

AP® Macroeconomics is a year-long, college-level course. Each student is encouraged to take the AP Macroeconomics Exam that is administered in May. Successful achievement on the AP Exam may allow the student to earn three hours of college credit (depending on the policies of individual institutions).

AP Macroeconomics emphasizes economic principles as applied to the economy as a whole. Topics discussed will reflect the material included in the booklet *AP Economics Course Description* from the College Board. Lessons include an analysis of national income and its components, economic indicators, inflation and unemployment, money and banking, stabilization policies, and the United States and world trade.

Textbook

McConnell, Campbell R., Stanley L. Brue, and Sean Flynn. *Macroeconomics*, 19th ed. New York: McGraw Hill, 2011

Workbook

Morton, John. *Advanced Placement Economics: Macroeconomics Student Activities*, 4th ed. New York: National Council on Economic Education, 2012.

Additional Readings

- *The Wall Street Journal*
- *Local newspaper articles*
- *Magazine articles*

Unit One: Basic Economic Concepts [SC1]

Basic Economic Concepts

- A. Scarcity, choice, and opportunity cost
- B. Production possibilities curve
- C. Comparative advantage, specialization, and exchange
- D. Demand, supply, and market equilibrium
- E. Macroeconomic issues: business cycle, unemployment, inflation, growth

SC1—The course provides instruction in basic economic concepts, such as marginal analysis and opportunity costs.

Chapters Included in Unit One

McConnell, Brue, and Flynn, Chapters 1, 2, 3

List of Key Concepts and Graphs

Key concepts: introduction to the language of economics, micro vs. macro, positive vs. normative economics, economic decision making, pitfalls of decision making, scarcity, opportunity costs, production possibilities, absolute advantage, comparative advantage, specialization, terms of trade, demand schedule, determinants of demand, individual and market demand curves, supply schedule, determinants of supply, market equilibrium, shifts in supply and demand with effects on equilibrium price and quantity, introduction of key macroeconomic issues **[SC1]**

Graphs:

- Production possibilities curve (frontier)
- Demand and supply curves showing equilibrium
- Demand and supply curves showing shifts in demand/supply **[SC10]**

SC10—The course teaches students how to interpret and analyze charts, graphs and data to describe economic

List of Key Words or Terms

Key terms: economics, factors of production, inputs, capital, microeconomics, macroeconomics, positive economics, normative economics, ceteris paribus, fallacy of composition, scarcity, opportunity cost, model, production possibilities, constant costs, law of increasing opportunity cost, absolute advantage, comparative advantage, specialization, terms of trade, demand, law of demand, quantity demanded, market demand, substitutes, complements, normal goods, inferior goods, supply, law of supply, quantity supplied, market equilibrium, equilibrium price, equilibrium quantity, business cycle, recession, trough, recovery, unemployment, inflation, economic growth

Web Resources

www.councilforeconed.org
www.reffonomics.com

Videos

Economics U\$A

- Resources and scarcity: What is economics all about?
- Markets: Do they serve our needs?

Paul Solman videos for use with McConnell, Brue, and Flynn, Chapters 1, 2, and 3

Simulation Games

Resource Scarcity Game

Market in Wheat (John Morton, *Advanced Placement Economics*, Instructor's Manual)

Activities

Morton. *Advanced Placement Economics*, Activities 1:1 – 1:10

Timeline for Unit One

Day Class Activity

1. Introduction to the economic way of thinking, Chapters 1 and 2
2. Discussion of scarcity, opportunity costs
3. Production possibilities, Chapter 2
- 4-5. Absolute and comparative advantage, terms of trade
6. Test on introductory information/begin demand, Chapter 3
7. Demand
8. Shifts in demand; begin supply
9. Quiz on demand, shifts in supply, and changes in equilibrium price/quantity
10. Macroeconomic issues
11. Finish material/study guide discussion
12. Unit One Exam – FRQs
13. Unit One Exam - MCQs

Unit Two: Measurement of Economic Performance

Measurement of Economic Performance [SC2]

- A. National income accounts
 1. Circular flow
 2. Gross domestic product
 3. Components of gross domestic product
 4. Real vs. nominal gross domestic product
- B. Inflation measurement and adjustment
 1. Price indices
 2. Nominal and real values

SC2—The course provides instruction in measurement of economic performance, national income and price level determination.

3. Costs of inflation
- C. Unemployment
 1. Definition and measurement
 2. Types of unemployment
 3. Natural rate of unemployment

Chapters Included in Unit Two

McConnell, Brue, and Flynn, Chapters 13, 18, 23, 24, 25, 26

List of Key Concepts and Graphs

Key concepts: circular flow of economic activity, inclusions and exclusions concerning gross domestic product, expenditure approach to GDP, income approach to GDP, nominal vs. real GDP, phases of the business cycle, types of unemployment, full employment, measurements of inflation, types of inflation, effects of inflation

Graphs:

- Circular flow of economic activity
- Phases of the business cycle [SC10]

SC10—The course teaches students how to interpret and analyze charts, graphs and data to describe economic concepts.

List of Key Words or Terms

Key terms: gross domestic product, intermediate goods, final goods, multiple counting, expenditure approach, income approach, personal consumption expenditures, gross private domestic investment, net private domestic investment, government purchases, net exports, national income, consumption of fixed capital, depreciation, personal income, disposable personal income, nominal GDP, real GDP, GDP deflator, peak, recession, trough, recovery, labor force, unemployment rate, frictional unemployment, structural unemployment, cyclical unemployment, full-employment rate of unemployment, natural rate of unemployment, inflation, Consumer Price Index, demand-pull inflation, cost-push inflation, nominal income, real income, deflation

Web Resources

www.reffonomics.com
www.bls.gov
www.councilforeconed.org
<http://apcentral.collegeboard.com>

Videos

Economics U\$A: What Is GNP? (Provides useful information that can easily be adapted for GDP)
Paul Solman videos

Activities

Morton. *Advanced Placement Economics*, Activities 2:1 – 2:6

Timeline for Unit Two

Day Class Activity

1. Video—*What Is GNP?*
2. Components of GDP, expenditure approach, income approach
3. Quiz and exercise on nominal and real GDP
4. Types of unemployment
5. Types of inflation
6. Determining real and nominal values using price indexes
7. Effects of inflation—short play on inflation

8. Review activities from Morton workbook
9. Unit Two Exam – FRQs
10. Unit Two Exam - MCQs

Unit Three: National Income and Price Determination

National Income and Price Determination [SC2]

SC2—The course provides instruction in measurement of economic performance, national income and price level determination.

- 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 vs. 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 vs. full employment output
 4. Business cycle and economic fluctuations

Chapters Included in Unit Three

McConnell, Brue, and Flynn, Chapters 27, 28, 29, 35

List of Key Concepts and Graphs

Key Concepts: marginal propensity to consume, the multiplier effect, reasons for a downward sloping aggregate demand curve, determinants of aggregate demand, aggregate supply in the short and long run, sticky vs. flexible prices and wages, determination of equilibrium output and price level, actual vs. full employment, utilization of resources **[SC8]**

SC8—The course promotes understanding of aggregate economic activity and the critical evaluation of determinants of economic progress and economic decisions made by policy makers.

Graphs (Students must be able to create and use):

- Investment demand curve
- Aggregate Demand and Short-run Aggregate Supply Curve
- Aggregate Demand and Long-run Aggregate Supply Curve

SC9—The course teaches students how to generate charts and graphs to describe economic concepts.

List of Key Words and Terms

Key Terms: marginal propensity to consume, marginal propensity to save, investment, multiplier, investment schedule, leakage, injection, real balances effect, interest-rate effect, foreign purchases effect, aggregate demand, short-run aggregate supply, equilibrium price level, equilibrium real output

Web Resources

www.reffonomics.com
www.councilforeconed.org

Videos

Paul Solman videos for use with *Economics*
Economics USA: Supply Creates Its Own Demand

Activities

Morton. *Advanced Placement Economics*, Activities 3:1 – 3:9

Timeline for Unit Three

Day Class Activity

1. Introduce marginal propensity as it applies to consumption and savings
2. Multiplier effect
3. Aggregate demand and its determinants
4. Quiz on aggregate demand determinants, introduce short-run aggregate supply
5. Short-run and long-run aggregate supply
6. Sticky vs. flexible wages and prices, equilibrium real output and prices
7. Supply shocks, changes in aggregate demand
8. Review activity
9. Unit Three Exam – FRQs
10. Unit Three Exam - MCQs

Unit Four: Financial Sector

Financial Sector [SC4]

- 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 the creation of money
 5. Money demand
 6. Money market and the equilibrium nominal interest rate
- B. Loanable funds market
 1. Supply of and demand for loanable funds
 2. Equilibrium real interest rate
 3. Crowding out
- C. Central bank and control of the money supply
 1. Tools of central bank policy
 2. Quantity theory of money
 3. Real vs. nominal interest rates

SC4—The course provides instruction in the financial sector.

Chapters Included in Unit Four

McConnell, Brue, and Flynn, Chapters 14, 31, 32

List of Key Concepts and Graphs

Key concepts: functions of money, characteristics of money, measures of money, demand for money, the money market, the creation of money, loanable funds market, organization of the Federal Reserve, tools of monetary policy, responsibilities of the Fed, quantity theory of money

List of Key Words and Terms

Key terms: medium of exchange, store of value, measure of value, M1, M2, M3, checkable deposits, demand deposits, time deposits, legal tender, asset demand, transaction demand, balance sheet, T account, fractional reserve banking system, required reserves, excess reserves, actual reserves, federal funds rate, prime interest rate, discount rate, open-market operations, monetary multiplier, nominal interest rate, real interest rate, FDIC, velocity of money

Web Resources

Federal Reserve Bank websites

www.reffonomics.com

www.councilforeconed.org

Video

The Fed Today

Simulation Games

Creation of money exercise

Activities

Morton. *Advanced Placement Economics*, Activities 4:1 – 4:9

Timeline for Unit Four

Day Class Activity

1. Functions and types of money
2. Demand for money and money market
3. Quiz on money, introduce creation of money
4. Creation of money/simulation game
5. Loanable funds market
6. Quiz on money market and loanable funds
7. Organization of the Federal Reserve
8. Tools of monetary policy
9. Review activities from Morton workbook
10. Unit Four Exam – FRQs
11. Unit Four Exam - MCQs

Unit Five: Inflation, Unemployment, and Stabilization Policies [SC3] & [SC5]

- A. Fiscal and monetary policies
 1. Demand-side effects
 2. Supply-side effects
 3. Policy mix
 4. Government deficits and debts
- B. The Phillips curve
 1. Short-run and long-run Phillips curves
 2. Demand-pull vs. cost-push inflation
 3. Role of expectations

SC3—The course provides instruction in unemployment and inflation.

SC5—The course provides instruction in stabilization policies.

Chapters included in Unit Five

McConnell, Brue, and Flynn, Chapters 28, 30, 33, 35, 36

List of Key Concepts and Graphs

Key Concepts: fiscal policy and the aggregate demand/aggregate supply model, monetary policy and the aggregate demand/aggregate supply model, combinations of the policies and their effects, international considerations, government deficits and debts, long-run aggregate supply, demand-pull and cost-push inflation, the inflation-unemployment relationship, expectations

List of Key Words and Terms

Key Terms: expansionary fiscal policy, contractionary fiscal policy, budget deficit, budget surplus, built-in stabilizer, discretionary policy, progressive tax system, regressive tax system, proportional tax system, crowding-out effect, net export effect, Federal Reserve Board of Governors, open-market operations, discount rate, reserve requirement, short run, long run, Phillips curve, stagflation, aggregate supply shocks, long-run vertical supply curve, supply-side economics

Web Resources

www.reffonomics.com

Federal Reserve Banks websites

Activities

Morton. *Advanced Placement Economics*, Activities 5:1 – 5:9

Timeline for Unit Five

Day Class Activity

1. Fiscal policy
2. Consequences of fiscal policy
3. Monetary policy
4. Consequences of monetary policy
5. Fiscal and monetary policies
6. Government budget deficits and debts
7. Short-run and long-run supply curve
8. Short-run and long-run Phillips curve
9. Expectations
10. Review activity
11. Unit Five Exam – FRQs
12. Unit Five Exam - MCQs

Unit Six: Economic Growth and Productivity

Economic Growth [SC6]

- A. Definition of economic growth
- B. Determinants of economic growth
 1. Investment in human capital
 2. Investment in physical capital
 3. Research and development, technological development
- C. Growth policy

SC6—The course provides instruction in economic growth and productivity.

Chapters included in Unit Six

McConnell, Brue, and Flynn, Chapter 25

List of Key Concepts and Graphs

Key Concepts: ingredients of economic growth, production possibilities analysis, growth in the AD/AS model, long- and short-run analysis, labor and productivity, technological advance

Graphs:

- Production possibilities curve
- Aggregate demand/aggregate supply model

List of Key Words or Terms

Key terms: economic growth, labor productivity, labor-force participation rate, human capital, economies of scale, infrastructure, efficiency

Web Resources

www.reffonomics.com
www.bls.gov
www.councilforeconed.org
www.econedlink.org

Video

Paul Solman videos for use with McConnell, Brue, and Flynn

Activity

Morton. *Advanced Placement Economics*, Activities 6:1 – 6:3

Timeline for Unit Six

Day Class Activity

14. Ingredients for growth
15. Production possibilities and AD/AS analysis
16. Growth from labor productivity and technological advance
17. Macroeconomic implications
18. Unit Six Exam – FRQs
19. Unit Six Exam - MCQs

Unit Seven: Open Economy: International Trade and Finance

Open Economy: International Trade and Finance [SC7]

- A. Balance of payments accounts
 1. Balance of trade
 2. Current account
 3. Financial account
- B. Foreign exchange market
 1. Demand for and supply of foreign exchange
 2. Exchange rate determination
 3. Currency appreciation and depreciation
- C. Imports, exports, and capital flows
- D. Relationships between international and domestic financial and goods markets

SC7—The course provides instruction in open economy and international trade and finance.

Chapters Included in Unit Seven

McConnell, Brue, and Flynn, Chapters 37, and 38

List of Key Concepts and Graphs

Key concepts: the United States and world trade, absolute and comparative advantage, balance of payments, foreign exchange markets, implications of foreign trade, effects of domestic fiscal and monetary policies on capital flows and foreign exchange markets, use of resources, decision and policymaking
[SC8]

Graphs:

- Production possibilities
- Foreign exchange market

SC8—The course promotes understanding of aggregate economic activity and the critical evaluation of determinants of economic progress and economic decisions made by policy makers.

List of Key Words or Terms

Key terms: tariffs, quotas, subsidies, absolute advantage, comparative advantage, terms of trade, world price, domestic price, current account, balance on goods and services, trade deficit, trade surplus, capital account, official reserves, flexible exchange rates, fixed exchange rates, depreciation, appreciation, General Agreement on Tariffs and Trade (GATT), World Trade Organization (WTO), North American Free Trade Agreement (NAFTA)

Web Resources

www.reffonomics.com
www.councilforeconed.org
www.econedlink.org

Videos

Paul Solman videos to use with McConnell, Brue, and Flynn

Activities

Morton. *Advanced Placement Economics*, Activities 7:1 – 7:5

Timeline for Unit Seven

Day Class Activity

1. The United States and world trade/barriers to trade
2. Absolute and comparative advantage
3. Balance of payments
4. Balance of payments
5. Quiz on introduction of exchange rates
6. Foreign exchange rates
7. Implications of foreign exchange rates and economic policies
8. Review activity
9. Unit Seven Exam – FRQs
10. Unit Seven Exam – MCQs

*****AP MACROECONOMIC EXAM = 5/16/18 (Afternoon) *****