

AP MACROECONOMICS UNIT 1: BASIC ECONOMIC CONCEPTS

Time: 3 Weeks

SSEF1 The student will explain why limited productive resources and unlimited wants result in scarcity, opportunity costs, and tradeoffs for individuals, businesses, and governments.

- Define scarcity as a basic condition that exists when unlimited wants exceed limited productive resources.
- Define and give examples of productive resources (e.g., land (natural), labor (human), capital (capital goods), entrepreneurship).
- List a variety of strategies for allocating scarce resources.
- Define opportunity cost as the next best alternative given up when individuals, businesses, and governments confront scarcity by making choices.

SSEF2 The student will give examples of how rational decision making entails comparing the marginal benefits and the marginal costs of an action.

- Illustrate by means of a production possibilities curve the tradeoffs between two options.
 - Explain that rational decisions occur when the marginal benefits of an action equal or exceed the marginal costs.

SSEF3 The student will explain how specialization and voluntary exchange between buyers and sellers increase the satisfaction of both parties.

- Give examples of how individuals and businesses specialize.
- Explain that both parties gain as a result of voluntary, non-fraudulent exchange.

SSEF4 The student will compare and contrast different economic systems and explain how they answer the three basic economic questions of what to produce, how to produce, and for whom to produce.

- Compare command, market, and mixed economic systems with regard to private ownership, profit motive, consumer sovereignty, competition, and government regulation.
- Evaluate how well each type of system answers the three economic questions and meets the broad social and economic goals of freedom, security, equity, growth, efficiency, and stability.

SSEMI2 The student will explain how the Law of Demand, the Law of Supply, prices, and profits work to determine production and distribution in a market economy.

- Define the Law of Supply and the Law of Demand.
- Describe the role of buyers and sellers in determining market clearing price (equilibrium price).
- Illustrate on a graph how supply and demand determine equilibrium price and quantity.
- Explain how prices serve as incentives in a market economy.

SSEMI3 The student will explain how markets, prices, and competition influence economic behavior.

- Identify and illustrate on a graph factors that cause changes in market supply and demand.
- Explain and illustrate on a graph how price floors create surpluses and price ceilings create shortages.
- Define price elasticity of demand and supply.

SSEMI4 The student will explain the organization and role of business and analyze the four types of market structures in the U.S. economy.

- Compare and contrast three forms of business organization—sole proprietorship, partnership, and corporation.
- Explain the role of profit as an incentive for entrepreneurs.
- Identify the basic characteristics of monopoly, oligopoly, monopolistic competition, and pure competition.

SSEF5 The student will describe the roles of government in a market economy.

- Explain why government provides public goods and services, redistributes income, protects property rights, and resolves market failures.
 - Give examples of government regulation and deregulation and their effects on consumers and producers.

SSEMI1 The student will describe how households, businesses, and governments are interdependent and interact through flows of goods, services, and money.

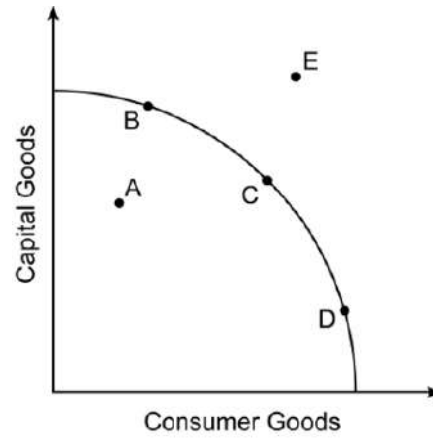
- Illustrate by means of a circular flow diagram, the Product market; the Resource market (factor market); the real flow of goods and services between and among businesses, households, and government; and the flow of money.
 - Explain the role of money and how it facilitates exchange.

BELOW IS A LINK FOR ALL THE GRAPHS YOU NEED TO KNOW IN AP MACROECONOMICS

<http://www.mrmedico.info/apmacroeconomicsgraphs.htm>



CIRCULAR FLOW DIAGRAM (MODEL)



PRODUCTION POSSIBILITIES FRONTIER (CURVE/MODEL)

UNIT 1 ASSIGNMENTS/ACTIVITIES

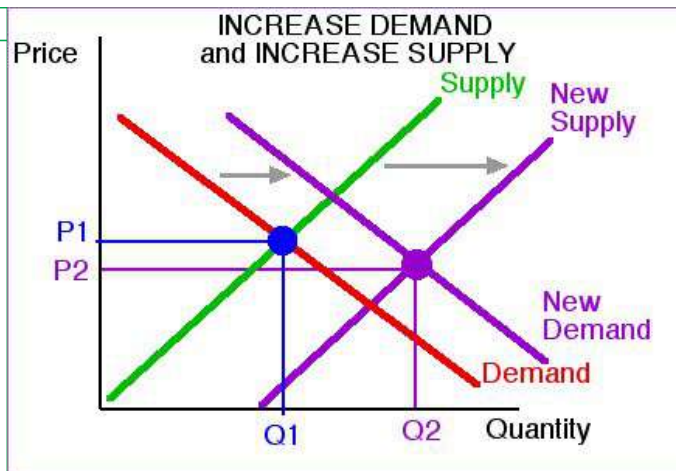
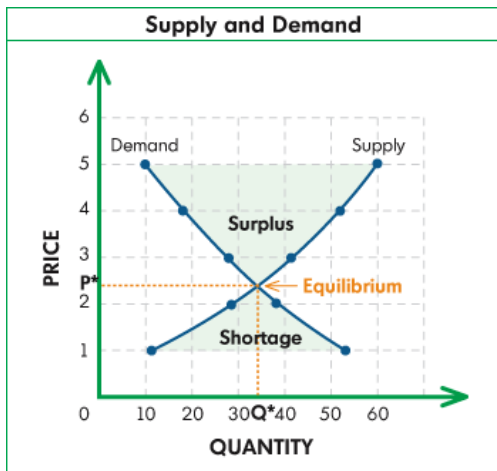
- Day 1: Course syllabus; textbook distribution
- Day 2: Scarcity, choice, and opportunity costs
- Day 3: Microeconomics vs. Macroeconomics
- Day 4: Production possibilities curve
- Day 5: Economic Systems; circular flow
- Day 6: The circular flow of economic activity
- Day 7: Demand, supply, and market equilibrium
- Day 8: Market equilibrium; price ceilings and floors
- Day 9: Price ceilings and floors
- Day 10: Elasticity of demand and supply
- Day 11: Market failures; market structures
- Day 12: Macroeconomic issues
- Day 13: Review/catch-up
- Day 14: Unit 1 Test

HOMEWORK

- none
- 1-6
- 6-11
- 11-22
- 30-39
- 39-43
- 47-55
- 56-60
- 61-69
- 76-86
- 93, 99, 104, 164, 195, 216, 223
- 472-483

KEY TERMS

Scarcity	land	labor	capital	entrepreneurship	market economy
Command economy	mixed economy	supply	demand	equilibrium price	price
Incentive	market	price floor	price ceiling	surplus	shortage
Elasticity	sole proprietorship	partnership	corporation	entrepreneur	profit
Monopoly	oligopoly	monopolistic competition		pure competition	economic growth
production possibilities model (curve)		circular flow model		public good	
Externality	market failure	product market	factor market	household	good
Service	opportunity cost				



AP MACROECONOMICS UNIT 2: MEASUREMENT OF ECONOMIC PERFORMANCE

Time: 2 Weeks

SSEMA1 The student will illustrate the means by which economic activity is measured.

- Explain that overall levels of income, employment, and prices are determined by the spending and production decisions of households, businesses, government, and net exports.
- Define Gross Domestic Product (GDP), economic growth, unemployment, Consumer Price Index (CPI), inflation, stagflation, and aggregate supply and aggregate demand.
- Explain how economic growth, inflation, and unemployment are calculated.
- Identify structural, cyclical, and frictional unemployment.
- Define the stages of the business cycle, as well as recession and depression.
- Describe the difference between the national debt and government budget deficits.

SSEF6 The student will explain how productivity, economic growth, and future standards of living are influenced by investment in factories, machinery, new technology, and the health, education, and training of people.

- Define productivity as the relationship of inputs to outputs.
- Give illustrations of investment in equipment and technology and explain their relationship to economic growth.
 - Give examples of how investment in education can lead to a higher standard of living.

ASSIGNMENTS/ACTIVITIES

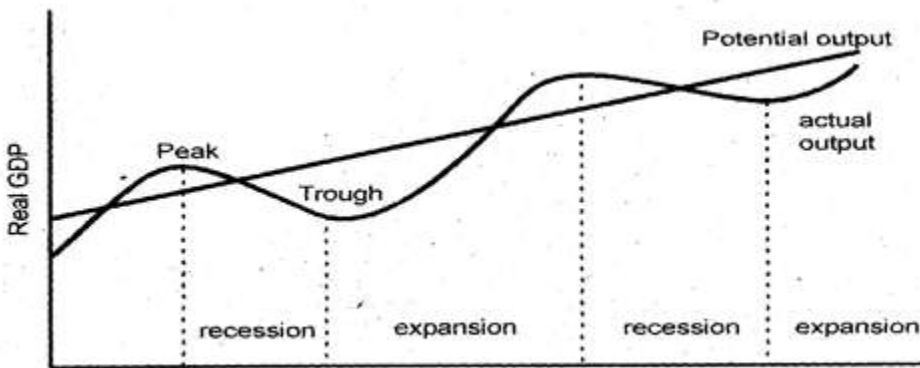
- Day 1: Gross Domestic Product
- Day 2: Other Measurements
- Day 3: Nominal GDP vs. Real GDP; limitations of GDP
- Day 4: Economic Growth
- Day 5: Determinants of Growth
- Day 6: The Business Cycle
- Day 7: Unemployment
- Day 8: Inflation
- Day 9: Unit 2 Test

HOMEWORK

- 485-492
- 492-497
- 497-501
- 505-512
- 512-522
- 526-528
- 529-535
- 535-542

KEY TERMS

income	expenditure	Gross Domestic Product (GDP)	interest	rent
Economic growth	nominal GDP	real GDP	underground economy	
Intermediate good	final good	secondhand sales	underemployment	
unemployment	inflation	Consumer Price Index (CPI)	full employment	
Stagflation	aggregate supply	aggregate demand	structural unemployment	
Cyclical unemployment	frictional unemployment	business cycle	recession	
National debt	budget deficit	cost-push inflation	demand-pull inflation	
Productivity	depression	money		
Saving	investment	shock (demand or supply)	sticky prices	
Export	import	price index	market basket	
Human capital	labor force	Okun's law	deflation	
Core inflation	COLA	hyperinflation	natural rate of unemployment	



Time
Fig: 9.1

PHASES OF BUSINESS CYCLE

AP MACROECONOMICS UNIT 3: NATIONAL INCOME AND PRICE DETERMINATION

Time: 2 Weeks

SSEMA1 The student will illustrate the means by which economic activity is measured.

- Explain that overall levels of income, employment, and prices are determined by the spending and production decisions of households, businesses, government, and net exports.
- Define Gross Domestic Product (GDP), economic growth, unemployment, Consumer Price Index (CPI), inflation, stagflation, and aggregate supply and aggregate demand.
- Explain how economic growth, inflation, and unemployment are calculated.
- Identify structural, cyclical, and frictional unemployment.
- Define the stages of the business cycle, as well as recession and depression.
- Describe the difference between the national debt and government deficits.

ACTIVITIES/ASSIGNMENTS

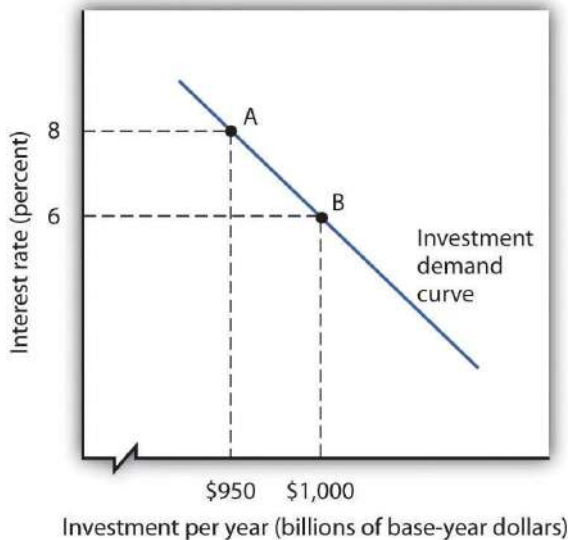
- Day 1: Income-Consumption and Income-Saving Relationships
- Day 2: Interest Rate-Investment Relationship and the Multiplier
- Day 3: Aggregate Expenditures Model
- Day 4: Changes in Equilibrium GDP
- Day 5: Aggregate Demand
- Day 6: Aggregate Supply
- Day 7: Equilibrium and Changes in Equilibrium
- Day 8: Catch-up/Review
- Day 9: Unit 3 Test

HOMEWORK

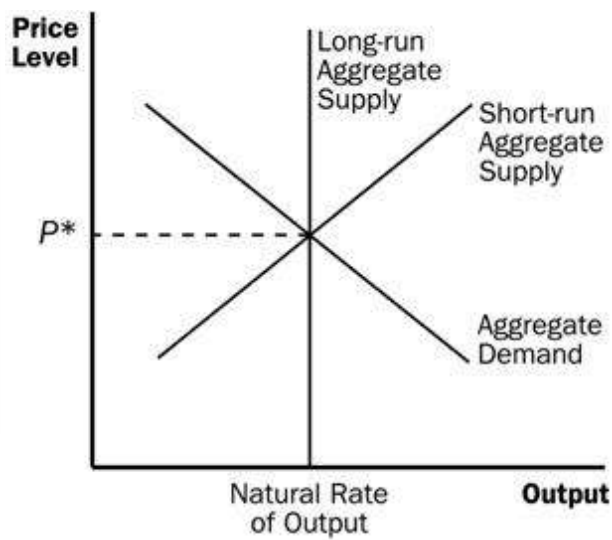
- 547-555
- 555-564
- 567-572
- 572-585
- 589-593
- 594-599
- 600-611

KEY TERMS

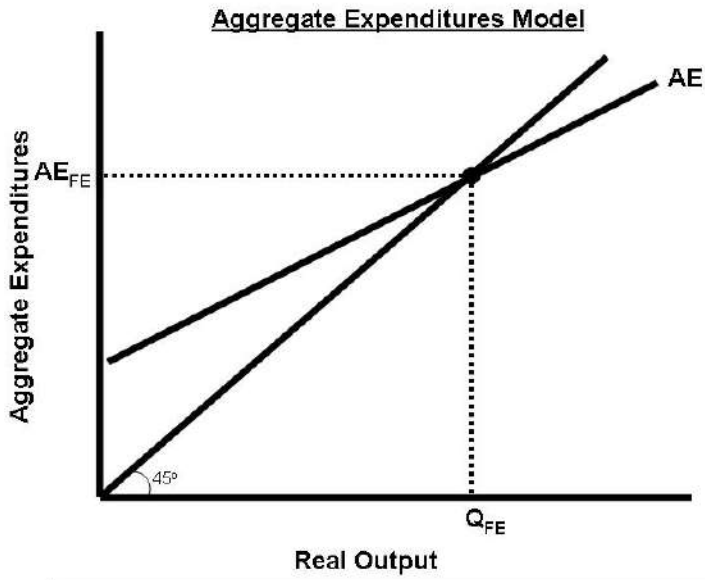
Consumption	saving	real interest rates	wealth effect	disposable income
Multiplier	John Maynard Keynes	leakage	injection	net exports
Tariff	devaluation (of currency)	Aggregate demand	aggregate supply	sticky wages
flexible wages	macroeconomic equilibrium		short run	long run
regulation	deregulation	price level		



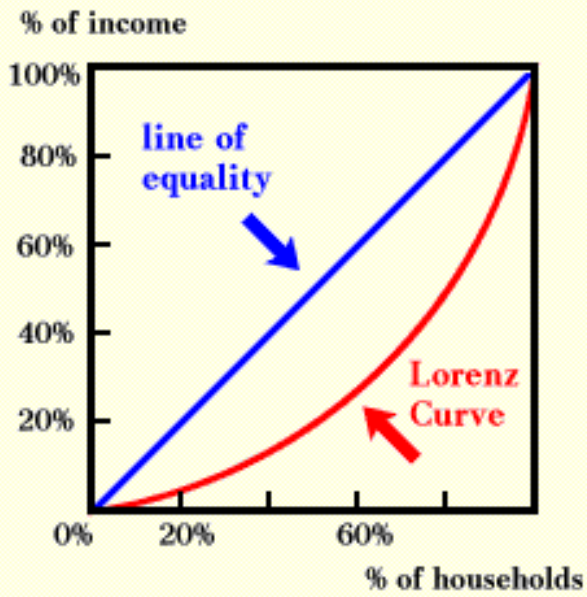
INVESTMENT DEMAND CURVE



AGGREGATE DEMAND AND LONG AND SHORT RUN AGGREGATE SUPPLY



An economy operating at its full employment level of output.
 AE intersects the 45° line at full employment.



A Lorenz Curve illustrates inequality

AP MACROECONOMICS UNIT 4: FISCAL POLICY

Time: 2 Weeks

SSEMA1 The student will illustrate the means by which economic activity is measured.

- a. Explain that overall levels of income, employment, and prices are determined by the spending and production decisions of households, businesses, government, and net exports.
- b. Define Gross Domestic Product (GDP), economic growth, unemployment, Consumer Price Index (CPI), inflation, stagflation, and aggregate supply and aggregate demand.
- c. Explain how economic growth, inflation, and unemployment are calculated.
- d. Identify structural, cyclical, and frictional unemployment.
- e. Define the stages of the business cycle, as well as recession and depression.
- f. Describe the difference between the national debt and government deficits.

SSEPF3 The student will explain how changes in monetary and fiscal policy can have an impact on an individual’s spending and saving choices.

- a. Give examples of who benefits and who loses from inflation.
- b. Define progressive, regressive, and proportional taxes.
- c. Explain how an increase in sales tax affects different income groups.

SSEMA3 The student will explain how the government uses fiscal policy to promote price stability, full employment, and economic growth.

- a. Define fiscal policy.
- b. Explain the government’s taxing and spending decisions.

ACTIVITIES/ASSIGNMENTS

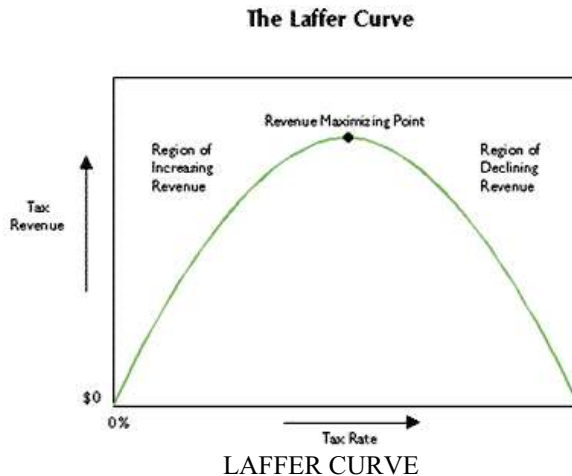
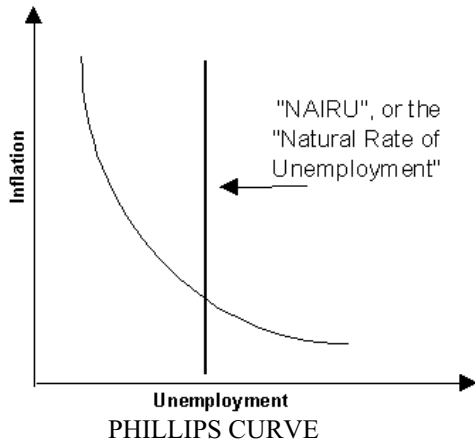
- Day 1: Fiscal Policy and the AD-AS Model
- Day 2: Problems, Criticisms, and Complications
- Day 3: From Short Run to Long Run
- Day 4: The Phillips Curve and the Laffer Curve
- Day 5: What Causes Macro Instability?
- Day 6: Does the Economy “Self-Correct?”
- Day 7: Alternative Views
- Day 8: Catch-up/Review
- Day 9: Unit 4 Test

HOMEWORK

- 613-622
- 623-631
- 717-723
- 724-734
- 737-741
- 742-749
- 750-752
- None

KEY TERMS

Fiscal policy	Council of Economic Advisors	expansionary fiscal policy	budget deficit
National debt	budget surplus	contractionary fiscal policy	progressive tax
Regressive tax	proportional tax	sales tax	CBO
Crowding-out effect	U.S. government securities	debt-to-GDP ratio	Social Security
Medicare	Phillips Curve (long and short run)	disinflation	supply-side economics
Laffer Curve	monetarism	velocity of money	classical economics
Rational expectations theory		Taylor rule	Keynesian economics



AP MACROECONOMICS UNIT 5: FINANCIAL SECTOR (and Personal Finance Economics)

Time: 3 Weeks

SSEMA2 The student will explain the role and functions of the Federal Reserve System.

- Describe the organization of the Federal Reserve System.
- Define monetary policy.
- Describe how the Federal Reserve uses the tools of monetary policy to promote price stability, full employment, and economic growth.

SSEPF1 The student will apply rational decision making to personal spending and saving choices.

- Explain how people respond to positive and negative incentives in predictable ways.
- Explain how to use a rational decision making model to select one option over another.
- Describe a savings or financial investment plan for a future goal.

SSEPF2 The student will explain that banks and other financial institutions are businesses that channel funds from savers to investors.

- Compare services offered by different financial institutions, such as banks, credit unions, and savings and loans.
- Explain reasons for the spread between interest charged and interest earned.
- Give examples of the direct relationship between risk and return.
- Evaluate a variety of savings and investment options; include stocks, bonds, and mutual funds.

SSEPF4 The student will evaluate the costs and benefits of using credit.

- List factors that affect credit worthiness.
- Compare interest rates on loans and credit cards.
- Explain the difference between simple interest rates and compound interest rates.

SSEPF5 The student will describe how insurance and other risk-management strategies protect against financial loss.

- Define the various types of insurance such as automobile, health, life, disability, and property insurance plans.
- Explain the costs and benefits associated with different types of insurance.

SSEPF6 The student will describe how the earnings of workers are determined in the marketplace.

- Identify skills that are required to be successful in the workplace.
- Explain the significance of investment in education, training, and skill development.

ASSIGNMENTS/ACTIVITIES

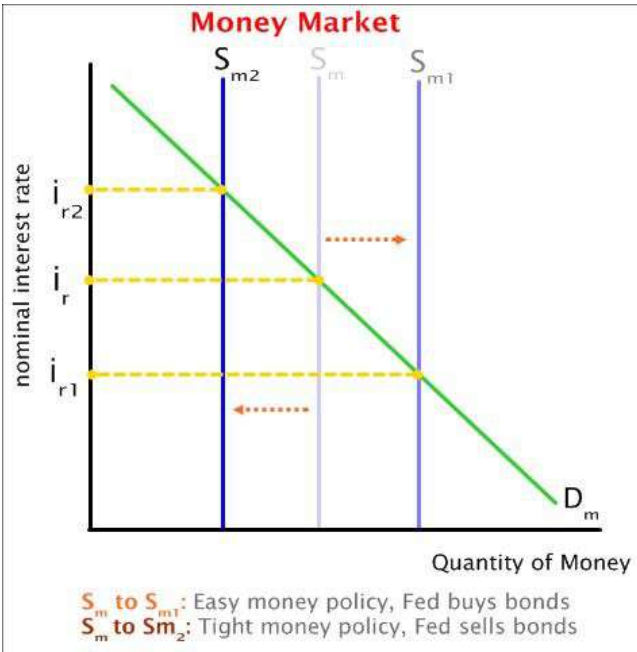
Day 1: Interest
 Day 2: Money
 Day 3: The Federal Reserve and the Banking System
 Day 4: The Fractional Reserve System
 Day 5: Money-Creating and the Banking System
 Day 6: Interest Rates and the Federal Reserve
 Day 7: Monetary Policy
 Day 8: Federal Funds Rate
 Day 9: Monetary Policy, Real GDP, and the Price Level
 Day 10: Financial Investment
 Day 11: Risk, Ponzi Schemes, and Funds
 Day 12: Catch-Up/Review
 Day 13: Unit 5 Test

HOMEWORK

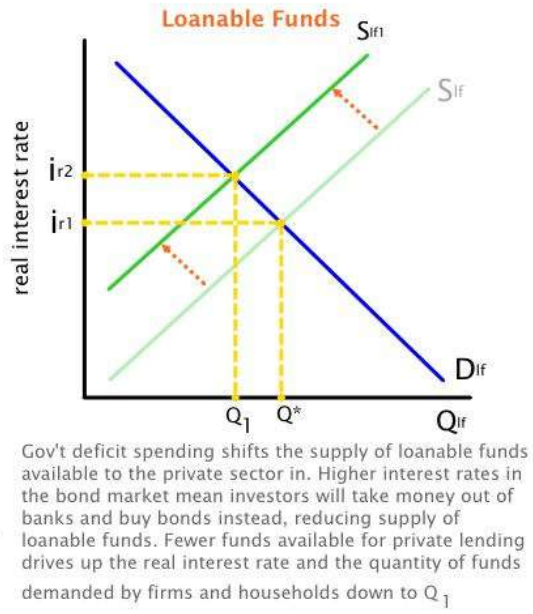
297-308
 636-642
 643-652
 655-659
 660-667
 670-674
 675-679
 680-683
 684-691
 697-703
 704-712
 None

KEY TERMS

Interest	compound interest	simple interest	maturity	nominal interest rate
Real interest rate	insurance	premium	deductible	money
Liquidity	M1	commercial bank	thrift	M2
Money market account	Federal Reserve System	Board of Governors	Federal Open Market Committee (FOMC)	
Subprime mortgage loans	mortgage-backed securities	securitization	Troubled Asset Relief Program (TARP)	
Moral hazard	fractional reserve banking system	balance sheet	asset	liability
Required reserves	reserve ratio	check	loan	Federal funds rate
Money multiplier	monetary policy	open-market operations	discount rate	
Expansionary monetary policy		contractionary monetary policy		
Prime interest rate	stock	bond	bankrupt	limited liability
Default	capital gains	dividends	mutual fund	index fund
Actively managed funds	ETF	arbitrage	diversification	risk
Return	beta	time value of money	loanable funds market	
Quantity theory of money				



MONEY MARKET GRAPH



LOANABLE FUNDS GRAPH

AP MACROECONOMICS UNIT 6: INTERNATIONAL ECONOMICS

Time: 2 Weeks

SSEIN1 The student will explain why individuals, businesses, and governments trade goods and services.

- a. Define and distinguish between absolute advantage and comparative advantage.
- b. Explain that most trade takes place because of comparative advantage in the production of a good or service.
- c. Explain the difference between balance of trade and balance of payments.

SSEIN2 The student will explain why countries sometimes erect trade barriers and sometimes advocate free trade.

- a. Define trade barriers as tariffs, quotas, embargoes, standards, and subsidies.
- b. Identify costs and benefits of trade barriers over time.
- c. List specific examples of trade barriers.
- d. List specific examples of trading blocs such as the EU, NAFTA, and ASEAN.
- e. Evaluate arguments for and against free trade.

SSEIN3 The student will explain how changes in exchange rates can have an impact on the purchasing power of individuals in the United States and in other countries.

- a. Define exchange rate as the price of one nation's currency in terms of another nation's currency.
- b. Locate information on exchange rates.
- c. Interpret exchange rate tables.
- d. Explain why, when exchange rates change, some groups benefit and others lose.

ASSIGNMENTS/ACTIVITIES

- Day 1: International Trade and Advantage
- Day 2: Exports and Imports
- Day 3: Protectionism
- Day 4: Balance of Payments
- Day 5: Exchange Rates
- Day 6: Trade Deficits
- Day 7: Review/Catch-up
- Day 8: Review
- Day 9: Unit 6 Test

HOMEWORK

- 754-763
- 764-769
- 770-776
- 780-784
- 785-791
- 792-797

KEY TERMS

Trade deficit	trade surplus	absolute advantage	comparative advantage
Trading possibilities line	free trade	protectionism	tariff
Revenue tariff	protective tariff	import quota	nontariff barrier
Subsidy	dumping	GATT	EU
NAFTA	ASEAN	WTO	offshoring
Balance of trade	balance of payments	current account	official reserves
Flexible-exchange-rate system	speculation	Forex	fixed exchange rate
Euro	yuan	yen	exchange rate table
Currency appreciation	currency depreciation		

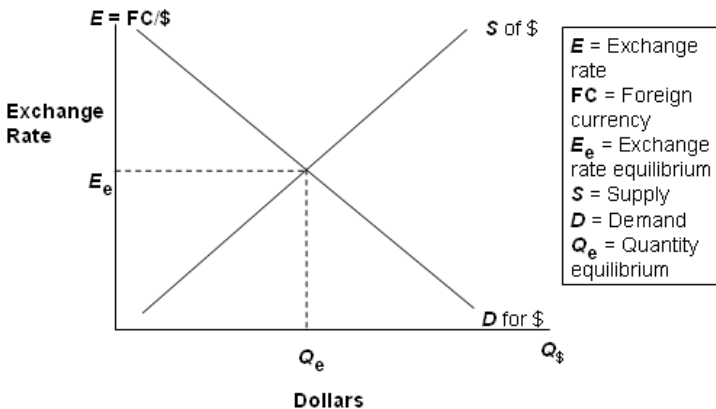


Figure 2: Foreign exchange market for dollars. (Figure courtesy of author.)