***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