

AP Macroeconomics Syllabus (2016 - 2017)

Scoring Components	Page(s)
SC1 The course provides instruction in basic economic concepts, such as marginal analysis and opportunity costs.	2
SC2 The course provides instruction in measurement of economic performance, national income and price level determination.	3-4
SC3 The course provides instruction in unemployment and inflation.	3-4
SC4 The course provides instruction in the financial sector.	5
SC5 The course provides instruction in stabilization policies.	4, 6
SC6 The course provides instruction in economic growth and productivity.	6
SC7 The course provides instruction in open economy and international trade and finance.	6
SC8 The course promotes understanding of aggregate economic activity and the critical evaluation of the determinants of economic progress and economic decisions made by policy makers.	6-7
SC9 The course teaches students how to generate charts and graphs to describe economic concepts.	2, 4
SC10 The course teaches students how to interpret and analyze charts, graphs and data to describe economic concepts.	2

Texts

Required Text:

Bade, Robin and Parkin, Michael. *Foundations of Economics, AP Edition*, 3rd ed. Boston, MA: Addison-Wesley Longman, Incorporated, 2007.

Supplementary Text:

Coppock, Lee and Mateer, Dirk. *Principles of Macroeconomics*, 1st ed. New York, NY: Norton, Incorporated, 2013.

Course Outline

Unit 1: An Introduction to Economics (4 weeks)

Topic I: Basic Economic Concepts [SC1]

- A. Scarcity: What is it? Why is it so important to economic thought?
- B. Opportunity Cost: Define and compute it. Why can it never be avoided?
- C. Production Possibilities: Construct and interpret production possibilities, schedules and graphs; relate production possibilities curves to the issues of scarcity, choice and cost. Why are most PPCs bowed out?
- D. Specialization and Comparative Advantage: Define and calculate absolute and comparative advantages for production exchange.
- E. Functions of Any Economic System
 - a. Answer the questions: What to produce? How to produce? For whom to produce?
 - b. Define ways societies determine allocation, efficiency and equity.

Topic II: Demand, Supply and Price Determination [SC10]

- A. Demand: Define and illustrate demand through schedules and graphs.
 - a. Distinguish between changes in quantity demanded and change in demand.
 - b. Examine the inverse relationship existing between quantity demanded and price. Evaluate the law of demand.
 - c. Identify and explain the variables that cause a change in demand.
 - d. Illustrate graphically a change in demand versus a change in quantity demanded. [SC9]
- B. Supply: Define and illustrate supply through schedules and graphs.
 - a. Distinguish between changes in quantity supplied and changes in supply.
 - b. Examine the direct relationship existing between quantity supplied and price. Evaluate the law of supply.
 - c. Identify and explain the variables that cause a change in supply.
 - d. Illustrate graphically a change in supply versus a change in quantity supplied.
- C. Equilibrium Price and Quantity: Define and illustrate equilibrium through schedules and graphs. [SC9]

- a. Define and illustrate surpluses and shortages.
- b. Define the effects of surpluses and shortages on prices and quantities.
- c. Interpret the effects of a price floor and price ceiling on equilibrium price and quantity.
- d. Introduction to market failures: lack of competition, externalities and public goods.

Unit 2: Measurement of Economic Performance (4 weeks)

Topic I: Gross Domestic Product and National Income Concepts [SC2]

- A. Measuring GDP, Four-Sector Circular Flow Model and Flow vs. Stock
 - a. Expenditure approach $[C + I + G + (X - IM)]$ where
 - C = Personal Consumption Expenditures and Gross Investment
 - I = Gross Private Investment
 - G = Government Consumption Expenditures and Gross Investment
 - $X - IM$ = Net Exports
 - b. Income Approach $(W + I + R + P)$ where
 - W = Compensation of Employees
 - I = Net Interest
 - R = Rental Income of Persons
 - P = Profits (Non-income adjustments)
 - c. Problems with calculating GDP: Nonmarket transactions, distribution, kind and quality of products.
 - d. Changing Nominal GDP (NGDP) to real GDP (RGDP). How and why?
 - e. Other national accounts: net national product (NNP), national income (NI), personal income (PI) and disposable income (DI).

Topic II: Unemployment and Business Cycles [SC3]

- A. The Roller Coaster: The four phases of the business cycle
- B. Total Spending and How It Affects the Business Cycle
- C. Unemployment: Defined
- D. Problems with the Unemployment Rate: Who is counted and who isn't?
- E. Types of Unemployment
 - a. Seasonal, frictional, structural, cyclical
 - b. Which types affect the unemployment rate?
- F. Full Employment: What is it? What are the implications if achieved?
- G. The GDP Gap: Explaining lost potential

Topic III: Inflation [SC3]

- A. The Meaning and Measurement of Inflation
- B. The Consumer Price Index (CPI) and How It Is Computed
- C. Problems with the CPI
- D. Other Indexes: Producer Price Index
- E. Consequences of Inflation: Shrinking Incomes, Changes in Wealth, Effect on Interest Rates

- F. Demand – Pull and Cost – Push Inflation

Unit 3: Macroeconomic Theory and Policy (6 weeks)

Topic I: The Classical Theory and the Keynesian Theory: An Introduction

- A. The Role of the Consumption Function
- B. Marginal Propensities to Consume and Save
- C. Why the Consumption Function Shifts and How It Affects Aggregate Demand
- D. The Role of the Investment Function
- E. Why is Investment Demand Unstable?
 - a. Expectations
 - b. Technological change
 - c. Capacity Utilization
- F. Investment as an Autonomous Expenditure
- G. Graphing the Aggregate Expenditure Function

Topic II: Keynesian Model in Action

- A. Government Spending and How It Affects Aggregate Demand
- B. Adding International Trade to the Aggregate Expenditure Model
- C. The Spending Multiplier: The Math and Its Effects
- D. Recessionary and Inflationary Gaps: A Graphing Exercise [SC9]

Topic III: Aggregate Demand and Supply; National Income and Price Determination [SC2]

- A. Aggregate Demand Curve: Reasons for Its Shape
 - a. Real balances effect
 - b. Interest rate effect
 - c. Net export effect
- B. Nonprice – Level Determinants of Aggregate Demand
- C. Aggregate Supply Curve
 - a. Classical view
 - b. Keynesian view
 - c. Changes in equilibrium price and quantity with the three ranges
- D. Nonprice – Level Determinants of Aggregate Supply
- E. Macroeconomic Equilibrium

Topic IV: Fiscal Policy/Public Sector [SC5]

- A. Discretionary Fiscal Policy
 - a. Changes in government spending
 - b. Changes in tax rates
 - c. Balanced – budget multiplier
- B. Supply – Side Policies

- C. Laffer Curve
- D. Government Size and Growth
 - a. Financing budgets
 - b. Government expenditure patterns
- E. Types of Taxation
 - a. Progressive
 - b. Proportional
 - c. Regressive
- F. Federal Deficits and the National Debt
 - a. The Federal Budget Balancing Act
 - i. Gramm – Rudman – Hollings Act
 - ii. Dodd – Frank Act
 - iii. Line – item veto
 - iv. Budget ceiling
 - b. Should we worry about deficits or the debt?

Topic V: Money, Banking, the Financial Sector and Monetary Policy [SC4]

- A. Three Functions of Money
- B. What Stands Behind the U.S. Dollar?
- C. The Three Money Supply Definitions
 - a. M1: most narrowly defined money supply
 - b. M2: adding near monies to M1
 - c. M3: adding large time deposits to M2
- D. Financial Assets: Money, Stocks, Bonds
 - a. Time value of money (present and future value)
 - b. Banks and creation of money
 - c. Money demand
 - d. Money market
 - e. Loanable funds market
- E. The Federal Reserve System (FED)
 - a. Origins and organizational structure
 - b. Powers of the FED
 - i. Controlling the money supply
 - ii. Clearing checks
 - iii. Supervising and regulating banks
 - iv. Lending currency to banks
 - v. Acting as the bank for the U.S. government
 - c. Tools of the FED
 - i. Open – market operations
 - ii. Discount rate
 - iii. Reserve requirement

- F. The Money Multiplier
 - a. Theory vs. reality
- G. Monetary Policy Shortcomings
 - a. Money multiplier inaccuracies
 - b. Lags in policy effects
- H. Monetary Policy **[SC5]**
 - a. The demand for money and how it may affect interest rates
 - b. How monetary policy affects prices, output and employment
 - c. The monetarist view of money ($MV = PY$)
 - d. A comparison of views: Monetarist, Keynesian and classical economists **[SC8]**

Topic VI: The Phillips Curve and Expectations Theory

- A. What is the Phillips Curve?
 - a. In the short run
 - b. In the long run
- B. Rational Expectations Theory
 - a. Can it work?

Unit 4: Economic Growth and Productivity (1 week)

Topic I: Raising Productivity: Real Output and Capital Formation [SC6]

- A. Human Capital Formation
- B. Physical Capital Formation
- C. Research and Development, Technological Progress
- D. Public Policy and Long – Run Economic Growth

Unit 5: The International Economy (3 weeks)

Topic I: International Trade and Finance [SC7]

- A. Why Nations Trade at All
- B. Comparative and Absolute Advantage
- C. Free Trade vs. Protectionism
 - a. Arguments for free trade
 - b. Arguments against free trade
- D. The Balance of Payments
 - a. Current account
 - b. Capital account
 - c. International debt of the United States
- E. Exchange Rates
 - a. Supply and demand for foreign exchange
 - b. Current fluctuations
 - i. Appreciation and depreciation
 - ii. Graphing currency changes

Topic II: Comparative Economic Systems [SC8]

- A. Basic Types of Economic Systems
 - a. Traditional, command and market economies: defined and analyzed
 - b. The mixed economy of today
 - c. Capitalism and socialism: basic tenets
 - d. Comparing the systems
- B. Comparing Developed and Developing Countries
 - a. Classifying countries by GDP per capita
 - i. Problems with classification
 - b. How to sustain economic growth in developing countries
 - i. National resources
 - ii. Policymaking
 - c. Implications for a changing world

Projects

Homework: Homework assignments vary but will include basic worksheets, weekly reading and discussion, analysis of academic articles and other appropriate assignments.