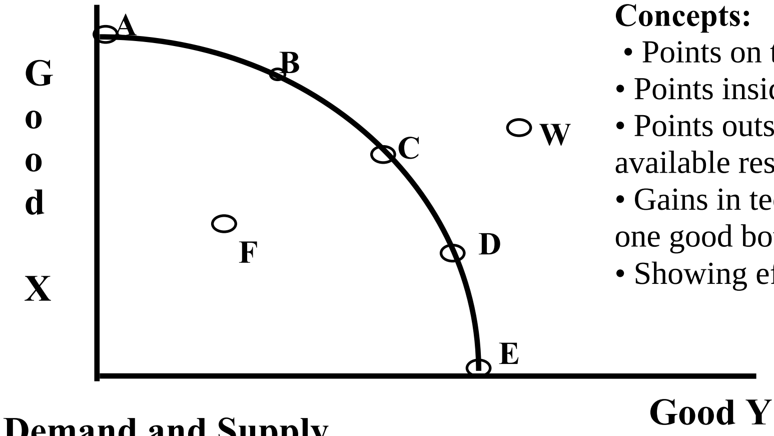
Essential graphs for AP Macroeconomics

Production Possibilities Curve

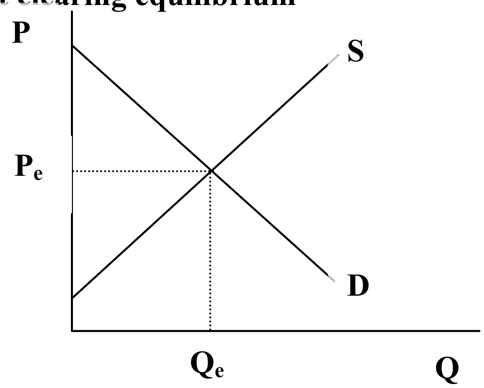


Concepts:

- Points on the curve-efficient
- Points inside the curve-inefficient
- Points outside the curve-unattainable with available resources
- Gains in technology or resources favoring one good both not other.
- Showing effect of economic growth

Demand and Supply

√ Market clearing equilibrium



Variations:

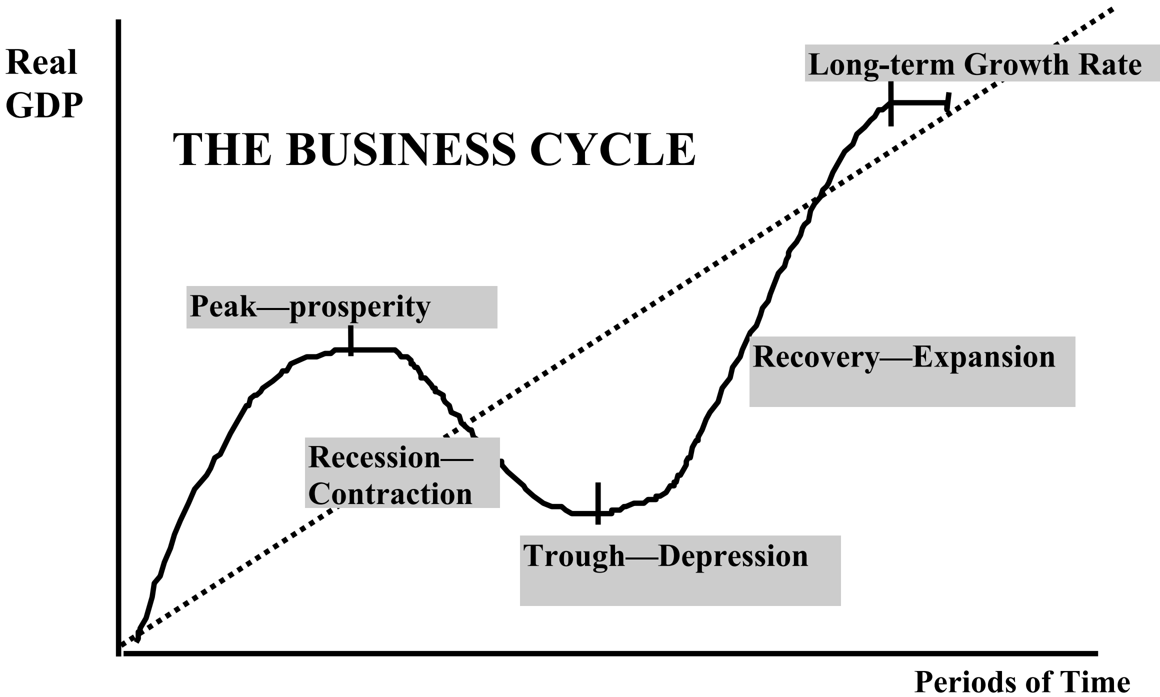
- Shifts in demand and supply caused by changes in determinants
- Changes in slope caused by changes in elasticity

Circular Flow Model-basic

Variations:

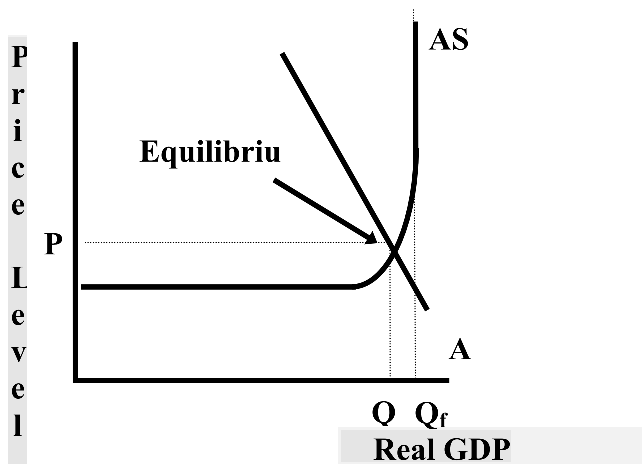
- Add government
- Add International Trade
- Add Financial Markets

Four phases of the business cycle

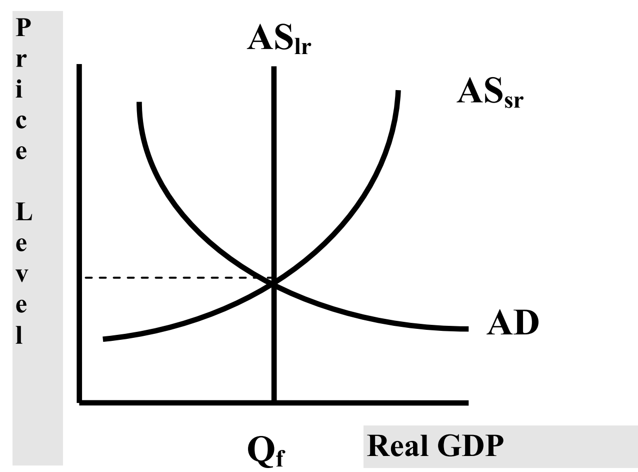


Equilibrium using Aggregate Demand and Supply … occurs at the intersection of the Aggregate Demand and Aggregate Supply curve setting the equilibrium price level and output. Q_{f} is the output at full employment.

Classical-Keynesian Model



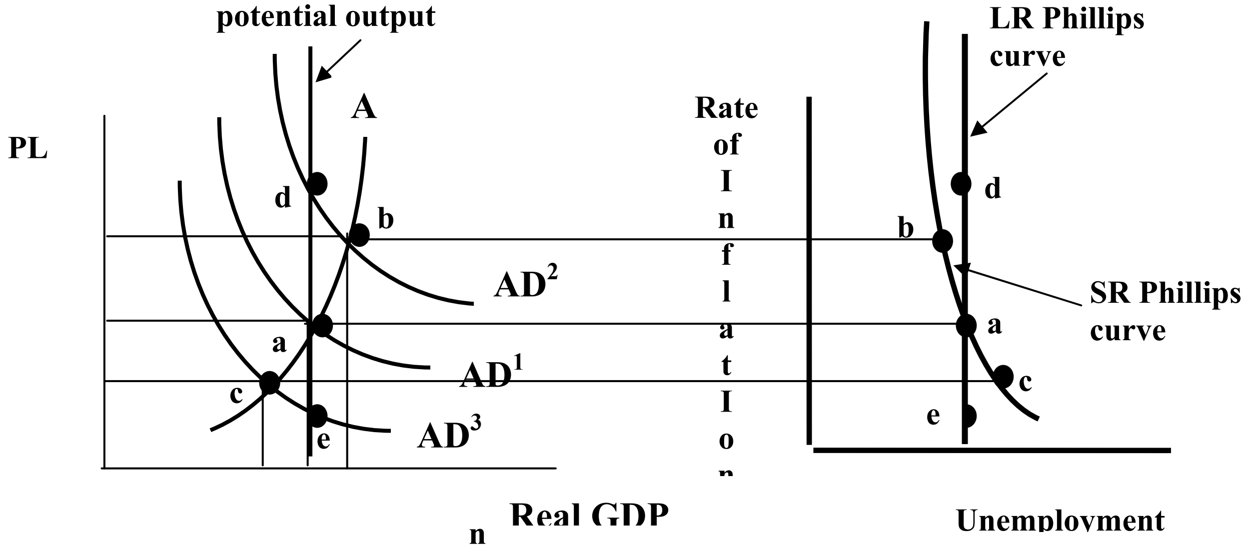
Extended AD/AS Model



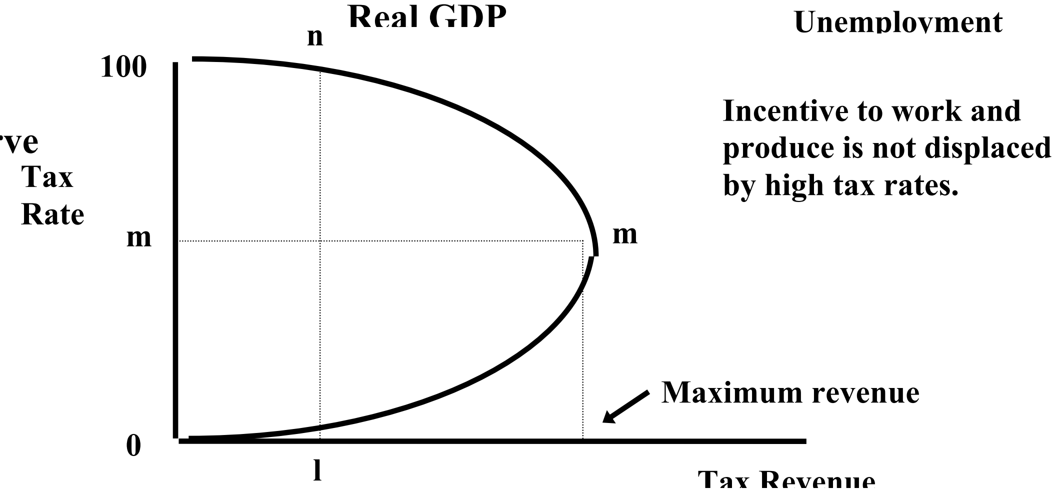
Applications:

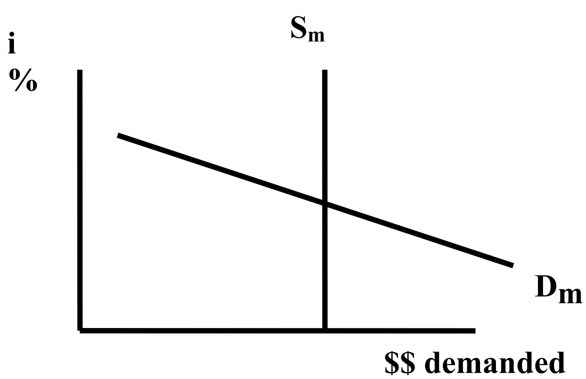
- Macro instability—inflationary gap, recessionary gap
- Fiscal and monetary policy actions and their effects on AD, AS^{sr}, AS^{lr} PL and Real GDP

Phillips Curve-short and long run



Laffer Curve

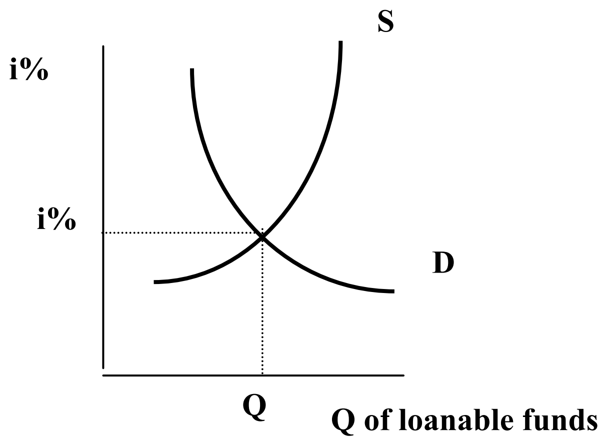




Money Market…supply of money is a vertical line since monetary authorities (FED) and financial institutions have provided the economy with a certain stock of money.
The Price axis is the rate of interest and $$ is the amount of money demanded at that rate.

Application:

- Show the effect of changes in FED policy
- Changes in interest rate causes changes in investment and interest rate-driven consumption, which affects AD, AS^{sr}, AS^{lr} PL and Real GDP.



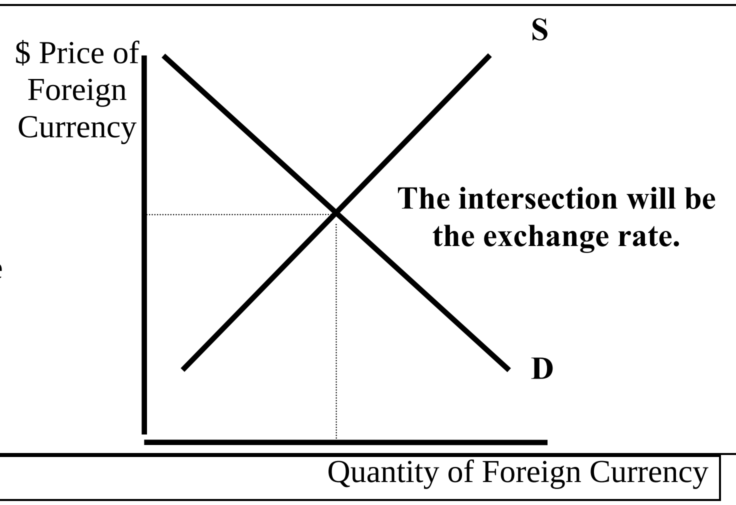
Loanable Funds Money Market… The real **Interest rate is determined here** . Fewer investment projects will be undertaken when the interest rate rises. More investment projects will be undertaken when the interest rate falls. Interest rate includes Expected inflation.

Applications:

• As new demand and supply factors impact this market, changes in interest rate causes changes in investment and interest rate-driven consumption, which affects AD, AS^{sr}, AS^{lr} PL and Real GDP.
• When government financing deficit spending, the impact of borrowing increases the demand curve and raises interest rates.
• When savings rates rise and fall, the supply curve moves right and left, changing interest rates.

Freely floating (flexible) exchange rates

The **demand** for any currency is down sloping because as the currency becomes less expensive to obtain, people will be able to buy more of that nation's Goods & Services and therefore need more of that currency.
The **supply** is upsloping because as its price rises, holders obtain more of their currencies more cheaply and will want to buy more important goods and therefore give up more of their currency to obtain



Applications:

• Appreciation and depreciation of currency due to changes in price level, interest rates, prosperity abroad, tastes and speculation