

AP[®] Macroeconomics

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Syllabus

The AP[®] Macroeconomics course is designed as an initial college-level course in macroeconomics and as a foundation for possible future study in economics or business. The students' second goal of the course is to prepare for the AP Exam. The examination will take place in May. Passing the exam will result in college credit at almost all colleges and universities. Throughout the course, students will have ample opportunity to improve their writing, speaking, critical thinking, and consensus building skills.

In this course, students will build economic models to analyze the workings of the aggregate economy. The models will be used to examine the determinants of a country's income, employment and price level. The models will also be used to show how tools the government might use (such as taxes, spending, and controlling the money supply) can affect reaching the economic goals (such as economic growth, high employment and stable prices.) While the emphasis will be mainly on the U.S. economy, interaction with the rest of the world's economies will be emphasized throughout the course.

Course Objectives

After completing the course students should be able to do all of the following:

1. Define and understand the key terms given at the end of each chapter.
2. Use the graphical and mathematical tools of macroeconomic theory as demonstrated in class, in the text, and in homework problems.
3. Explain in detail how the basic measures of economic performance are calculated and the significance of changes in these measures.
4. Explain in detail the money creation process and the workings of our financial system.
5. Various fiscal and monetary policies to determine their impacts on the measures of economic performance.
6. Learn how economic policies of one country affect economic activity in other countries.

Texts

Required Text: Schiller, Bradley J. *The Economy Today*. 10th ed. New York, NY: McGraw Hill Irwin, 2006

Supplementary reading text: Todd Buchholz, *New Ideas from Dead Economists*, New

York: Plame, 1999.

Supplementary reading text: Roger L. Miller. *The Economics of Macro Issues*. 2nd ed. Boston, MA: Pearson Addison-Wesley.

Workbook of Economic Activities: Morton, John. *Advanced Placement Economics*, 3rd ed. New York: National Council on Economic Education, 2003.

COURSE OUTLINE

Unit I: Introduction to Economics (4 weeks)

TOPIC I: Basic Economic Concepts

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

TOPIC II: Demand, Supply and Price Determination

- A. Demand- Define and illustrate demand through schedules and graphs.
 - 1. Distinguish between changes in quantity demanded and changes in demand.
 - 2. Examine the inverse relationship existing between quantity demanded and price. Evaluate the Law of Demand.
 - 3. Identify and explain the variables which cause a change in quantity demanded.
 - 4. Illustrate graphically a change in demand versus a change in quantity demanded.
- B. Supply – Define and illustrate supply through schedules and graphs.
 - 1. Distinguish between changes in quantity supplied and changes in supply.
 - 2. Examine the direct relationship existing between quantity supplied and price. Evaluate the Law of Supply.
 - 3. Identify and explain the variables which cause a change in supply.
 - 4. 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.
1. Define and illustrate surpluses and shortages.
 2. Define the effects of surpluses and shortages on price and quantities.
 3. Interpret the effects of a price floor and price ceiling on equilibrium price and quantity.
 4. Introduction to market failures: Lack of competition, externalities, and public goods.

TEXTBOOK CHAPTERS (1 – 4)

MORTON WORKBOOK (1 – 4)

BUCHHOLZ: *The Second Coming of Adam Smith*

BUCHHOLZ: *The Angry Oracle of Karl Marx*

SIMULATION GAME: *Market in Wheat*

QUIZ # 1: BASIC ECONOMIC CONCEPTS

UNIT TEST

CR17- The course provides instruction in basic economic concepts.

CR8- The course promotes the understanding of aggregate economic activity; the utilization of resources within and across countries; and critical evaluation of determinants of economic progress and economic decisions made by policymakers.

CR97- The course teaches students how to generate, interpret, label, and analyze graphs, charts, and data to describe and explain economic concepts.

Unit II: Measurement of Economic Performance (4 weeks)

TOPIC I: Gross Domestic Product and National Income Concepts

A. Measuring GDP:

1. Expenditure Approach ($C + I + G + NE$) where
 C = Consumption
 I = Gross Private Investment
 G = Government Consumption Expenditures and Gross Investment
 NE = Exports minus Imports
2. Income Approach ($WR + I + R + P$) where
 W = Compensation of Employees
 I = Net Interest
 R = Rental Income of Persons
 P = Profits (Non – income adjusted)
3. Problems with calculating GDP – nonmarket transactions, distribution, kind and quality of products.
4. Changing Nominal GDP to Real GDP. How and why?

5. Other national Accounts: Net National Product (NNP), National Income (NI),
Personal Income (PI), and Disposable Income (DI)

TOPIC II: Unemployment and Business Cycles

- A. The Four Phases of the Business Cycle.
- B. Total Spending and How it Affects the Business Cycles.
- C. Unemployment – Defined.
- D. Problems with the Unemployment Rate - Who is counted and who isn't?

- E. Types of Unemployment
 - 1. Seasonal, frictional, structural, cyclical
 - 2. 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

- 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.

TEXTBOOK CHAPTERS (5 – 7)

MORTON WORKBOOK (6 – 15)

QUIZ # 2: GROSS DOMESTIC PRODUCT

QUIZ # 3: UNEMPLOYMENT

UNIT TEST

CR2~~F~~ he course provides instruction in measurements of economic performance.

CR3~~F~~ he course provides instruction in national income and price determination.

CR 9 – The course teaches students how to generate, interpret, label, and analyze graphs, charts, and data to describe and explain economic concepts.

Unit III: AD/AS Macroeconomic Model (3 weeks)

TOPIC I: Aggregate Demand and Supply

- A. Aggregate Demand Curve- Reasons for its Shape

1. Real Balance Effect
 2. Interest Rate Effect
 3. Net Export Effect.
- B. Non-price Level Determinants of Aggregate Demand
- C. Aggregate Supply Curve
1. Classical View.
 2. Keynesian View.
 3. Changes in equilibrium price and quantity with the three ranges.
- D. Non-price Level Determinants of Aggregate Supply.

TOPIC II: The Classical Theory and the Keynesian Theory: An Introduction

- A. The Role of the Consumption Function.
- B. Marginal Propensity 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?
 1. Expectations.
 2. Technological change.
 3. Capacity Utilization.
- F. Investment as an Autonomous Expenditure.
- G. Graphing the Aggregate Expenditure Function.

TOPIC III: 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.
- D. Recessionary and Inflationary Gaps – A graphing exercise.

TEXTBOOK CHAPTERS (8 – 10)

MORTON WORKBOOK (16 – 27)

QUIZ # 4: AD and AS

QUIZ # 5: Classical vs. Keynes

UNIT TEST

CR 3 – The course provides instruction on national income and price determination.

CR 8 – The course promotes the understanding of aggregate economic activity; the utilization of resources within and across countries; and the critical evaluation of determinants or economic progress and economic decisions made by policymakers.

Unit IV: Fiscal Policy (5 weeks)

TOPIC I: Fiscal Policy and the Public Sector

- A. Discretionary Fiscal Policy

1. Changes in government spending.
 2. Changes in tax rates.
 3. Balanced budget multiplier.
- B. Government Size and Growth.
1. Financing Budgets.
 2. Government Expenditure patterns.
- C. Types of Taxation
1. Progressive.
 2. Regressive.
 3. Proportional.
- D. Federal Deficits and the National Debt
1. The federal budget - balancing act
 2. Should we worry about the deficits or debts?

TEXTBOOK CHAPTERS (11 – 12, 16)

MORTON WORKBOOK (28-33)

BUCHHOLZ: “Keynes: Bon Vivant as Savior”

QUIZ # 6: Free Response Essay: Fiscal Policy

UNIT TEST

CR3T- he course provides instruction in national income and price determination.

CR5T- he course provides instruction in inflation, unemployment, and stabilization policies.

UNIT V: Monetary Policy and the Financial Sector (5 weeks)

TOPIC I: Money and Banking and Financial Markets

- A. Three Functions of Money
- B. U.S. Dollar.
- C. Money Supply Definitions:
 1. M1
 2. M2
 3. M3
- D. The Federal Reserve System
 1. Origins of the Federal Reserve.
 2. Powers of the FED
 - a. Controlling the Money Supply.
 - b. Clearing Checks.
 - c. Supervising and Regulating Banks.
 - d. Loaning currency to banks.
 - e. Acting as the bank for the U.S. government.

- E. The Money Multiplier.
- F. Monetary Policy Shortcomings.
 1. Money Multiplier inaccuracies.
 2. Lags in policy effects.

G. Monetary Policy

1. The demand for money and how it affects interest rates.
2. How monetary policy affects prices, output and employment.
3. The Monetarist view of money (MV=PY)
4. A comparison of views: Monetarist, Keynesians, and Classical

economists.

TEXTBOOK CHAPTERS (13-15)

MORTON WORKBOOK (34 – 42)

BUCHHOLZ: *The Monetarist Battle Against Keynes*”

QUIZ # 7: The Federal Reserve System

QUIZ # 8: Free Response Essay: Monetary Policy

UNIT TEST

CR8T- he course promotes the understanding of aggregate economic activity; the utilization of resources within and across countries; and the critical evaluation of determinants of economic progress and economic decisions made by policymakers.

CR4T- he course provides instruction in the financial sector.

Unit VI: International Economics (4 weeks)

TOPIC I: International Trade and Finance

- A. Why Nations Trade at All
- B. Comparative and Absolute Advantage.
- C. Free Trade versus Protectionism.
 1. Arguments for Free trade.
 2. Arguments against free trade.
- D. The Balance of Payments
 1. Current Accounts.
 2. Capitol Account.
 3. International Debt of the U.S.
- E. Exchange Rates
 1. Supply and Demand for Foreign exchange.
 2. Current Fluctuations
 - a. Appreciation and depreciation
 - b. Graphing currency changes.

TOPIC II: Comparative Economic Systems

- A. Basic Types of Economic Systems.
- B. Comparing Developed and Developing Nations
- C. Implications of a Changing World

TEXTBOOK CHAPTERS (18, 34 – 35)

MORTON WORKBOOK (56 – 64)

BUCHHOLZ: *D avid Ricardo and the Cry for Free Trade*”

QUIZ # 9: International Economics

UNIT TEST

CR 7 – The course provides instruction in the open economy (international trade and finance)

CR 8 – The course promotes the understanding of aggregate economic activity; the utilization of resources within and across countries; and the critical evaluation of determinants of economic progress and economic decisions made by policymakers.

Unit VII: Key Macroeconomic Issues (3 weeks)

- A. Growth and Productivity: Long Run Possibilities
- B. Supply Side Policy
- C. Policy Constraints
- D. Rational Expectations Theory

TEXTBOOK CHAPTERS (18 – 19)

MORTONS WORKBOOK (43 – 54)

CR7T– he course provides instruction in the open economy (international trade and finance).

CR8T– he course promotes the understanding of aggregate economic activity; the utilization of resources within and across countries; and the critical evaluation of determinants of economic progress and economic decisions made by policymakers.

CR6T– he course provides instruction in economic growth and productivity.

CR8T– he course promotes the understanding of aggregate economic activity; the utilization of resources within and across countries; and the critical evaluation of determinants of economic progress and economic decisions made by policymakers.

Unit VIII: Review (2 weeks)

- A. Review for AP Economics Exam.
- B. Student oral reports.
- C. Practice multiple-choice portion of macroeconomics final exam.
- D. Practice free-response portion of macroeconomics final exam.