

AP Macroeconomics Review

I. Fundamentals of Economic Analysis

Scarce Resources

Economic Resources

Economics Defined →

Land, Labor, Capital & Entrepreneurship

Scarcity

Trade-offs

Opportunity Cost

Marginal Analysis

Marginal Benefit

Marginal Cost

Production Possibilities

Production Possibilities Frontier (Curve)

Resource Substitutability

Law of Increasing Opportunity Cost

Comparative Advantage & Specialization

Absolute Advantage

Comparative Advantage

Specialization

Efficiency

Productive efficiency (anywhere on the PPF)

Allocative efficiency (one point on PPF where $MB=MC$)

Economic Growth

-increased resources

-increase in quality of resources

-technological innovation

Economic Growth on the PPF

II. Demand, Supply, Market Equilibrium, & Welfare Analysis

Demand

- Law of Demand
- Income Effect
- Substitution Effect
- Law of Diminishing Marginal Utility
- The Demand Curve

Quantity Demanded v. Demand

Determinants of Demand

- Consumer Income
- Price of Substitute Goods
- Price of Complementary Goods
- Tastes and Preferences
- Consumer Expectations
- # of Buyers

Supply

- Law of Supply
- Law of Increasing Marginal Costs
- The Supply Curve

Quantity Supplied v. Supply

Determinants of Supply

- Cost of inputs
- Technology and productivity
- Taxes or subsidies
- Producer expectations
- Price of related outputs
- # of sellers

Market Equilibrium

- Equilibrium
- Shortage
- Surplus

The Circular Flow Model

Open v. Closed

Private Sector

- Households
- Firms

Public Sector

- Government

III. Macroeconomic Measures of Performance

Accounting for Output and Income

Valuing Production

$$\text{GDP} = C + I_g + G + NX$$

What's counted?

What's not counted?

Aggregate Spending (Aggregate Expenditures)

C =

I_g =

G =

NX =

X – Exports –

M – Imports –

National Income Concepts

$$\text{GDP} = C + I_g + G + X_n = \text{Aggregate Spending} = \text{Aggregate Income (Y)}$$

Factor Payments

$$\text{GDP} = \text{wages} + \text{rent} + \text{interest} + \text{profits}$$

Real and Nominal GDP

Nominal GDP –

Real GDP-

Deflating Nominal GDP to get Real GDP

GDP deflator

Business Cycles

Expansion

Peak

Contraction

Recession

Depression

Trough

Inflation and CPI

The Consumer Price Index

Problems with CPI

Inflation

CPI v. GDP deflator

Nominal v. Real Income

Types

-Demand Pull

-Cost Push

Is Inflation Bad?

Expected Inflation

COLA

Nominal Interest Rate = real interest rate + Expected Inflation

Unexpected Inflation

Winners and Losers

Employers and Employees

Variable Income and Fixed Income

Borrowers and Savers

Unemployment

The Labor Force

Employed

Unemployed

Discouraged Workers

Self-employment

Types of Unemployment

Frictional

Seasonal

Structural

Cyclical

Full Employment