ADVANCED PLACEMENT MACROECONOMICS

Maple Grove Senior High School
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Social Studies Department

Required textbook

Economics, McConnell and Brue, 17th edition, 2008.

Course description

Macroeconomics is the study of the economy as a whole or its basic parts or aggregates in an effort to obtain a general overview of the economy as a whole and how its parts relate to one another. As a result we will focus on economic measure such aggregates and the general price level to analyze economic problems. Students will be expected to be able to use critical thinking skills as they present their analysis along with appropriate graphical representations.

Course grading

Student work will be assessed in accordance with school, district, and classroom policies and expectations. Grades earned by students will be based on an evaluation of summative work (80%) and formative work (20%).

Weekly quizzes and assigned readings

It is expected that all assigned readings be completed by the beginning of the week for which they are assigned. Quizzes on assigned readings and classroom instruction are administered for formative purposes: students and the teacher should use these assessments as a means to determine the current level of understanding and areas where improvement is needed. As such, these quizzes will not always be announced.

Unit exams

Unit exams are designed to fulfill two general purposes. First, they serve as summative assessments of the information covered over multiple chapters. Second, they are meant to prepare students for taking the AP exam.

Course mechanics

- ***Attendance**:* Attendance will be taken at the beginning of each class period. Please respect your classmates, your teacher, and your own learning by showing up on time.
- ***Classroom Behavior**:* All students are expected to behave with respect toward each other, their teacher, and the classroom. It is expected that students will bring all relevant course materials to class each day (*pen/pencil, notebook/folder, & basic function calculator*).
- ***Make-Up Procedures***: It is the responsibility of absent students to check with a classmate or the teacher upon their return to school to receive any missed assignments or notes.
- ***Grades**:* Students will earn a grade based upon what they have learned, not simply what work has been attempted or completed. Final grades will include an evaluation of all assignments, quizzes, exams, and student learning. The following grading scale will be used:

A: 3.51	**A-: 3.0**	**B+: 2.84**	**B: 2.67**
B-: 2.5	**C+ : 2.34**	**C: 2.17**	**C- : 2.0**
D+: 1.84	**D: 1.67**	**D-: 1.5**	

<u>Formative Task Examples</u> (20%)
-Homework
-In-class assignments
-Reading quizzes
-APLIA practice

<u>Summative Task Examples</u> (80%)
-Exam 1
-Exam 2
-Exam 3
-Comprehensive final

- ***Formative Tasks:***
  - Students who are absent the day a formative assessment is <u>assigned</u> are expected to complete the task within five school days of their return.
  - Students who are absent the day a formative assessment is <u>due</u> are expected to turn in the task immediately upon their return.
  - *Credit for formative work will only be granted if the work is completed <u>prior</u> to the initial summative assessment.*

- ***Summative Tasks:***
  - Students who are <u>absent</u> the day of a summative assessment are expected to complete the assessment within five school days of their return. Please make these arrangements with the instructor.
  - <u>Reassessment assumptions</u>:
    - All original formative work is completed BEFORE INITIAL TEST and meets the standards.
    - Additional assigned formative work is completed to standard.
      - The format of the "additional formative work" is at the discretion of the instructor.
    - The reassessment of the summative task will take place *prior* to the next summative assessment or within a reasonable timeframe established by the instructor.
    - The *format* of the reassessment is at the discretion of the instructor.

Students can boost their Maple Grove grade by scoring well on the AP exam as follows:

Score on AP exam	Course grade (will be changed if students earned less than this during the trimester)	Standards-based grading assessment score	District 279 Secondary Rubric Descriptors
5	A	4	Displays excellent quality and performs with high accuracy
4	A-	3	Displays high quality and performs with accuracy
3	B	2.67	Displays/performs with a mix of the criteria described above/below
0-2	No Impact	≤2	Displays basic, limited, or a lack of quality; performs with inconsistent, limited or lack of understanding

Course Outline

Unit 1: Economic Fundamentals (5 Lessons)

Topic I: Basic Economic Concepts Chapter 1

A. Scarcity: Define and illustrate.
B. Opportunity Cost: Define and compute.
    1. Marginal Analysis
        a. Costs and Benefits
    2. Positive and Normative economics
C. Society's Economizing Problem
    1. Scarce resources
    2. Resource Categories
D. Production Possibilities Model: Draw and Describe.
    1. Production Possibilities Table
    2. Production Possibilities Graph
    3. Law of Increasing Opportunity Cost
        a. Human Capital Formation
        b. Physical Capital Accumulation
        c. Research and Development, Technological Progress
    4. Optimal Allocation
        a. Marginal Benefit equals Marginal Cost
E. Unemployment, Growth, and the Future
    1. A Growing Economy
    2. Present Choices and Future Possibilities
        a. A Qualification: International Trade

Topic II: The Market System and the Circular Flow Chapter 2

A. Economic Systems
    1.Command and Market Systems Defined
B. Characteristics of the Market System
    1. Private Property
    2. Freedom of Enterprise and Choice
    3. Self-Interest
    4. Competition
    5. Markets and Prices
    6. Technology and Capital Goods
    7. Specialization
    8. Use of Money
    9. Active, but Limited Government
C. Five Fundamental Questions
    1. What Will Be Produced?
    2. How Will It Be Produced?
    3. Who Will Get What Is Produced?
    4. How Will the System Accommodate Change?
    5. How Will the System Promote Progress?
D. The Invisible Hand
E. The Demise of the Command System
    1. The Coordination Problem
    2. The Incentive Problem
F. The Circular Flow Model
    1. Resource/Factor Market
    2. Product Market

Topic III: Demand, Supply, and Market Equilibrium Chapter 3

A.Demand: Define and illustrate demand through schedules and graphs.

1.Examine the inverse relationship existing between quantity demanded and price. Evaluate the Law of Demand. (Ceteris Paribus)

2.Distinguish between change(s) in quantity demanded and change(s) in demand.

3.Identify and explain the variables that cause a change in demand.

4.Illustrate graphically a change in demand versus a change in quantity demanded.

B. Supply: Define and illustrate supply through schedules and graphs.

1.Examine the direct relationship existing between quantity supplied and price. Evaluate the Law of Supply. (Ceteris Paribus)

2. Distinguish between change(s) in quantity supplied and change(s) in supply.

3. Identify and explain the variables that 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 prices and quantities.

3.Interpret the effects of a price floor and price ceiling on equilibrium price and quantity.

4.Market failures: lack of competition, externalities, and public goods.

Topic IV: The United States Economy: Private and Public Sectors Chapter 4

A. Households

1. Income Receivers
2. Income Spenders

B.Businesses Population

1. Plant; Firm; Industry Distinction

C. The Public Sector: Government's Role

1. Providing the Legal Structure
2. Maintaining Competition
3. Redistributing Income
4. Reallocating Resources
5. Promoting Stability

D. The Circular Flow Model Revisited

E. Government Finance

1. Federal Level
2. State Level

Topic V: The United States in a Global Economy Chapter 5

A. Specialization and Comparative Advantage

1. Absolute v. Comparative Advantage
2. Comparative Advantage: Production Possibilities Analysis

B. The Foreign Exchange Market

1. Dollar – Yen Market
2. Changing Rates: Depreciation and Appreciation

Essential Questions

1. What are the economic goals of any society?
2. How does the production possibilities model illustrate the economic problem of scarcity, choice, and cost?
3. How does the circular flow model explain the functioning of a market economy?
4. What are the guideposts to economic thinking?
5. Why do people trade?

Key Teaching Concepts

1. Scarcity, Choice and Cost
2. Allocative, & Technical Efficiency
3. Rational Choice: MSC = MSB
4. Absolute vs. Comparative Advantage

Graphical/Mathematical Analysis

Graph a production possibility model
Explain the shapes of the production possibilities curves.
Explain how the production possibilities model shows scarcity, choice, and cost.
Interpret selected points on the production possibilities model.
Explain and show economic growth on the production possibility models
Explain and show the effects of trade on a production possibility model.
Draw and explain the components of a basic circular flow model.
Calculate opportunity cost.
Calculate comparative advantage.
Calculate terms of trade and gains from trade.

Unit 2: Measuring Economic Performance (16 Lessons)

Part 1: Macroeconomic Measurement and Basic Concepts

Topic I: Domestic Output and National Income Chapter 6

A. GDP: how is it defined? What is and is not included? Use of aggregates.

B. Measuring GDP

1. Expenditure approach [GDP = C + I + G + Xn] where:
   C = Personal Consumption Expenditures
   I = Gross Private Investment
   G = Government Consumption Expenditures and Gross Investment
   Xn = Net Exports
2. Problems with calculating GDP: Non-market transactions, distribution, kind and quality of products.

C. Other national accounts: net domestic product (NDP), national income (NI), personal income (PI), and disposable income (DI).

1. Circular Flow Model Revisited: understand its parts (product and factor markets) and how all economic activity is incorporated into its design. How can this be used to analyze intended and unintended impacts of policy or 'shocks'?

D. Nominal GDP verses Real GDP

1. Changing Nominal GDP (NGDP) to Real GDP (RGDP). How and why?
   a. Price Index
      1. CPI
      2. PPI
2. What RGDP doesn't adjust for: population, income distribution, externalities, types of production.

Topic II: Introduction to Economic Growth and Instability Chapter 7

A. Economic Growth
    1. Growth as a goal
    2. Main Sources of Growth

B. The Business Cycle
    1. The four phases of the business cycle
    2. Causation of the Business Cycle
    3. Impacts on: Durables and Nondurable's

C. Unemployment:
    1. How is Unemployment Measured?
        a. Full Employment
    2. Types of Unemployment
    3. Costs of Unemployment

D. Inflation
    1. The Meaning and Measurement of Inflation
    2. Facts of Inflation
    3. Types of Inflation
    4. Complexities of Inflation

E. Redistribution Effects of Inflation
    1. Who is Hurt by Inflation?
    2. Who is Unaffected or Helped by Inflation?

F. Does Inflation Affect Output?

Topic III: Basic Macroeconomic Relationships Chapter 8

A. The Income-Consumption and Income-Savings Relationships
    1. Consumption and Savings schedules
    2. Average and Marginal Propensities
    3. Nonincome Determinants of Consumption and Savings

B. The Interest-Rate - Investment Relationship
    1. The Expected Rate of Return vs. Real Rate of Return
    2. The Investment Demand Curve and Causes of Shifts

C. The Multiplier Effect
    1. Rationale
    2. The Multiplier and the Marginal Propensities
    3. How Large is the Actual Multiplier?

Essential Questions

1. How do economist's measure inflation?
2. What causes (and does not cause) inflation?
3. What is the trade off between unemployment and inflation?
4. What is the role of expectations in accelerating (or decelerating) inflation?

Key Teaching Concepts

Business Cycle
Circular Flow: Concept of Equilibrium
MPS, MPC
Multiplier Effect

Graphical/Mathematical

Draw and explain the components of a circular flow model; explain how the components are related to national income and GDP concepts.
Draw and Label a Model of the Business Cycle and It's Four Phases
Given a Price Index, Convert Nominal GDP to Real GDP.
Compute the Multiplier, MPS and MPC
Given data, Compute GDP by Both the Expenditures and Income Approaches

Part 2: Macroeconomic Models and Fiscal Policy

Topic I: Aggregate Expenditures Model Chapter 9

A. Simplified Model/ Closed Economy
    1. GDP = C + Ig
    2. Assumptions:
        a. Savings
        b. Planned Investment
        c. Inventory Changes

B. Adding International Trade
    1. Net Exports and Aggregate Expenditures
    2. Net Exports and Equilibrium GDP

C. Adding the Public Sector
    1. Government Purchases and Equilibrium GDP
    2. Taxation and Equilibrium GDP

D. Equilibrium Versus Full-Employment GDP
    1. Expenditure gaps
    2. Application to Inflation 1980s
    3. Application to Full-Employment Output With Large Negative Net Exports

E. Limitations of the Model

Topic II: Aggregate Demand and Aggregate Supply Chapter 10

A. Aggregate Demand

B. Changes in Aggregate Demand
    1. How Changes in C, I, G or Xn shift the AD Curve

C. Aggregate Supply

D. Changes in Aggregate Supply
    1. How Changes in Input Prices, Productivity or Legal-Institutional Environment Shift the AS Curve.

E. Equilibrium and Changes in Equilibrium
    1. Increase in AD: Demand-Pull Inflation
    2. Decrease in AD: Recession and Cyclical Unemployment
    3. Decrease in AS: Cost-Push Inflation
    4. Increase in AS: Full Employment With Price-level Stability

Topic III: Fiscal Policy, Deficits and Debt Chapter 11

A. Fiscal Policy and the AD-AS Model
    1. Expansionary Fiscal Policy
    2. Concretionary Fiscal Policy
    3. Policy Options: G or T?

B. Built-in Stability
    1. Types of Taxation
        a. Progressive
        b. Proportional
        c. Regressive

C. Evaluating Fiscal Policy
    1. Recent U.S. Fiscal Policy
    2. Budget Deficits and Projections
    3. Social Security Considerations

D. Problems, Criticisms and Complications
    1. Timing
    2. Political Considerations
    3. Crowding-out Effect

E. The Public Debt
    1. Ownership
    2. Debt and GDP
    3. Interest Charges

F. Substantive Issues
    1. Income Distribution
    2. Incentives
    3. Foreign-owned Debt

Essential Questions

1. What are the various policies used to promote national output, employment and price stability?
2. What are the different models that explain the status of the national economy?
3. How does each of the models suggest a method and strategy for dealing with national economic problems?
4. How does the AS/AD model attempt to explain the national economy?

Key Teaching Concepts

Circular Flow: Concept of Equilibrium (AS=AD + Unplanned Inventories)
AS/AD Model (Variable Price Model)
Fiscal Policy Using AS/AD Model

Graphical/Mathematical

Draw and explain an AS/AD model at various levels of unemployment.
Graph the changes in the AS/AD model given changes in SRAS, AD, and LRAS.
Graph an income expenditure model (Keynesian cross) and its relationship to AS/AD model
Graph the affects of fiscal policy decisions using the AE and AS-AD models.
Given a multiplier effect, show changes in the AE and AS-AD models.

Unit 3: Monetary Policy and Policy Mixes (19 Lessons)

Topic I: Money, Banking Chapter 12

A. Three Functions of Money
B. Components of the Money Supply
    1.M1: most narrowly defined money supply
    2.M2: adding near monies to M 1
    3.M3: adding large time deposits to M 2
C. What Backs the Money Supply?
D. The Federal Reserve and the Banking System
    1. Origins and organizational structure
    2. FOMC
    3. Fed Functions and the Money Supply

Topic II: Money Creation Chapter 13

A. The Fractional Reserve System
    1. Illustrating the Idea
B. A Single Bank Model
    1. Balance Sheet
    2. Transactions and Their Effects
C. Multiple Bank Model
    1. Loans and Money Creation
    2. The Money Multiplier

Topic III: Interest Rates and Monetary Policy Chapter 14

A. Interest Rates
    1. Demand for Money
        a. Transactions Demand v. Asset Demand
        b. Total Money Demand
    2. The Equilibrium Interest Rate
    3. Interest Rates and Bond Prices

B. Tools of Monetary Policy
    1. Open-Market Operations
        a. Buying Securities
        b. Selling Securities
    2. The Reserve Ratio
        a. Raising the Ratio
        b. Lowering the Ratio
    3. The Discount Rate
    4. Relative Importance

C. Targeting the Federal Funds Rate
    1. Expansionary Monetary Policy
    2. Restrictive Monetary Policy
    3. The Taylor Rule

D. Monetary Policy, Real GDP, and the Price Level
    1. Cause-Effect Chain
    2. Market for Money
    3. Effects of Expansionary Monetary policy
    4. Effects of Restrictive Monetary Policy
    5. Present and Future Value of Money

E. Monetary Policy: Evaluation and Issues
    1. Recent U.S. Policy
    2. Problems and Complications

Essential Questions

1. How do banks operate?
2. How does the FED promote a fully employed economy?

Key Teaching Concepts

Basic bank operations of deposits, withdrawals
Required and excess reserves.
Deposit Multiplier (1/rr)
FED operations
Affects of monetary policy on AD and national output, employment and price stability.
Monetary Policy using AS/AD Models

Graphical/Mathematical

Chart and explain what happens to excess reserves, required reserves, and lending ability when demand deposits are made by individuals
Graphically illustrate the affects on money supply and interest rate with an increase/decrease in the money supply
Given changes in the open market operations, graph the changes in Money Supply, Money Demand, and interest rates.
Graphically, compare and contrast the use of monetary policy and fiscal policy on interest rates.
Given changes in monetary policy (FED), use the AS/AD model to graph the Keynesian transmission effect.

Topic IV: Extending the Analysis Chapters 15 & 16

A. From Short Run to Long Run
    1. SRAS and LRAS
    2. Long-run Equilibrium in the AD-AS Model

B. Applying the Extended AD-AS Model
    1. Demand-pull Inflation
    2. Cost-push Inflation
    3. Recession

C. The Inflation-Unemployment Relationship
    1. The Phillips Curve
    2. Aggregate Supply Shocks

D. The Long-Run Phillips Curve
    1. Short-run Phillips curve
    2. Long-run Vertical Phillips Curve
    3. Disinflation

E. Taxation and Aggregate Supply
    1. Taxes and Incentives to Work
    2. Incentives to Save and Invest
    3. The Laffer Curve

F. Economic Growth
    1. Supply Factors
    2. Demand Factors
    3. Efficiency Factor

G. Production Possibilities Analysis
    1. Growth and production Possibilities
    2. Labor and Productivity
    3. Growth in the AD-AS Model

H. Accounting for Growth
    1. Labor Inputs Versus Labor Productivity
    2. Technological Advance
    3. Quantity of Capital
    4. Education and Training
    5. Economies of Scale and Resource Allocation
    6. Other Factors

I. Productivity Acceleration: A New Economy?

J. Is Growth Desirable and Sustainable?

Essential Questions

1. What are the various policies used to promote national output, employment and price stability?
2. What are the different combinations of fiscal and monetary policy?
3. What are the affects of using monetary policy and/or fiscal policy on interest rates, price stability, and employment and national income?

Key Teaching Concepts

Assess the impact of the following on interest rates, employment, price stability and national output:
Explain and illustrate easy money/tight fiscal policy. Explain and illustrate tight money and easy fiscal policy
Explain and differentiate between deficits and national debt.
Explain crowding out affect
Debate the issues between activist and non-activist among fiscal and monetary policy makers
Draw and explain how the Phillips Curve explains the relationship between unemployment and inflation rates.
Explain and differentiate between a short run and long run Phillips Curve
Show how the AS/AD model is similar to the Phillips Curve

Graphical/Mathematical

Graph the affects of a combined monetary and fiscal policy.
Compare effects of monetary policy, fiscal policy given differing elasticity for investment demand and/or demand for money

Compare graphically the Keynesian and Monetarist controversies concerning the use of fiscal and monetary policy
Graph the short run trade offs between inflation and unemployment (Phillips Curve)
Use an AS/AD illustration with an increase in AD to explain the movements along a Phillips Curve.
Using the Phillips Curve, graph how changes in the AS/AD model would appear on the Phillips Curve Model.
Graphically illustrate, how expectations affect the Phillips Curve model.

Unit 4: The International Economy (4Lessons)

Topic I: International Trade and Finance Chapters 35 & 36

A. Why do Nations Trade?
    1. Review Absolute and Comparative advantage
B. Supply and Demand Analysis of Exports and Imports
C. Trade Barriers
    1. Economic Impact of Tariffs
    2. Economic Impact of Quotas
    3. Net Costs of Tariffs and Quotas
D. The Case for Protectionism
    1. Critical Review of Seven Major Arguments In Favor
E. The Balance of Payments
    1. Current account
    2. Capital account
    3. International debt of the United States
F. Flexible Exchange Rates
    1.Depreciation and Appreciation
    2.Determinants of Exchange Rates
    3.Flexible Rates and the Balance of Payments
    4.Disadvantages of Flexible Rates

Essential Questions

    1. Why do nations engage in international trade?
    2. Why do nations sometimes impose restrictions on international trade?
    3. How do exchange rates affect international trade?
    4. What is the affect of international markets on the US economy in terms of price stability, employment, and economic growth?
    5. What is a trade deficit?

Key Teaching Concepts

Calculate terms of trade
Advanced arguments for projectionist policies and those for free trade.
Explain the affects of exports and imports on Aggregate demand and the international balance of trade

Graphical/Mathematical

Graph demand and supply for US currency AND demand and supply for foreign currency.
Graph the impact of an increase/decrease in net exports on AS/AD models.
Graph impact of an appreciated dollar/depreciated dollar on AS/AD
Graph the impact of tariffs