

INDIAN HILL EXEMPTED VILLAGE SCHOOL DISTRICT

Social Studies Curriculum - May 2009

AP Economics

Course Description:

This full-year college-level course begins with basic economic concepts and proceeds to examine both microeconomics and macroeconomics in greater detail. There are five units which are covered in both the Microeconomic and the Macroeconomic portions of the course. The first unit, Basic Concepts, is only covered in the 1st semester as all students take the class both semesters.

The microeconomics portion of the class is during the first semester and places primary emphasis on the nature and functions of product markets. It also includes the study of factor markets and the role of government in promoting greater efficiency and equity in the economy. The macroeconomics portion is presented in the second semester and emphasizes the study of national income and price determination. It also examines monetary and fiscal policy solutions and develops students' familiarity with economic performance measures, economic growth, and economics in a global environment. In May, students will have the opportunity to take the AP tests in both Microeconomics and Macroeconomics.

Microeconomics

Basic Concepts of Economics

Topics:

- Opportunity Cost, Marginal Benefit (or Utility) & Marginal Cost.
- Production Possibility Curve-increasing, constant, zero opportunity costs.
- Scarcity & Factors of Production.
- Full Production, Productive Efficiency & Allocative Efficiency.
- Three types of Economic Systems.
- Explicit Cost & Implicit Cost.
- Circular Flow.
- Comparative & Absolute Advantage, Specialization.

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The Nature and Functions of Product Markets

Topics:

- Law of Demand.
- Why demand curve is downward sloping (income effect & substitution effect).
- Law of Diminishing Marginal Utility (DMU).
- Factors (determinants affecting demand & surplus).
- Differentiate between changes in demand versus a change in quantity demanded (Price Effect).
- Define consumer Surplus, Normal Good & Inferior Good.
- Define Supply & Law of Supply.
- Identify factors affecting supply.
- Producer surplus.
- Equilibrium Price & Quantity.
- Shortage versus surplus.
- Elasticity- of demand.
- Identify characteristics affecting Price Elasticity of Demand.
- Law of Diminishing Returns.
- Determinants of downward sloping demand curve.
- Income Elasticity of Demand & Cross Elasticity of Demand.
- Elasticity of Supply.

The Theory of the Firm

Topics:

- Characteristics of perfect competition, monopoly, oligopoly & monopolistic competition.
- Types of Market Structure.
- Fixed Costs.
- Short Run Equilibrium versus Long Run Equilibrium.
- Marginal Product, Marginal Cost & Average Cost Curves.
- Relationship between Marginal Product, Marginal Cost, Average Cost Curves & Law of Diminishing Returns.
- Implicit costs, Explicit Costs, Normal Profit, Economic Profit & Accounting Profit.
- Zero Profit = Zero Economic Profit.
- Characteristics of a pure monopoly-operate in elastic portion of their demand curve.
- Natural monopoly, barriers to entry & consequences of a monopoly.

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- Three assumptions for monopolies.
- Government regulation at fair return & socially optimal point (Perfect Allocation Point).
- Price discrimination (requirements)
- Perfectly discriminating monopolist.
- Kinked Demand Curve (non-collusive oligopoly).
- Collusion & Price Leadership.
- Concentration Ratio (Market Share).

Factor Markets

Topics:

- Definition of Derived Demand.
- Definition of Monopsony.
- Wage determination.
- Profit Maximizing Rule & Least-Cost Rule.
- Compare labor market to other resource markets.
- Impact of Unions on wages.
- Minimum wage impact.
- Determination of Economic Rent.

The Role of Government

Topics:

- The economic functions of government.
- Private Good & Pure Public Good.
- Public Choice Economics-contrast between self interests of individuals with government policy.
- Differentiate between benefits received tax & ability to pay tax.
- Differentiate between progress, regressive & proportional taxes.

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Macroeconomics

Measuring Economic Performance

Topics:

- Circular Flow Diagram including the Government sector.
- Define Gross Domestic Product (GDP) and identify exclusions from GDP.
- Define real, nominal & per capita GDP, Consumer Price Index (CPI), Price Profit Incentive (PPI).
- Unemployment: Frictional, Structural, Cyclical & Seasonal.
- Identify weaknesses of per capita GDP and CPI.
- Identify who is helped and who is hurt by inflation.
- Inflation: Demand-Pull & Cost Push
- Okun's Law & GDP Gap.

Aggregate Demand and Aggregate Supply- Fluctuations in Outputs and Prices

Topics:

- Determinants of downward sloping Aggregate Demand (AD) Curve including wealth, interest rate and foreign purchase effects.
- Determinants, shape and ranges of Aggregate Supply Curve.
- Effects of shifts in aggregate demand & aggregate supply.
- Classical Theory- "Say's Law".
- John Maynard Keynes & Keynesian beliefs and the difference from classical beliefs.
- Major determinants of Investment Demand (interest rate & expected rate of return).
- Determinants of Investment Demand Curve.
- Aggregate Expenditures Model.
- Investment determinants (non-interest rate).
- Recessionary & Inflationary Gap.
- Balanced budget multiplier.
- The relationship between Long Run Aggregate Supply (LRAS) & Product Possibility Curve (PPC).
- Causes of the "Ratchet Effect".
- Fiscal Policy- taxing and spending.
- Discretionary Policy & Non-Discretionary Policy.

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- Autonomous & induced spending, simplified multiplier & relationship with marginal propensity to consume (MPC) & marginal propensity to save (MPS).
- Crowding Out Effect & Net Export Effect.
- Explanation of Rational Expectations Approach, Supply Side Economics and consequences of decrease in taxes.

Money, Monetary Policy and Economic Stability

Topics:

- Functions and qualities of money.
- Transaction and asset demand for money.
- Monetary Equation of Exchange.
- Main functions of the Federal Reserve.
- Three main tools of monetary policy.
- Three types of monetary policy: reserve requirement, discount rate, open market operations.
- The Fisher Effect.
- Differentiate between Loan able Funds Market and Money Market.

Monetary and Fiscal Policy Combinations- Stabilization Policy in the Real World

Topics:

- Differentiate between Keynesian & Monetarist's view points.
- Define how Fiscal Policy & Monetary Policy impact "inside lag" and "outside lag".
- Discuss macroeconomic theories.
- Differentiate between short run (SR) versus long run (LR) Aggregate Supply Curve.
- SR Phillip's Curve -inverse relationship between unemployment & inflation.
- Discuss inverse relationship between interest rates & bond prices.
- Discuss the Laffer Curve.
- Distinguish between SR & LR Phillips Curve.
- Identify factors stimulating growth in the economy or to the public.
- Discuss stagflation.
- Discuss the impact of fiscal policy effect on interest rates and demand for money.
- Define Natural Rate Hypothesis- Adaptive Expectation Theory and Rational Expectation Theory.
- Graph Keynesian Theory, Monetarist Theory and Rational Expectations Theory.
- Discuss Supply Side Economics.
- Distinguish sale of new treasuries directly to Federal Government- monetizing the debt.

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International Economics

Topics:

- Absolute Advantage & Comparative Advantage leading to specialization and most efficient use of limited resources.
- Determining comparative advantage – output method and input method.
- Simulation- submit a Federal Tax Return.
- Quotas, tariffs and their direct and indirect economic impact.
- The economic effects of a tariff.
- The economic effects of a quota.
- Evaluating the arguments for protectionism.
- Discuss economic & non-economic reasons for tariffs.
- Discuss export subsidies.
- Discuss balance of payments- current account, capital account and balance of trade.
- Identify determinants of exchange rates.
- Discuss Reffonomics.

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Resources:

Textbook

McConnell, Campbell R. and Stanley L. Brue. *Economics: Principles, Problems, and Policies*. 15th ed. New York: The McGraw-Hill Companies, 2002.

Student Activities Book

Morton, John S. *Advanced Placement Economics: Microeconomics*. New York: National Council on Economic Education, 2003. Two books: *Student Activities* and *Teacher Resources Manual*.

- Internal Class website located on school Blackboard site (daily plans are also located here)
- "A Market in Wheat" simulation published by the Joint Council on Economic Education 1988.
- <http://www.amosweb.com>
- <http://reffeconomics.com/>
- <http://www.mhhe.com/economics/mcconnell15e/>
- Gwartney, James D., et al. *Economics Private & Public Choice*. 9th ed. Orlando: Dryden Press, 2000.
- Krugman, Paul, and Robin Wells. *Economics*. New York: Worth Publishers, 2006.
- Mankiw, N. Gregory. *Principles of Economics*. 3rd ed. Cincinnati: Southwestern Publishing, 2004.