

## Advanced Placement Macroeconomics

### Course Description:

This course provides an introduction to and overview of economics, specifically macroeconomics, with a focus on preparation for the Macroeconomics Advanced Placement exam.

Campbell McConnell and Stanley Brue, the authors of our textbook, define economics as “the social science concerned with the efficient use of scarce resources to achieve the maximum satisfaction of economic wants.”<sup>1</sup> This definition can be simplified by describing economics as *the study of human decision-making*, or, as another economist put it:

Economics seeks to identify circumstances that affect the costs of alternative choices, to analyze their implications for human decisions, and to make verifiable predictions about economic outcome. Economics, then, is the science of choice.<sup>2</sup>

This course introduces some basic general economic concepts, but the bulk of the class will focus on macroeconomics, the division of economics that analyzes economies and decision-making on a large scale. Macroeconomics addresses aggregates and whole economies rather than the particular decisions and interactions of individual persons, industries, firms, markets, etc., which are the focus of *microeconomics*. (See the attached course outline for more specific information on the content of this course.)

### Text:

McConnell, Campbell R. and Brue, Stanley L. *Economics: Principles, Problems, and Policies (Fifteenth Edition)*. Boston: McGraw-Hill Irwin, 2002.

### Workbook:

Morton, John S. *Macroeconomics: Student Activities*. New York, NY: National Council on Economic Education, 1998.

### Additional Readings and Materials:

*The Economist*, London: The Economist Newspaper Limited.

Morton, John S. *Advanced Placement Economics: Teacher Resource Manual*. New York, NY: National Council on Economic Education, 1996.

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<sup>1</sup> McConnell and Brue, 3.

<sup>2</sup> Pejovich, Svetozar. *Economic Analysis of Institutions and Systems (Revised Second Edition)*. Boston: Kluwer Academic, 1998, 5.

## Course Outline: AP Macroeconomics

Each unit includes reading assignments from McConnell and Brue as well as activities from Morton. Also, the course includes 2-3 “timed writings” per unit that require students to generate, interpret, label, and analyze graphs, charts, and data to describe and explain economic concepts; these also serve to simulate the free response portion of the Advanced Placement exam. Multiple choice tests follow each unit and prepare students for that portion of the AP exam. The final two weeks of the course consist of a course review, a practice released AP exam, and an examination of the students’ performance on the practice AP exam.

### Unit 1: Basic Economic Concepts (2.5 weeks)

- Scarcity, tradeoffs and the nature of economic systems
- Graphs and relationships
- Production possibilities and opportunity costs
- The functions of an economic system (what, how, and for whom) and alternative economic systems
- The circular flow model
- Demand, supply, and price determination
- The public and private sectors
- Forms of business organization

Graphs:            Production possibilities curve (frontier)  
                          Circular flow model  
                          Demand and supply curves showing equilibrium  
                          Demand and supply curves showing shifts in demand/supply

Key Terms:    economics, macroeconomics, scarcity, factors of production, land, labor, capital, entrepreneurship, positive economics, normative economics, ceteris paribus, fallacy of composition, opportunity cost, production possibilities, law of increasing opportunity cost, demand, law of demand, quantity demanded, substitutes, complements, normal goods, inferior goods, supply, law of supply, quantity supplied, market equilibrium, equilibrium price, equilibrium quantity, corporation, sole proprietorship, partnership, stocks, bonds, limited liability, principal-agent problem, monopoly, transfer payment, subsidy, excise tax, sin tax, spillovers (externalities), public goods

Chapters Included:  
McConnell and Brue, Chapters 1-5

Activities:  
Morton, Activities 1-4, 6  
Market simulation activity

## **Unit 2: The United States in a Global Economy (2.5 weeks)**

- Open vs. closed economies
- Gains from specialization and trade (absolute and comparative advantage)
- Exchange rates
- Balance of payments (current account and capital account)
- The foreign exchange market and exchange rates
- Government intervention and trade barriers
  - Tariffs
  - Quotas
  - Subsidies

Graphs:            The circular flow model in an open economy  
                      Production possibilities curve  
                      Foreign exchange market  
                      Supply and demand curves with trade barriers

Key Terms: open economy, closed economy, specialization, absolute advantage, comparative advantage, terms of trade, balance of payments, current account, capital account, official reserves, flexible exchange rates, fixed exchange rates, tariffs, quotas, subsidies

Chapters Included:

McConnell and Brue, Chapters 6, 37, 38

Activities:

Morton, Activities 55-62, 64

## **Unit 3: Measuring Economic Performance (2 weeks)**

- Gross domestic product and national income
  - National income accounting calculations (expenditures and income approaches)
- Economic growth
- Unemployment
  - Types
  - Full employment and natural rate of unemployment
- Inflation and price indices (inflating and deflating)
  - Types (demand-pull, cost-push)
  - Costs of inflation
- The business cycle
- Nominal vs. real figures (GDP, income)

Graphs:            Phases of the business cycle

Key Terms: Gross domestic product, gross national product, intermediate goods, 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, business cycle, peak, recession, trough, recovery, labor force, unemployment rate, frictional unemployment, structural unemployment, cyclical unemployment, seasonal unemployment, full-employment (natural) rate of unemployment, inflation, consumer price index, demand-pull inflation, cost-push inflation, nominal income, real income, deflation, hyperinflation

Chapters Included:  
McConnell and Brue, Chapters 7, 8

Activities:  
Morton, Activities 5, 7-14

#### **Unit 4: Aggregate Demand, Aggregate Supply, and Fiscal Policy (3 weeks)**

- The aggregate expenditures model
- Aggregate supply (Classical and Keynesian approaches)
- Aggregate demand
- Real output and price level
- Fiscal Policy
  - The multiplier
  - Crowding out
- Automatic Stabilizers
- Supply-side fiscal policy

Graphs: Aggregate expenditures model  
Consumption, savings, and investment schedules (functions)  
Investment demand curve  
Aggregate demand and aggregate supply curves

Key Terms: Aggregate expenditures, consumption schedule, savings schedule, investment schedule, marginal propensity to consume, marginal propensity to save, wealth effect, unplanned changes in inventory, recessionary gap, inflationary gap, break-even income, multiplier, balanced-budget multiplier, leakage, injection, real-balances effect, interest-rate effect, foreign purchases effect, aggregate demand, aggregate supply, equilibrium price level, equilibrium real output, fiscal policy, expansionary fiscal policy, contractionary fiscal policy, budget deficit, budget surplus, built-in stabilizer, progressive tax system, regressive tax system, proportional tax system, crowding-out effect, net export effect, supply-side fiscal policy

Chapters Included:  
McConnell and Brue, Chapters 9-12

Activities:  
Morton, Activities 17-20, 23-33

**Unit 5: Money, Banking, Monetary Policy, and Economic Stability (3 weeks)**

- The financial sector
- Money and banking
- Definitions of money
- Multiple-deposit expansion
- The money and loanable funds markets
  - Supply and demand for money
- The Federal Reserve system
- Monetary policy tools
- Monetary policy, real GDP, and price level
- Velocity of money

Key Terms: medium of exchange, unit of account, store of value, M1, M2, M3, checkable deposits, demand deposits, time deposits, legal tender, asset demand, transaction demand, liquidity, fractional reserve system, required reserves, reserve ratio, excess reserves, actual reserves, Federal funds rate, prime interest rate, discount rate, open-market operations, money multiplier, nominal interest rate, real interest rate, Federal Open Market Committee, Federal Reserve Banks, velocity of money, easy money policy, tight money policy

Graphs:            Money market  
                      Loanable funds market  
                      Investment demand curve  
                      Aggregate demand/aggregate supply model

Chapters Included:  
McConnell and Brue, Chapters 13-15

Activities:  
Morton, Activities 34, 35, 37-41, 63

**Unit 6: Long-run Analysis and Macroeconomic Policy Disputes (3 weeks)**

- Monetary and fiscal policy interactions
- Short- vs. long-run Aggregate Supply
- The Phillips curve (short and long run)
- Economic growth
- Deficits, surpluses, and debt
- Macroeconomic theories and disagreement

- Classical
- Keynesian
- New classical economics (monetarism and rational expectations)

Graphs: Aggregate demand/aggregate supply model (including long- and short-run aggregate supply)  
Phillips curve  
Production possibilities curve  
Laffer curve

Key Terms: short run, long run, Phillips curve, stagflation, disinflation, supply shocks, supply-side economics, Classical view, Keynesian view, New Classical economics, monetarism, rational expectations, efficiency wage, monetary rule, equation of exchange, infrastructure, human capital, economies of scale, network effects, public debt, cyclically balanced budget, social security trust fund, public investments

Chapters Included:  
McConnell and Brue, Chapters 16-19

Activities:  
Morton, Activities 43-46, 50, 52-54

**Final 2 weeks: Course review and testing**

- Course review
- Released Advanced Placement test (multiple choice and free response)
- Review of released Advanced Placement test