



# **A Planned Course of Study for**

## **Advanced Placement Microeconomics**

**ASHS Course # 0213**

**Abington School District**

**Abington, Pennsylvania**

**September, 2018**

**I. Objectives****A. Microeconomics****i. Basic Economic Concepts**

The study of microeconomics requires students to understand that, in any economy, the existence of limited resources along with unlimited wants results in the need to make choices. An effective AP course, therefore, begins by introducing the concepts of opportunity costs and trade-offs, and illustrates these concepts by using the production possibilities curve or other analytical examples. The course can then proceed to a consideration of how different types of economies determine which goods and services to produce, how to produce them, and to whom to distribute them. It is also important that students understand why and how specialization and exchange increase the total output of goods and services. Students need to be able to differentiate between absolute and comparative advantage, to identify comparative advantage from differences in output levels and opportunity costs, and to determine the basis under which mutually advantageous trade can take place between countries. Specific examples from actual economic situations can be used to illustrate and reinforce the principles involved. The importance of property rights, the role of incentives in the functioning of free markets, and the principle of marginal analysis should be highlighted.

**ii. The Nature and Functions of Product Markets**

The study of the nature and functions of product markets falls into four broad areas: supply and demand models, consumer choice, production and costs, and theory of the firm.

A well-planned AP course requires an analysis of the determinants of supply and demand and the ways in which changes in these determinants affect equilibrium price and output. In particular, the course helps students make the important distinction between movements along the curves and shifts in the curves. The course also emphasizes the impact of government policies such as price floors and ceilings, excise taxes, tariffs, and quotas on the free market price and quantity exchanged. The concepts of consumer surplus and producer surplus should also be introduced. Students are expected to comprehend and apply the concepts of price, cross-price, income elasticities of demand, and the price elasticity of supply.

The next area covered in the course is the theory of consumer choice. Students should gain an understanding of the basic postulates underlying consumer choice: utility, the law of diminishing marginal utility, and utility-maximizing conditions, and their application in consumer decision-making and in explaining the law of demand. By examining the demand side of the product market, students learn how incomes, prices, and tastes affect consumer purchases. Here it is important that students understand how to derive an individual's demand curve, how individual and market demand curves are related, and how the income and substitution effects determine the shape of the demand curve.

The third area covers production and cost analysis both in the short run and in the long run. This section begins with an introduction of the short-run production function, describing the relationship between the quantity of inputs and the quantity of output. Within the context of the production function, students should understand average and marginal products as well as the law of diminishing marginal returns. Students learn the link between productivity and costs, and examine the relationships among the short-run costs: total, average, and marginal. With an introduction of the concept of cost minimization, this section also includes a discussion of long-run costs and an examination of economies and diseconomies of scale, as well as returns to scale.

The fourth area covers the behavior of firms in different types of market structures. This section begins with the definition of profits and making the distinction between accounting and economic profits, and establishing the profit-maximizing rule, using marginal analysis. In covering perfect competition, the course focuses on determining short-run and long-run equilibrium, both for the profit-maximizing individual firm and for the industry, and on the equilibrium relationships among price, marginal and average revenues, marginal and average costs, and profits. Students should understand the adjustment process to long-run equilibrium.

In considering the market behavior of a monopolist, students identify and examine the sources of monopoly power and understand the relationship between the monopolist's demand curve and its marginal revenue curve. Students learn how the monopoly's total revenue changes along its demand curve as price varies. Having learned the behavior of monopolies and perfect competition, students should compare a monopolist's price, level of output, and profit with those of a firm operating in a perfectly competitive market. By paying particular attention to the concept of allocative efficiency, students learn how and why competitive firms achieve an efficient allocation of resources, whereas monopolists do not. The concept of deadweight loss is a good device to show the efficiency loss due to monopoly. The model of price discrimination provides another dimension of monopoly behavior that students need to learn and understand.

In covering oligopoly, the course stresses the interdependency of firms and their tendency to collude or to form a cartel. With a simple payoff matrix, the basic game-theory model should be used to enhance a student's understanding of the interdependent behavior of firms in an oligopolistic market and identification of dominant strategies.

Finally, the course considers the market structure of monopolistic competition and highlights the importance of product differentiation and the role of advertising in the behavior of firms. The course then proceeds to examine firm behavior in the short run and in the long run, and the existence of excess capacity and its implication for efficiency.

### iii. Factor Markets

In this section of the course, students also apply the concepts of supply and demand to markets for factors such as labor, capital, and land. Students analyze the concept of derived demand, understand how a factor's marginal product and the marginal revenue of the product affect the demand for the factor, and consider the role of factor prices in the allocation of scarce resources. When the markets for different factors are considered separately, most attention should be given to the labor market, particularly labor supply and wage and employment determination. Although the course may emphasize perfectly competitive labor markets, the effect of deviations from perfect competition, such as minimum wages, unions, monopsonies, and product market monopolies, can also be considered. For the factors of land and capital, students might examine the concept of economic rent and the relationship of the interest rate to the supply and demand for investment funds. By studying the determination of factor prices, students gain an understanding of how the market determines the distribution of income and the sources of income inequality in a market economy.

#### iv. Market Failure and the Role of Government

It is important for students to understand the arguments for and against government intervention in an otherwise competitive market. Students examine the conditions for economic efficiency, using the marginal social benefit and marginal social cost principle, and the ways in which externalities, public goods, and the market distribution of income create market failures even in perfectly competitive economies. In addition, students are expected to study the effectiveness of government policies such as subsidies, taxes, quantity controls, and public provision of goods and services, which are designed to correct market failures and achieve economic efficiency. It is also important both to emphasize that monopolies can cause market failures when they use their market power to engage in behavior that restrains competition and to examine the government's attempt to solve such problems by using antitrust policy and regulations. Although there is not a generally accepted standard for judging the equity of an economy's income distribution, a well-designed course will incorporate key measures of income distribution (Lorenz curve and Gini coefficient) and examine the impact of government tax policies and transfer programs, both on the distribution of income and on economic efficiency.

## II. Major Concepts

- I. Basic Economic Concepts
- II. The Nature and Functions of Product Markets
  - a. Supply and demand
  - b. Theory of consumer choice
  - c. Production and costs
  - d. Firm behavior and market structure
- III. Factor Markets
  - a. Derived Factor Demand
  - b. Marginal revenue product
  - c. Hiring decisions in the markets for labor and capital
  - d. Market distribution of income

## IV. Market Failure and the Role of Government

- a. Externalities
- b. Public goods
- c. Public policy to promote competition
- d. Income distribution

## A. Course Schedule (Days and Length of class period)

1. The course meets 5 periods per week for the duration of one school year.
2. A class period is approximately 45-49 minutes.

## B. Pacing (content by marking period)

Marking Period	Unit
Quarter 1	Basic economics concepts; Nature and functions of product markets: supply and demand
Quarter 2	Nature and functions of product markets: firm costs, elasticity and efficiency; market structures: perfect competition, monopoly
Quarter 3	Market structures: oligopoly, monopolistic competition; factor markets
Quarter 4	Market failure and the role of the government

## C. Methods

1. The instructor with the help of the students and staff will identify and select community resource people to provide experiences that extend and enrich the learning experience.
2. The librarian, in cooperation with the instructor, will identify evaluate and select library resource material that will enhance learning activities.
3. Role playing, simulation, drawing, creative projects, group discussions, and sharing of literary selections will be used to help the students express attitudes and values.
4. The instructor will meet students' individual needs by selecting a variety of supplementary materials of varied levels of difficulty.
5. The instructor will modify learning activities for academically challenged students if needed.
6. The instructor will introduce students to computer applications related to social studies.
7. The instructor will provide opportunities for expository writing.
8. The instructor will develop reading activities in conjunction with the Reading Department.
9. The instructor will expose students to primary source material.
10. The instructor will use traditional methods of teaching in conjunction with inquiry approach and discovery learning.
11. The teacher will create opportunities for students to gain and demonstrate understanding of content objectives through expository and creative writing, visual projects, cooperative activities, simulations, performance based activities, and traditional testing.

12. The teacher will implement the use of technology through the use of the Promethean Board and laptops.

#### D. Resources

1. Anderson, David, and Margaret Ray. *Krugman's Economics for AP*. 1st. ed. Worth Publishers, 2011
2. Morton, John S. *Advanced Placement Economics: Student Resource*, 3rd ed. National Council on Economic Education. New York, 2003
3. The Wall Street Journal (print edition)
4. WiFi internet access, lap top classroom cart access.
5. Computer software, internet databases, internet resources.
6. Safari and Safari Montage video system.
7. Relevant periodicals.
8. Various research tools provided by ASD

### III. Assessment

#### A. Procedures for Evaluation

##### a. Summative assessments

- i. AP based assessments will be administered at the end of each unit.
- ii. An AP Microeconomics based midterm will be administered at the end of the first semester.
- iii. An AP Microeconomics based final will be administered at the end of the second semester

##### b. Formative assessments will be administered in a variety of formats.

- c. Accommodations aligned with those permitted for the PSSA/Keystone Exams and included in IEP's will be provided for Special Education students who are enrolled in this course.

#### B. Expected Levels of Achievement

Students are expected to achieve at least a minimum level of proficiency.

Proficiency and related grades are defined as follows:

A.....	90 – 100%
B.....	80 - 89%
C.....	70 - 79%
D.....	60 - 69%