Social Science Department
Advanced Placement Macroeconomics
Syllabus 2007 - 2008

Course Objective and Overview

This Advanced Placement course is designed to improve and enhance student understanding and appreciation of the principles of economics as they apply them to an economic system as a whole. Specifically the goals are for students to understand the concepts of national income and price-level determination, as well as become familiar with methods for measuring economic performance, the financial sector, government stabilization policies, determinates of economic growth, and the international sector.

Students in this course will also improve such skills as time management, organization, studying, written communication, and the use of deductive and inductive reasoning. This course is also intended to prepare students for the Advanced Placement Macroeconomics Exam.

Course Teaching Strategies

Initial Instruction: This Course is taught at a college level through a combination of textbook readings, lecture, Socratic questioning, discussion, and the analysis of College Board multiple choice and free response questions. Assorted charts and graphs are included in instruction, both through teacher-student "calk-board" presentations along with pre-drawn charts and graphs projected onto a white board with a digital projector through a laptop computer for class discussion and analysis.

Formative Assessment: Teacher observation is used to determine the levels of student understanding so that the effectiveness of instruction can be improved and re-teaching needs can be targeted.

Summative Assessment: Formerly used Advanced Placement Free-Response Questions are assigned per lesson (when appropriate) and Objective Examinations, with graphical interpretations, are given at the end of each Unit of study. (Multiple Choice questions and Free-Response Questions, primarily taken from, but are not limited to, those given in previous Advanced Placement Macroeconomic Examinations.)

Course Assessment

At the end of each grading period (9 weeks), student grades will be compiled and measured will the following percentages designed to emulate the Advanced Placement Macroeconomics.

40 % = Seven (7) Unit Tests over 18 weeks. Each weighted equally.

30 % = 10 AP Macroeconomic Free-response questions (Question #01) over 18 weeks. Each weighted equally.
30 % = 10 AP Macroeconomics Free Response Questions (Questions #2 and #3 combined) over 18 weeks. Each weighted equally.

Primary Textbook: McConnell Brue, *Economics*, Principles, Problems, and Policies, Sixteenth Edition: Chapters #01, #02, #03, #07, #08, #09, #11, #12, #13, #14, #15, #37, #38

Supplementary Textbook: William Boyes, *Fundamentals of Economics* Chapters #01, #02, #03, #09, #10, #11, #12, #13, #14, #15, #16, and #17.

Course Objectives Outlined

Unit #01 - 2 Weeks
Basic Economic Concepts

Lesson #01: Scarcity and the Economic Question
McConnell Brue, *Economics*, Chapter #01 The Nature and Methods of Economics

- Comparing macroeconomic and microeconomics; understanding the difference between the studies of economics as a social science
- Understanding the fundamental economic problem of scarcity and unlimited wants
- Identifying and understanding the importance of the Economic Question: What, how, and for whom to produce?
- Identifying three basic types of economies: market, command, traditional; understanding how each economy answers the Economic Question: supply and demand, government, and custom, respectively.
- Identifying the three factors of production and the respective incomes they generate: land/rent, labor/wages, capital/interest
- Distinguishing between normative and positive economics
- Understanding ceteris paribus and the post-hoc fallacy
- Understanding the importance of rational behavior theory
- Distinguishing superior and inferior goods; durable and non-durable goods
- Understanding the importance of utility; understand diminishing utility

Lesson #02: Business Cycles

- Identifying the four basic business cycles: peak; recession; trough; recovery
- Recognizing the trend line of economic growth; drawing a business cycle/trend line model
- Identifying the major leading indicators used in predicting a business cycle: new home starts; income level, vendor performance; stock prices; new orders for consumer goods

- Understanding how leading Indicators can predict a coming business cycle

Lesson #03: Aggregate Demand
McConnell Brue, *Economics*, Chapter #03 Individual Markets: Demand and Supply

- Distinguishing quantity demanded from demand;
- Recognizing price as the determinate of quantity demanded.
- Identifying the determinants of demand: income; price of substitutes, price of complementary items, taste, season, and consumer expectations
- Creating a demand schedule and a demand slope on a graph
- Expressing an increase/reduction in demand via a demand shift
- Identifying the determinates of demand elasticity and inelasticity: necessity and luxury items, income effect
- Expressing (drawing) demand shifts on a classical supply and demand model (graph)
- Expressing (drawing) demand elasticity on a classical supply and demand model (graph)

Lesson #04: Aggregate Supply

- Understanding the relationship between quantity supplied and supply
- Identifying the determinants of suppliers: price, start-up costs, number of market providers; government involvement through taxation and regulation
- Identifying the determinates of supply costs: wages, rents, interest, government regulation, taxation
- Distinguishing between long run and short run supply
- Understanding the elasticity of supply; identify determinates of supply elasticity
- Expressing (drawing) supply shifts on a classical demand and supply model (graph)
- Expressing (drawing) supply elasticity on a classical demand and supply model (graph)

Lesson #05: Price

- Reviewing the relationship of price to quantity supplied and quantity demanded
- Identifying price equilibrium
- Distinguishing short run price equilibrium from long run price equilibrium
- Understanding the effect of price ceilings and price floors on shortages and surpluses
- Expressing price equilibrium on a classical supply and demand model (graph)
- Expressing short run and long run equilibrium price changes via supply/demand shifts; the application of price floors and price ceilings

Unit #02 – 1 Week
Economic Growth and Productivity

Lesson #06: The Circular Flow

McConnell Brue, *Economics*, Chapter #02 The Economizing Problem

- Understanding the circular relationship of the household, the factors market, business, and the product market; resources to inputs to production to consumption and expenditures to revenue to costs to incomes
- Identifying/Reviewing the relationship between the factors of production and the incomes they generate; recognizing the relationship between labor and wages; land and rent; capital and interest
- Distinguishing between a pure market and a regulated market
- Distinguishing between an open market and a closed market
- Recognizing the importance of velocity in relationship to a market economy; recognizing the difference between circulating currency and velocity of money and dominating impact of the latter
- Identifying/Introducing leakages and injections to circular model
- Creating circular flow charts for an open market; closed market, pure market; regulated market

Lesson #07 Productivity

- Identifying the elements of productivity: allocation efficiency, productive efficiency; comparative advantage trade; capital deepening; technological innovation; educated workforce; motivated workforce
- Defining trade-offs and opportunity costs
- Distinguishing absolute (production) advantage from comparative (production) advantage
- Recognizing the *advantages* of comparative advantage trade; recognize the economic opportunity of comparative advantage trade regardless of absolute advantage
- Factoring opportunity costs and discerning comparative advantage opportunities in contrasting economies
- Building a production possibilities frontier model; draw a production possibility graph identifying full employment and under employment
- Expressing and interpreting opportunity costs (trade-offs) on a production possibility frontier model (graph)
- Expressing economic growth on a production possibilities frontier model
- Determining full employment on a Production Possibilities Frontier Model; recognizing the correlation between the production possibilities frontier and the classical long-run supply curve

Unit #03 – 2 Weeks
Measurement of Economic Performance

Lesson #08: Gross Domestic Product
McConnell Brue, *Economics*, Chapter #07 Measuring Output and National Income

- Identifying the components of the Gross Domestic Product: consumption; investment; government spending; net exports C+I+G+(X-M)=GDP
- Understanding how the GDP (expenditure model) is tabulated/measured: the inclusion of all final goods and services created/rendered; the exclusion of all secondhand sales, intermediate products and transfer payments; recognize government transfer payments as non-production
- Identifying the failures/weaknesses of the computed GDP: the GDP's inability to reflect the underground market, the quality of goods produced; the amount of leisure time gained or lost; productions affect on the environment
- Understanding why market value prices are used to count GDP and not the number of items produced.
- Recognizing the difference between GDP and GNP (Gross National Product); factor GDP to GNP and the reverse
- Understanding the difference between nominal and real GDP
- Understanding the role of the GDP Index (Deflator) in factoring real GDP; understand how the GDP Index (deflator) is calculated)
- Translating the GDP to NDP (Net Domestic Product); understand the effect of depreciation on capital stock
- Understanding the relationship of population to GDP; understand Per Capita GDP

Lesson #09: Market Analysis
McConnell Brue, *Economics*, Chapter #09 <u>Basic Macroeconomic Relationships</u>

- Determining full employment on a Classical Aggregate Supply and Demand model
- Creating a Classical Supply and Demand Model in a recessionary cycle; creating a Classical Supply and Demand Model in an inflationary cycle
- Understanding how a recessionary or inflationary market can be self-correcting; recognizing the Neo-Classical Theory of a self-correcting economy
- Defining Potential GDP; recognizing the difference between GDP Equilibrium and Full-Employment GDP (Potential GDP)
- Recognizing a 5% unemployment rate as "full employment" (Natural Rate of Unemployment)
- Recognizing, on both the Classical Supply and Demand Model and the Keynesian Aggregate Expenditure Model, an economy in need of expansion / contraction
- Identifying the automatic stabilizers built into the regulated market; understand the role of a progressive tax rate as an automatic stabilizer.

Unit #04 – 2 Weeks
National Income and Price Determination

Lesson #10: Incomes
McConnell Brue, *Economics*, Chapter #07 <u>Measuring Output and National Income</u> (Completed)

- Understanding how to tabulate the National Income (NI)
- Understanding how to tabulate Personal Income (PI)
- Understanding the net Foreign Factor's effect on NI and PI
- Transferring NI to PI and the reverse
- Transferring PI to Disposable Income (DI)
- Transferring NI to GDP and the reverse; understanding the effect of indirect taxation; the Net Foreign Factor; undistributed corporate profits
- Transferring PI to GDP and the reverse; understand the effect of the Net Foreign Factor; undistributed corporate profits; indirect taxes
- Creating and discerning the Lorenz Curve; recognizing the economic implication of a mal-distribution of income

Lesson #11: Price Determination
McConnell Brue, *Economics*, Chapter #11 Aggregate Demand and Aggregate Supply

- Distinguishing between short run and long run supply determinates
- Understanding the implications of sticky and flexible wages/prices; recognizing the affect of downward flexible prices on an economy in recession; recognize the Keynesian argument precluding a self-correcting economy; understand the implications of inflexible downward prices and wages.
- Recognizing the relationship between the long run aggregate supply curve (LRAS) with the production possibilities frontier curve
- Recognizing and expressing a recessionary economy on a Classical Supply and Demand Model; recognizing and recreating an inflationary economy on a classical Supply and Demand Model

Unit #05 – 1 Week
Financial Sector

Lesson #12: Money and Banking
McConnell Brue, *Economics*, Chapter #13 Money and Banking

- Identifying the three levels of circulating money: M1, M2, M3
- Distinguishing between total reserves, available reserves (excess reserves), loaned funds, and invested capital; calculate new money making capabilities
- Understanding the relationship between personal savings, total reserves and loanable funds
- Understanding the relationship between loanable funds and the nominal interest rate
- Understanding the relationship between the nominal interest rate and capital investment
- Understanding the correlation between income and the demand for money and its affect on the nominal interest rate

- Identifying the determinates for money demanded including business expectations, national income, consumer expectations, international sector (introduced)

Lesson #13: Central Banking and the Interest Rates
McConnell Brue, *Economics*, Chapter #14 How Banks and Thrifts Create Money

- Identifying the structure and empowerments of the Federal Reserve Board; understanding the ability of the Federal Reserve Board to alter the money supply
- Understanding the relationship between the money market and the nominal interest rate
- Creating a money market graph and expressing the relationship between the money supply and the nominal interest rate
- Distinguishing between real and nominal interest; being able to factor nominal interest into a real interest rate
- Understanding the relationship between personal savings, availability of loanable funds, and the nominal interest rate
- Understanding the formulae for the money multiplier; calculating the money multiplier.
- Discerning the impact of the money multiplier on the money supply
- Understanding the relationship between the real interest rate and capital investment
- Recognizing the impact of the reserve requirement and the Federal Fund Rate on the availability of loanable funds
- Creating a correlating model (graphs) between the real interest rate and capital investment
- Understanding the effect of positive and negative business expectations on Investment
- Creating a Money-Market Model, adjusting interest rates relevant to changes in the money supply; distinguishing between a Money-Market Model and a Loanable Funds (Saving Deposits) Model

Unit #06 – 4 Weeks
Inflation, Unemployment, and Stabilization Policies

Lesson #14: Unemployment
McConnell Brue, *Economics*, Chapter #08 Introduction to Economic Growth and Instability

- Understanding how unemployment is measured; recognizing the criteria used for factoring the unemployment rate
- Identifying the four basic types of unemployment: frictional; structural; seasonal; cyclical
- Recognizing the long-term benefits of structural and frictional unemployment
- Recognizing the relationship between recessions and cyclical unemployment (reviewing the circular flow argument)
- Defining the Labor force; factoring the unemployment rate
- Recognizing the limitations/failures of the unemployment rate measurement

Lesson #15: Inflation

McConnell Brue, *Economics*, Chapter #08 Introduction to Economic Growth and Instability (Completed)

- Identifying and understanding how to compute the Consumer Price Index (CPI); recognizing the limitations of the CPI
- Factoring the Inflation Rate
- Recognizing how to use the inflation rate in factoring the real interest rate; real GDP
- Recognizing determinates for demand-pull inflation; recognizing determinates for cost-push inflation.
- Understanding the Phillips Curve theory; distinguishing between the short-run and long run Phillips Curve; recognizing
- Recognizing the ineffectiveness of short run policies on the long run Phillips Curve
- Recognizing the correlation between the short run Phillips argument and COLA
- Understanding the impact of positive and negative consumer/business expectations on
- Identifying the Producers Price Index (PPI); recognizing the impact of supply shocks on the price level; recognizing the causes of Stagflation

Lesson #16: Fiscal Policy
McConnell Brue, *Economics*, Chapter #12 Fiscal Policy

- Recognizing an economy in need of contraction/expansion
- Identify the fiscal policies available for expanding and contracting the economy: Government Spending (G); Personal Taxation (PT); Corporate Taxations (CT); Government Regulations
- Distinguishing between fiscal policies that affect AD and those that affect short run AS
- Understanding the MPC and the MPS
- Factoring the spending multiplier; understanding the effect of the spending multiplier on the market equilibrium
- Recognizing the limitations of government imposed imposts; the negative effects of tariffs in lieu of free trade (comparative advantage trade reviewed)
- Recognizing the affect of deficit spending on the national debt
- Recognizing the impact of Government deficient spending on capital investment (crowding out effect)
- Recognizing inflationary and a recessionary economies and applying the appropriate fiscal policies
- Creating and understanding the Laffer theory on tax-cuts and increased government revenue; understanding the reasons for the failures of its application
- Recognizing inflationary and a recessionary economies and applying the appropriate fiscal policies

Lesson #17: Monetary Policy
McConnell Brue, *Economics*, Chapter #15 Monetary Policy

- Identifying the economic tools available to the Federal Reserve for altering the money supply: Discount Rate (Federal Funds Rate); Open-Market-Operations (OMO); Reserve Requirement (RR)
- Understanding how the Federal Reserve uses monetary policy to contract and expand the economy
- Recognizing when to Federal Reserve policy affects the general money supply and when it affects the loanable funds market
- Expressing Federal Reserve policies on a money market/loanable funds model (graph)
- Understanding the relationship between the Federal Funds Rate and the prime Interest Rate
- Factoring the Money Multiplier (Review)
- Recognizing inflationary and a recessionary economies and applying the appropriate monetary policies

Lesson #18: Other Theories: Monetarism

- Understanding the Monetarists dissatisfaction with Monetary Policy; understanding the stabilizing effect of the monetary rule; differentiating between Monetary Policy and the Monetary Rule
- Distinguishing between a stable economy and a consistent economy
- Understanding the role of velocity in an expanding contracting economy, recognizing the correlation between the Aggregate Demand Model (C+I+G+[X-M]=AD) and the Monetarists velocity model MV=PQ

Unit #07 – 2 Weeks
Open Economy: International Trade and Finance

Lesson #19: The International Sector
McConnell Brue, *Economics*, Chapter #37 <u>International Trade</u>
McConnell Brue, *Economics*, Chapter #38 <u>Exchange Rates, the Balance of Payments, and Trade Deficits</u>

- Recognizing imports as leakage to the Gross Domestic Product
- Recognizing the elements of the International Exchange market; creating an flexible foreign exchange market graph
- Distinguishing between a flexible foreign exchange market and a regulated exchange market
- Identifying the determinates of Dollar appreciation and depreciation
- Understanding the relationship between dollars supplied to the money market and the value of the Dollar (Exchange Rate Determination)
- Understanding the relationship between Dollars Demanded and the value of the Dollar
- Understanding the determinates of capital inflows and outflows; recognizing its affect on the value of the dollar

- Recognizing the relationship between the interest rate, the desire for U.S. financial assets and the value of the Dollar
- Understanding how an increase in exports/imports will affect the demand for U.S. Dollars and therefore the value of the Dollar
- Understanding the relationship between net exports and the flow of money to the international exchange market
- Distinguishing between Capital accounts and Current Accounts; understanding why current and capital accounts must balance
- Expressing on a flexible international exchange market graph increases and decreases of Dollars demanded and Dollars supplied

Unit #08 2 Weeks
Review: Applying Fiscal and Monetary Policy (Mastering Free-Response Techniques)

- Recognizing inflationary and recessionary economies
- Deciding appropriate economic polices for economic dilemmas
- Applying economic policies through the creation of graphs and tables
- Analyzing and explaining policy impacts on economies

Unit #09 1 Week
Mock Examination

- Examination: An entire (previous) Advanced Placement Examination completed
- Review of Objective Question answers
- Creation of a Free-Response rubric