***AP Economics Review – Macro***

*Initial Topics*

*Basic Economic Concepts – On both AP Micro and Macro*

*The Fundamental Problem of Economics*

-Scarcity

Factors of Production

Economic Systems

Command

Market

Mixed

*Production Possibility Frontiers*

Point v. Curve Changes

*Opportunity Cost/*Trade-offs

Efficiency vs. Growth

*Comparative Advantage*

Absolute advantage

Comparative Advantage

Limits of Trade

Gains of Trade

Output vs. Input Models

Circular Flow

Product Market

Factor/Resource Market

Velocity

Leakage

Closed v. Open

Government

*Marginal Cost/Marginal Benefit*

Total cost/benefit vs. Marginal cost/benefit

Charts

Graphs

MU/$

Government Involvement in MC/MB - \*\*\*Not on the 2020 Test!

*Externalities*

*Public Goods*

*Supply and Demand – On both AP Micro and Macro*

*Demand*

Law of Demand

Diminishing marginal utility

Demand Determinants/Shifters

*Supply*

Law of Supply

Supply Determinants/Shifters

*Elasticity of Demand–* **Micro Only**

Key – *Percentage* change in price v. quantity

Elasticity Coefficient

Elasticity Determinants

Graphical look

Total Revenue Test

Cross Elasticity

Income Elasticity

Elasticity of Supply

*Market Equilibrium –* **Both tests**

Market clearing P + Q

Consumer Surplus, Producer Surplus, Dead Weight Loss

Disequilibriums

Surplus

Shortage

Government interventions

Floors/Ceilings

Taxes/Subsidies

Output Restrictions

Tariffs/Quotas

*Economic Indicators*

*Gross Domestic Product (GDP)*

Income Approach – wage + interest + rent + profit

Expenditures Approach –

C –

I –

G –

NX -

What is counted?

What not counted?

Real vs. Nominal GDP – how to deflate NGDP to RGDP

Problems with GDP?

*Unemployment*

Labor Force

Labor Force Participation Rate

Unemployed

Discouraged Workers

Underemployed Workers

Types of Unemployment

Frictional

Structural

Cyclical

Seasonal

Full Employment

GDP Gaps and the Business Cycle

Problems with using the Unemployment Rate

*Inflation*

The Consumer Price Index (CPI)

How to calculate CPI

What is “the basket?”

Inflation Rate

Impact on real wages, interest rates, etc.

R = N – expected inflation

Types of Inflation

Demand Pull

Cost Push

Expected vs. Unexpected Inflation

Inflation Winners

Inflation Losers

Problems with using inflation

*Aggregate Demand and Aggregate Supply*

Impacts on AS and AD

Consumption Function

Disposable Income

Marginal Propensity to Consume (MPC)

Marginal Propensity to Save (MPS)

Autonomous Spending

What changes MPC and MPS?

*Multiplier Effect*

Spending Multiplier (C, I, and G)

Tax Multiplier

Balanced Budget Multiplier

*Aggregate Demand*

Downsloping – Why?

Changes in AD

C + I + G + NX

*Short Run Aggregate Supply*

Upsloping – Why?

Changes in SRAS

*Long Run Aggregate Supply*

What is this?

What changes LRAS?

*Long Run Equilibrium*

What does this mean?

*Inflationary Gaps*

*Recessionary Gaps*

Stagflation

Long run self-adjustment – Classical Model

Flexible Prices and Wages

*Fiscal Policy*

Types

Expansionary

Contractionary

Tools – Two choices

Multiplier difference

Complicating Issues

Automatic Stabilizers

Crowding Out

*Phillips Curve*

Short run – Trade-off

Changes in aggregate demand

Changes in expected inflation

Long run – No trade-off

*Monetary Policy*

Financial Assets

Functions of Money

Medium of Exchange

Store of Value

Unit of Account

Measuring Money

M1

M2

Bonds

Bond prices v. interest rates

Money Market

Nominal v. Real Interest Rates

Demand for Money

Transactional Demand

Asset Demand

Supply of Money

Money Market Graph

Nominal rates

Changes in the demand for money

Changes in the supply of money

Banking System

Assets

Liabilities

Reserve Ratio

T-Charts

Required Reserves

Excess Reserves

Money Multiplier

Limitations on the creation of money through the banking system

Monetary Policy and the Fed

Tools of the Fed/Central Bank

The Reserve Requirement

The Discount Rate

Open Market Operations (FOMC)

The Federal Funds Rate

Expansionary Actions

Contractionary Actions

Connections to Aggregate Demand

Loanable Funds Market

Supply = Savings

Demand = Borrowing

Causes of changes in borrowing

Crowding out

Quantity Theory of Money

MV = PQ

Economic Growth

Real GDP v. Nominal GDP

Per capita GDP

LR Growth graphically

Productivity

Resource changes

Supply Side Economics