

**A.P. MACROECONOMICS SYLLABUS**  
**2016 – 2017**  
**PAULDING COUNTY SCHOOLS**  
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**Students and parents must understand up front that this is a college level class.** As such, **students will be expected to spend a great deal more time on this class** than they would in an ordinary class. The very nature of the economics makes it almost like a foreign language. It is very important for the student to work on economics daily or they will ultimately get behind and will not be able to catch up. Students must be prepared to follow outline notes from internet. In doing so you will have to follow along as I show you the graphs. On the AP exam you will be expected to *generate, interpret, label, and analyze graphs, charts, and data to describe and explain economic concepts.*

Texts

Ray, Margaret, and David Anderson. *Krugaman's Economics for AP*. 2nd ed. New York: Worth, 2011. Print.

Ray, Margaret. *Advanced Placement Economics: Macroeconomics: Student Resource Manual*. 4th ed. New York: National Council on Economic Education, 2012. Print.

**A.P. Outline Course Units**

This course will be based on the criteria of the College Board. Students will gain mastery of the following areas of study:

1. Basic Economic Concepts
2. Measurement of Economic Performance
3. National Income and Price Determination
4. Financial Sector
5. Inflation, Unemployment, and Stabilization Policies
6. Economic Growth and Productivity

**Unit I: Basic Economic Concepts.....(8-12%)**

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

**Basic Economic Concepts Description**

A macroeconomics course introduces students to fundamental economic concepts such as scarcity and opportunity costs. Students understand the distinction between absolute and comparative advantage and apply the principle of comparative advantage to determine the basis on which mutually advantageous trade can take place between individuals and/or countries and to identify comparative advantage from differences in opportunity costs. Other basic concepts that are explored include the functions performed by an economic system and the way the tools of supply and demand are used to analyze the workings of a free market economy. The course should also introduce the concept of the business cycle to give students an overview of economic fluctuations and to highlight the dynamics of unemployment, inflation, and economic growth. Coverage of these concepts provides students with the foundation for a thorough understanding of macroeconomic concepts and issues.

**List of Key Concepts**

Introduction to language of economics, principles of economics, macro vs. micro, positive vs. normative economics, economic decision making, pitfalls of decision making, scarcity, opportunity costs, production possibilities, scarcity, 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.

## **Graphs**

Production possibilities frontier

Demand and supply curves showing equilibrium

Demand and supply curves showing shifts in demand/supply

Long run business cycles

## **List of Key Terms**

Economics, scarcity, efficiency, equality, rational, opportunity cost, marginal changes, incentive, market economy, property rights, invisible hand, market failure, externality, market power, monopoly, productivity, inflation, business cycle, circular-flow diagram, production possibilities frontier, microeconomics and macroeconomics, positive statements, normative statements, absolute advantage, comparative advantage, gains from trade, opportunity cost, imports, exports, market, competitive, market, quantity demanded, law of demand, demand schedule, demand curve, normal good, inferior good, substitutes, complements, quantity supplied, law of supply, supply schedule, supply curve, equilibrium, equilibrium price, equilibrium quantity, surplus, shortage, law of supply and demand, price ceiling, price floor, tax incidence, tax wedge.

## **Readings**

Chapter 1, Chapter 2 pgs. 24 – 30, Chapter 3 + 4, Chapter 6

## **Unit II: 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

## **Measurement of Economic Performance Description**

To provide an overview of how the economy works, the course should start with a model of the circular flow of income and products that contain the four sectors: households, businesses, government, and international. It is important to identify and examine the key measures of economic performance: gross domestic product, unemployment, and inflation. In studying the concept of gross domestic product, it is also important that students learn how gross domestic product is measured, have a clear understanding of its components, and be able to distinguish between real and nominal gross domestic product. The course should examine the nature and causes of unemployment, the costs of unemployment, and how the unemployment rate is measured, including the criticisms associated with the measurement of the unemployment rate. It is also important to understand the concept of the natural rate of unemployment and the factors that affect it. Students should also have an understanding of inflation and how it is measured. In this section, the course should cover the costs of inflation, the main price indices, such as the consumer price index (CPI), and the gross domestic product deflator. Students should learn how these indices are constructed and used to convert nominal values into real values, as well as to convert dollar values in the past to dollar values in the present. It is also important to highlight the differences between the two price indices as a measure of inflation, as well as the problems associated with each measure.

## **List of Key Concepts**

Circular flow of economic activity (complex), inclusions and exclusions concerning GDP, 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

## **List of Key Words and Terms**

Inflation, unemployment, total income, total expenditure, Gross Domestic Product (GDP), intermediate production, final production, Gross National Product, depreciation, consumption, investment, government purchases, net exports, real GDP, nominal GDP, base year, GDP deflator, recession, labor force, unemployment rate, labor-force participation rate, natural rate of unemployment, cyclical unemployment, discouraged workers, frictional unemployment, structural unemployment, job search, sectoral shifts, unemployment insurance, union, collective bargaining, strike, insiders, outsiders, right-to-work laws, efficiency wages.

## **Readings**

Chapter 23, 24, + 28

## **Unit III: 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

## **National Income and Price Determination Description**

This section introduces the aggregate supply and aggregate demand model to explain the determination of equilibrium national output and the general price level, as well as to analyze and evaluate the effects of public policy. It is important to discuss the aggregate demand and aggregate supply concepts individually to provide students a firm understanding of the mechanics of the aggregate demand and aggregate supply model. The aggregate demand and aggregate supply analysis often begins with a general discussion of the nature and shape of the aggregate demand and aggregate supply curves and the factors that affect them. A detailed study of aggregate demand may begin by defining the four components of aggregate demand: consumption, investment, government spending, and net exports. It also examines why the aggregate demand curve slopes downward and how changes in the determinants affect the aggregate demand curve. The spending-multiplier concept and its impact on aggregate demand, and how crowding out lessens this impact, should be demonstrated as well. The course can then present the definition and determinants of aggregate supply, the different views about the shape of the aggregate supply curve in the short run and in the long run, and highlight the importance of the shape in determining the effect of changes in aggregate demand on the economy. It is also important to understand the notion of sticky-price and sticky-wage models and their implication for the aggregate supply curve in comparison to flexible prices and wages. Students should be able to use the aggregate demand and aggregate supply model to determine equilibrium income and price level and to analyze the impact of economic fluctuations on the economy's output and price level, both in the short run and in the long run.

## **List of 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 versus flexible prices and wages, determination of equilibrium output and price level, actual versus full employment, utilization of resources

## **Graphs**

Investment demand curve

Aggregate demand and short run aggregate supply curve

Aggregate demand and long run aggregate supply curve

Keynesian and Classical aggregate graphs

Aggregate expenditures graph

Consumption and savings Functions

## **List of Key Words and Terms**

Recession, depression, the business cycle, model of aggregate demand and supply, aggregate-demand curve, aggregate supply curve, natural rate of output, menu costs, stagflation, accommodative policy.

## **Readings**

Chapter 33

## **Unit IV: 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 the 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

## **Financial Sector Description**

To understand how monetary policy works, students must understand the definitions of both the money supply and money demand and the factors that affect each of them. Here the course introduces students to the definition of money and other financial assets such as bonds and stocks, the time value of money, measures of the money supply, fractional reserve banking, and the Federal Reserve System. In presenting the money supply, it is important to introduce the process of multiple-deposit expansion and money creation using T-accounts, and the use of the money multiplier. In learning about monetary policy, it is important to define money demand and examine its determinants. Having completed the study of money supply and money demand, the course should proceed to investigate how equilibrium in the money market determines the equilibrium interest rate, how the investment demand curve provides the link between changes in the interest rate and changes in aggregate demand, and how changes in aggregate demand affect real output and price level. Students should have an understanding of financial markets and the working of the loanable funds market in determining the real interest rate. It is also important that students develop a clear understanding of the differences between the money market and the loanable funds market. Having an understanding of the financial markets, students should identify and examine the tools of central bank policy and their impact on the money supply and interest rate. Students should understand the distinction between nominal and real interest rate. Students should also be introduced to the quantity theory of money, and examine and understand the effect of monetary policy on real output growth and inflation.

## **List of 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

## **Graphs**

Money market

Loanable funds market

Domestic bond market

### **List of Key Words and Terms**

Financial system, financial markets, financial intermediaries, bank, medium of exchange, bond, stock, mutual fund, closed economy, national saving, private saving, public saving, budget surplus, budget deficit, government debt, investment, market for loanable funds, demand for loanable funds, crowding out, finance, present value, future value, compounding, risk averse, diversification, firm-specific risk, market risk, fundamental analysis, efficient markets hypothesis, informational efficiency, random walk, barter, money, unit of account, store of value, liquidity, commodity money, fiat money, currency, demand deposits, federal reserve (Fed), central bank, money supply, monetary policy, federal open market committee (FOMC), reserves, fractional-reserve banking, reserve ratio, money multiplier, open-market operations, reserve requirements, discount rate, federal funds rate, inflation, deflation, hyperinflation, quantity theory of money, nominal variables, real variables, classical dichotomy, monetary neutrality, velocity of money, quantity equation, inflation tax, fisher effect, shoe leather costs, menu costs, capital gains.

### **Readings**

Chapter 26-27, 29-30

**Unit V: 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 debts
- B. Inflation and unemployment
  - 1. Types of inflation
  - 2. Demand-pull inflation
  - 3. Cost-push inflation
  - 4. The Phillips Curve: short run versus long run
  - 5. Role of expectations

### **Inflation, Unemployment, and Stabilization Policies Description**

Public policy affects the economy's output, price level, and level of employment, both in the short run and in the long run. Students should learn to analyze the impacts of fiscal policy and monetary policy on aggregate demand and on aggregate supply as well as on the economy's output and price level both in the short run and in the long run. It is also important to understand how an economy responds to a short-run shock and adjusts to long-run equilibrium in the absence of any public policy actions. With both monetary and fiscal policies now incorporated in the analysis of aggregate demand and aggregate supply, an understanding of the interactions between the two is essential. Students should also examine the economic effects of government budget deficits, including crowding out; consider the issues involved in determining the burden of the national debt; and explore the relationships between deficits, interest rates, and inflation. The course should distinguish between the short-run and long-run impacts of monetary and fiscal policies and trace the short-run and long-run effects of supply shocks. Short-run and long-run Phillips curves are introduced to help students gain an understanding of the inflation-unemployment trade-off and how this trade-off may differ in the short and long run. In this section, the course identifies the causes of inflation and illustrates them by using the aggregate demand and aggregate supply model. A well-rounded course also includes an examination of the significance of expectations, including inflationary expectations.

### **List of 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

### **Graphs**

Aggregate demand/aggregate supply model

Phillips Curve

Laffer Curve

### **List of Key Words and 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, theory of liquidity preference, liquidity, federal funds rate, fiscal policy, multiplier effect, investment accelerator, marginal propensity to consume (MPC), crowding-out effect, stabilization policy, automatic stabilizers, misery index, Phillips curve, natural rate of unemployment, consumer price index, inflation rate, basket (of goods and services), Bureau of Labor Statistics, producer price index, cost of living, standard of living, substitution bias, indexed contract, cost of living allowance (COLA), nominal interest rate, real interest rate.

### **Readings**

Chapter 24, 34 + 35

### **Unit VI: Economic Growth and Productivity.....(5-10%)**

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

### **Economic Growth and Productivity**

The course should introduce the framework and examine how long-run economic growth occurs. Students should understand the role of productivity in raising real output and the standard of living, and the role of investment in human capital formation and physical capital accumulation, research and development, and technical progress in raising productivity. Having learned the determinants of growth, students should examine how public policies influence the long-run economic growth of an economy.

### **List of 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, Economic Schools of Thought, Keynesian-Fiscal Policy, Classical, Neo-Classical, Federal Reserve-Monetary Policy, Monetarist School, Rational Expectations School, Behavioral Economics School

### **Graphs**

Production Possibilities Curve

Aggregate demand/aggregate supply model

Laffer Curve

Phillips Curve

### **List of Key Words and Terms**

Real GDP per person, growth rate, productivity, physical capital, factors of production, human capital, natural resources, renewable resource, nonrenewable resource, technological knowledge, production function, constant returns to scale, diminishing returns, catch-up effect, foreign direct investment, foreign portfolio investment, externality, property rights, infant-industry argument, inward-oriented policies, outward-oriented policies.

### **Readings**

Chapter 25

## **Unit VII: Open Economy: International Trade and Finance.....(10-15%)**

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

### **Open Economy: International Trade and Finance Description**

An open economy interacts with the rest of the world both through the goods market and the financial markets, and it is important to understand how a country's transactions with the rest of the world are recorded in the balance of payments accounts. Students should understand the meaning of trade balance, the distinction between the current account balance and the capital account balance, and the implications for the foreign exchange market.

The course should also focus on the foreign exchange market and examine how the equilibrium exchange rate is determined. Students should understand how market forces and public policy affect currency demand and currency supply in the foreign exchange markets and lead to currency appreciation or depreciation. How capital flows affect exchange rates, and how appreciation or depreciation of a currency affects a country's net exports should be an integral part of the presentation. Having learned the mechanics of the foreign exchange markets, students should then understand how changes in net exports and capital flows affect financial and goods markets.

It is important to examine the effects of trade restrictions, how the international payments system hinders or facilitates trade, how domestic policy actions affect international finance and trade, and how international exchange rates affect domestic policy goals.

### **List of Key Concepts**

Absolute advantage, comparative advantage, specialization, terms of trade, the United States and world trade, absolute and comparative advantage, balance of payments, foreign exchange markets, implications on foreign trade, effects of domestic fiscal and monetary policies on capital flows and foreign exchange markets, use of resources, decision and policy making

### **Graphs**

Production possibilities frontier  
Foreign exchange market  
Loanable funds market

### **List of Key Words or Terms**

Closed economy, open economy, exports, imports, net exports, trade surplus, trade deficit, balanced trade, net capital outflow, nominal exchange rate, appreciation, depreciation, real exchange rate, purchasing power parity, arbitrage, absolute advantage, comparative advantage, specialization, terms of trade, tariffs, quotas, subsidies, world price, domestic price, current account, balance on goods and service, trade deficit, trade surplus, capital account, capital flight, 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).

### **Readings**

Chapter 9, 31-32

## **COURSE MATERIALS**

1. 1-2 inch 3-ring binder with pockets for handouts
2. 7 section dividers (1 for each unit)
3. Pen/pencil and paper
4. Calculator
5. Small Whiteboard (for graphing in class)
6. Printed Student Notes from website

## **GRADING POLICY**

**Summative Assessments** = 71% (Unit Tests, Extended Projects, Portfolios, Quizzes)

**Formative Assessments** = 29% (In Class Activities, Homework)

**Milestone** = 20% of overall grade

## **GRADING SCALE**

90 – 100 A

80 – 89 B

70 – 79 C

60 – 69 F

At the end of the semester the students will have ten points added on to their class average. The reason for this is that since this is an AP class the majority of students will find that their grades are around ten points lower than they would receive in an academic class. (These ten points will not be reflected in the progress reports.)

This class is conducted like a college level classroom. You are expected to participate in all activities. High school students tend to study independently while college students tend to study in groups. This is a college level class. Study in groups! However, honesty is expected on all work. Only your work will be accepted. **Copying other people's homework is not studying together and is considered cheating and will be dealt with accordingly .**

## **LATE WORK**

**Late work will not be accepted. Students have until the day they return to school from an absence to turn in any missed work. Any test or quiz missed due to an absence must be made up before school within 5 days of the absence.**



Units (Based on College Board Outline)		Percentage Goal for Exam	Chapters in Text	Approximate Number of Days
Unit 1	Basic Economic Concepts <ul style="list-style-type: none"> <li>A. Scarcity, choice, and opportunity costs</li> <li>B. Production possibilities curve</li> <li>C. Comparative advantage, specialization, and exchange</li> <li>D. Demand, supply, and market equilibrium</li> <li>E. Macroeconomic issues: business cycle, unemployment, inflation, and growth</li> </ul>	8-12%	1-4, 6	7-10
Unit 2	Measurement of Economic Performance <ul style="list-style-type: none"> <li>A. National income accounts               <ul style="list-style-type: none"> <li>1. Circular flow</li> <li>2. Gross domestic product</li> <li>3. Components of gross domestic product</li> <li>4. Real versus nominal gross domestic product</li> </ul> </li> <li>B. Inflation measurement and adjustment               <ul style="list-style-type: none"> <li>1. Price indices</li> <li>2. Nominal and real values</li> <li>3. Costs of inflation</li> </ul> </li> <li>C. Unemployment               <ul style="list-style-type: none"> <li>1. Definition and measurement</li> <li>2. Types of unemployment</li> <li>3. Natural rate of unemployment</li> </ul> </li> </ul>	12-16%	23, 24 +28	11-14
Unit 3	National Income and Price Determination <ul style="list-style-type: none"> <li>A. Aggregate demand               <ul style="list-style-type: none"> <li>1. Determinants of aggregate demand</li> <li>2. Multiplier and crowding out effects</li> </ul> </li> <li>B. Aggregate supply               <ul style="list-style-type: none"> <li>1. Short-run and long-run analyses</li> <li>2. Sticky versus flexible wages and prices</li> <li>3. Determinants of aggregate supply</li> </ul> </li> <li>C. Macroeconomic equilibrium               <ul style="list-style-type: none"> <li>1. Real output and price level</li> <li>2. Short and long run</li> <li>3. Actual versus full employment output</li> <li>4. Economic fluctuations</li> </ul> </li> </ul>	10-15%	33	9-14
Unit 4	Financial Sector <ul style="list-style-type: none"> <li>Money, banking, and financial markets               <ul style="list-style-type: none"> <li>1. Definition of financial assets: money, stocks, bonds</li> <li>2. Time value of money (present and future value)</li> <li>3. Measures of money supply</li> <li>4. Banks and the creation of money</li> <li>5. Money demand</li> <li>6. Money market</li> <li>7. Loanable funds market</li> </ul> </li> <li>B. Central bank and control of the money supply               <ul style="list-style-type: none"> <li>1. Tools of central bank policy</li> </ul> </li> </ul>	15-20%	26-27, 29-30	13-18

	2. Quantity theory of money 3. Real versus nominal interest rates			
Unit 5	Inflation, Unemployment, and Stabilization Policies A. Fiscal and monetary policies <ol style="list-style-type: none"> <li>1. Demand-side effects</li> <li>2. Supply-side effects</li> <li>3. Policy mix</li> <li>4. Government deficits and debts</li> </ol> B. Inflation and unemployment Types of inflation Demand-pull inflation Cost-push inflation The Phillips Curve: short run versus long run Role of expectations	20-30%	24, 34+35	18-27
Unit 6	Economic Growth and Productivity A. Investment in human capital B. Investment in physical capital C. Research and development, and technological development D. Growth policy	5-10%	25	5-9
Unit 7	Open Economy: International Trade and Finance A. Comparative advantage, absolute advantage, specialization, and exchange B. Balance of payments accounts <ol style="list-style-type: none"> <li>1. Balance of trade</li> <li>2. Current account</li> <li>3. Capital account</li> </ol> C. Foreign exchange market <ol style="list-style-type: none"> <li>1. Demand for and supply of foreign exchange</li> <li>2. Exchange rate determination</li> <li>3. Currency appreciation and depreciation</li> </ol> D. Net exports and capital flows E. Links to financial and goods markets	10-15%	9, 31-32	9-14