

AP Economics

Mr. Tengowski

AP Economics is a year-long college level economics course that encompasses both AP Microeconomics and AP Macroeconomics. Students who complete this course will be prepared to take the AP Microeconomics and AP Macroeconomics Exams that are administered by the College Board in May.

In preparation for this examination, this course will be divided into two parts approximately split along semester lines: the first semester will be devoted to the study of [Microeconomics](#) in six units of three to four chapters each, while the second semester will be devoted to the study of [Macroeconomics](#) split into five units of two to three chapters each. There will be a cumulative test at the conclusion of every unit and both a Micro and Macro Review Examination.

AP Microeconomics introduces students to the cost-benefit analysis that underlies how economic decisions are made by individuals, firms, and organizational structures. Supply and Demand analysis is developed to demonstrate how market prices are determined, how those prices determine an economy's allocation of goods and services, how factors of production are allocated, and how goods and services are distributed throughout the economy. The focus of this section of the course is the actions of consumers and producers as they interact in the resource and product markets. We will evaluate decision-making by all actors, including the role of government intervention in this model.

AP Macroeconomics emphasizes economic principles as applied to the economy as a whole and includes an analysis of basic economic concepts revolving around scarcity, measurement of economic performance, national income and price determination, the financial sector, inflation, unemployment, and stabilization policies, economic growth and productivity, and international trade and finance.

Macroeconomics and Microeconomics will both emphasize critical thinking skills, the use and interpretation of complex graphic representations, and writing skills.

Texts and Materials:

Our main text will be N. Gregory Mankiw, *Principles of Economics*, 5th Edition, South-Western Cengage Learning, 2009. This text includes online study aids and quizzes that can be accessed at www.cengage.com/economics/mankiw.

Morton, John S. *Advanced Placement Economics: Microeconomics and Macroeconomics*. Student Activities. National Council on Economic Education, 2003.

We will also frequently use readings from additional periodicals and web resources, including, but not limited to the following:

<http://reffonomics.com/reff/index.html>

<http://www.economy.com/dismal/>

<http://welkerswikinomics.wetpaint.com/>

[The Worldly Philosophers](#), 7th ed. Robert L. Heilbroner.

[The Economist](#)

Homework and Projects:

There will be nightly reading assignments as well as frequent problem sets and activities assigned as homework. It is critical to the success of your efforts that you remain current in these assignments. The discipline of economics relies heavily on the application of theoretical principles in a variety of contexts, thus the problem sets and analytic activities are key to understanding the theoretical basis that is presented in class.

Student groups of three or four will additionally complete an economics research project of significance and present their findings following the AP Exam. They will produce both a written product and an oral presentation related to their project. The research project will involve project design, literature search, research design, actual research, explicit explanation of economic concepts exemplified in the project and demonstration of learning beyond the classroom and the textbook.

Student Evaluation:

The general weights assigned to the final grade in the class will include Unit tests (~50-55%), quizzes (~10%), participation (~10%), homework (~15%), and a final comprehensive evaluation. (TBD). Test dates will be given at the beginning of each unit for planning purposes. Unit tests will be drawn heavily from AP exam format consisting of both objective multiple-choice questions and free-response question(s).

Course Outline:

Semester 1: Microeconomics

(the percentages indicate the proportion of the multiple choice AP exam that will consist of questions from each section)

Unit 1: Basic Economic Concepts – 8-14%

1. Scarcity, choice, and opportunity cost
2. Production possibilities curve
3. Comparative advantage, absolute advantage, specialization, and trade
4. Economic systems
5. Property rights and the role of incentives
6. Marginal analysis

Unit 2: The Nature and Functions of Product Markets - 55-70%

2.1. Supply and demand – 9 days. 15 - 20%

1. Market equilibrium
2. Determinants of supply and demand
3. Price and quantity controls
4. Consumer surplus, producer surplus, and market efficiency
5. Tax incidence and deadweight loss

2.2 Elasticity

- i. Price, income, and cross-price elasticities of demand
- ii. Price elasticity of supply

2.2.1. Theory of consumer choice – 5-10%

1. Total utility and marginal utility

2. Utility maximization: equalizing marginal utility per dollar
3. Individual and market demand curves
4. Income and substitution effects

2.3. Firm behavior and market structure -25-35%

2.3.1. Production and costs -10-15%

1. Production functions: short and long run
2. Marginal product and diminishing returns
3. Short-run costs
4. Long-run costs and economies of scale
5. Cost minimizing input combination
6. Profit:
 - a. Accounting versus economic profits
 - b. Normal profit
 - c. Profit maximization: $MR=MC$ rule

2.3.2 Perfect competition

1. Profit maximization
2. Short-run supply and shutdown decision
3. Behavior of firms and markets in the short run and in the long run
4. Efficiency and perfect competition

2.3.3 Monopoly

1. Sources of market power
2. Profit maximization
3. Inefficiency of monopoly
4. Price discrimination
5. Natural monopoly

2.3.4 Oligopoly

1. Interdependence, collusion, and cartels
2. Game theory and strategic behavior

2.3.5 Monopolistic competition

1. Product differentiation and role of advertising
2. Profit maximization
3. Short-run and long-run equilibrium
4. Excess capacity and inefficiency

Unit 2.4. Market Failure and the Role of Government - 12-18%

A. Externalities

1. Marginal social benefit and marginal social cost
2. Positive externalities
3. Negative externalities
4. Remedies

B. Public goods

1. Public versus private goods
2. Provision of public goods

C. Public policy to promote competition

1. Antitrust policy
2. Regulation

D. Income distribution

1. Equity
2. Sources of income inequality

Unit 2.5: Factor Markets - 10-18%

1. Derived factor demand
2. Marginal revenue product
3. Labor market and firms' hiring of labor
4. Market distribution of income

Semester 2: Macroeconomics

Unit 3.1: Measurement of Economic Performance - 12-16%

- A. National income accounts
 1. Circular flow
 2. Gross domestic product
 3. Components of gross domestic product
 4. Real versus nominal gross domestic product
- B. Inflation measurement and adjustment
 1. Price indices
 2. Nominal and real values
 3. Costs of inflation
- C. Unemployment
 1. Definition and measurement
 2. Types of unemployment
 3. Natural rate of unemployment

Unit 3.3: National Income and Price Determination - 10-15%

- A. Aggregate demand
 1. Determinants of aggregate demand
 2. Multiplier and crowding-out effects
- B. Aggregate supply
 1. Short-run and long-run analyses
 2. Sticky versus flexible wages and prices
 3. Determinants of aggregate supply
- C. Macroeconomic equilibrium
 1. Real output and price level
 2. Short and long run
 3. Actual versus full-employment output
 4. Economic fluctuations

Unit 3.4: Financial Sector - 15-20%

- A. Money, banking, and financial markets
 1. Definition of financial assets: money, stocks, bonds
 2. Time value of money (present and future value)
 3. Measures of money supply
 4. Banks and creation of money
 5. Money demand

- 6. Money market
- 7. Loanable funds market
- B. Central bank and control of the money supply
 - 1. Tools of central bank policy
 - 2. Quantity theory of money
 - 3. Real versus nominal interest rates

Unit 3.5: Inflation, Unemployment, and Stabilization Policies - 20-30%

- A. Fiscal and monetary policies
 - 1. Demand-side effects
 - 2. Supply-side effects
 - 3. Policy mix
 - 4. Government deficits and debt
- B. Inflation and unemployment
 - 1. Types of inflation
 - a. Demand-pull inflation
 - b. Cost-push inflation
 - 2. The Phillips curve: short run versus long run
 - 3. Role of expectations

Unit 3.6: Economic Growth and Productivity - 5-10%

- A. Investment in human capital
- B. Investment in physical capital
- C. Research and development, and technological progress
- D. Growth policy

Unit 4: Open Economy: International Trade and Finance -10-15%

- A. Balance of payments accounts
 - 1. Balance of trade
 - 2. Current account
 - 3. Capital account
- B. Foreign exchange market
 - 1. Demand for and supply of foreign exchange
 - 2. Exchange rate determination
 - 3. Currency appreciation and depreciation
- C. Net exports and capital flows
- D. Links to financial and goods markets