determining maximum and minimum points*
  7. *Differentiating types of numerical graphs*
  8. *Problems in interpreting numerical graphs*

## Unit 2: Supply and Demand

- The Demand Curve
  1. The demand schedule and the demand curve

2. Differentiating a change in quantity demanded from a change in demand
  3. Shifts of the demand curve
  4. *Graphing the Demand Curve*
- The Supply Curve
    1. The supply schedule and the supply curve
    2. Differentiating a change in quantity supplied from a change in supply
    3. Shifts of the supply curve
    4. *Graphing the Supply Curve*
  - Equilibrium
    1. Finding the Equilibrium price and quantity: putting supply and demand together
    2. Response of market price to equilibrium
    3. *Graphing Equilibrium*
  - Changes in Supply and Demand
    1. When the demand curve shifts
    2. When the supply curve shifts
    3. Simultaneous shift in supply and demand
    4. *Graphing Changes in Supply and Demand*
  - Price Ceilings
    1. How price ceilings cause inefficiency
    2. Why price ceilings exist
    3. *Graphing the effect of Price Ceilings*
  - Price Floors
    1. How price floors cause inefficiency
    2. Why price floors exist
    3. *Graphing the effect of Price Floors*
  - Controlling Quantities
    1. Establishing quantity controls
    2. The cost of quantity controls
    3. Taxation as a quota
    4. Revenue from excise taxes
    5. The hidden costs of taxation
    6. *Graphing the effect of controls on the market*
  - Consumer Surplus and the Demand Curve
    1. Willingness to pay and the demand curve
    2. Willingness to pay and the consumer surplus
  - Producer Surplus and the Supply Curve
    1. Cost and producer surplus
    2. Changes in producer surplus
  - Surplus and the Gains from Trade
    1. The gains from trade
    2. The efficiency of markets
    3. *Graphing Surpluses*

### **Unit 3: Introduction to Macroeconomics**

- The Big Picture
  1. Micro vs. macro
  2. Macroeconomic policy

- 3. Long-run growth
- 4. Economic aggregates: adding it all up
- The Business Cycle
  - 1. Aggregate output
  - 2. Taming the business cycle
  - 3. Long-Run Economic Growth
  - 4. Inflation and deflation
- Tracking the Macroeconomy
  - 1. GDP and its calculation
  - 2. Calculating real GDP and aggregate output
  - 3. Flaws in GDP: what it does not measure
  - 4. The unemployment rate
  - 5. Price Indexes and the aggregate price level
  - 6. The consumer price index

#### **Unit 4: The Economy in the Long Run**

- Long-Run Economic Growth
  - 1. Real GDP per capita
  - 2. Explaining growth through productivity
  - 3. The aggregate production function
  - 4. Saving and investment spending
  - 5. Foreign Investment, Education infrastructure, and research & development
- Savings, Investment Spending, and the Financial System
  - 1. The market for loanable funds
  - 2. Government policy
  - 3. Three tasks of a financial system
  - 4. Types of assets: what can you do with your money?
  - 5. Financial Intermediaries: more than just banks
  - 6. The demand for stocks, stock prices and macroeconomics

#### **Unit 5: Short-Run Economic Fluctuations**

- Aggregate Supply
  - 1. The short-run aggregate supply curve
  - 2. The long-run aggregate supply curve
  - 3. *Graphing Aggregate Supply*
- Aggregate Demand
  - 1. The downward slope of the aggregate demand curve: money supply
  - 2. Shifts in the aggregate demand curve: changing the money supply
  - 3. Short-run macroeconomic equilibrium
  - 4. shifts of the short-run aggregate supply curve: productivity
  - 5. Short-run effects of a shift in aggregate demand
  - 6. Long run macroeconomic equilibrium: maintaining steady growth
  - 7. Responding to supply shocks; role of the government
  - 8. *Graphing Aggregate Demand*
- Income and Expenditure
  - 1. Disposable income and consumer spending
  - 2. Shifts in the aggregate consumption function
  - 3. The interest rate and investment spending

4. Expected future real GDP, production capacity, and investment spending
  5. Inventories and unplanned investment spending
  6. Planned aggregate spending and real GDP
  7. Income-expenditure equilibrium
  8. The multiplier process and inventory adjustment
  9. Deriving the multiplier Algebraically
- Fiscal Policy
    1. Taxes, purchases of goods and services, government transfers, and borrowing
    2. The government budget and total spending
    3. Expansionary and contractionary fiscal policy
    4. Multiplier effects of an increase in government purchases of goods and services
    5. Multiplier effects of changes in government taxes and transfers
    6. Balanced budget as a measure of fiscal policy
    7. Deficits, surpluses, and debt
    8. Problems posed by rising government debt
  - Money, Banking, and the Federal Reserve System
    1. Money: what it is, its role, types of
    2. Measuring the money supply
    3. What banks do
    4. Bank regulation
    5. How banks create money through loaning
    6. Reserves, bank deposits, and the money multiplier
    7. The Fed: America's central bank
    8. Reserve requirements and the discount rate
    9. Open market operations
    10. The Discount Rate
  - Monetary Policy
    1. The opportunity cost of holding money
    2. The money demand curve; shifts of and prices
    3. The equilibrium interest rate
    4. Monetary policy and the interest rate
    5. Expansionary and contractionary monetary policy
    6. Monetary policy and the multiplier
    7. Short-run and long-run effects of an increased in the money supply
    8. Monetary neutrality
    9. The interest rate in the long run

## **Unit 6: The Supply Side and the Medium Run**

- Labor Markets, Unemployment, and Inflation
  1. Job creation and job destruction
  2. Frictional vs. structural unemployment
  3. The nominal rate of unemployment
  4. Okun's Law
  5. Phillip's curve: short-run, long-run, and inflation expectations
- Inflation, Disinflation, and Deflation
  1. The inflation tax

2. Hyperinflation
3. Effects of expected and unexpected inflation
4. The costs of inflation
5. The optimal rate of inflation
6. Effects of expected and unexpected deflation

### **Unit 7: Events and Ideas**

- Classical Macroeconomics
  1. Money and the price level
  2. The business cycle
  3. Keynes's theory
  4. Challenging Keynes; monetary policy
  5. Monetarism
  6. The political business cycle
  7. Rational Expectations
- Modern Consensus
  1. The effects of various policies on fighting inflation, recessions, and unemployment in the long-run
  2. A discretionary use of fiscal and monetary policies

### **Unit 8: The Open Economy**

- International Trade
  1. Comparative vs. absolute advantage
  2. Supply, Demand, and International Trade
  3. Trade Protection: tariffs and quotas
- Open-Economic Policy
  1. Capital Flows and the Balance of Payments
  2. The Role of the Exchange Rate
  3. Exchange Rate Policy

### **Unit 9: Personal Finance**

- NEFE: National Endowment for Financial Education
  1. Your Financial Plan: Where it all Begins
  2. Budgeting: Making the Most of Your Money
  3. Investing: Making Money Work for You
  4. Good Debt, Bad Debt: Using Credit Wisely
  5. Your Money: Keeping it Safe and Secure
  6. Insurance: Protecting What You Have
  7. Your Career: Doing What Matters Most
- More Practical Economics
  1. Buying or Renting a Car
  2. Housing Rights and Responsibilities
  3. FAFSA: Free Application for Federal Student Aid
  4. Dangers of Credit Cards – Movie “Maxed Out”
  5. Navigating the Stock Market
  6. Understanding Income Tax
  7. Bankruptcy: Facts and Fiction
  8. Opening a Small Business
  9. Common Scams and Internet Dangers