AP MACROECONOMICS/AP MICROECONOMICS

Name ____

Section 1 Guided Reading and Practice: Basic Economic Concepts

Module 1: The Study of Economics (pages 2 - 9)

1. Terms:

a. economics

b. individual choice

c. economy

d. market economy

e. command economy

f. incentives

g. property rights

h. marginal analysis

i. resources

j. land

k. labor

l. capital

m. entrepreneurship

n. scarce

o. opportunity cost

p. microeconomics

q. macroeconomics

r. economic aggregates

s. positive economics

t. normative economics

2. Explain the importance of choice in economics.

3. Compare and contrast market economies and command economies. Which economic system works better? Why do you suppose that is?

4. Explain how the concepts of marginal benefit and marginal cost function in decision-making? Why does an activity stop when marginal cost exceeds marginal benefit?

5. What makes the issue of dealing with scarcity important to economics?

6. Why is time a scarce "resource"?

7. What are the factors of production? (4 categories) Describe each. (Does "capital" mean money when economists discuss the factors of production?)

8. Think about the saying, "There is no such thing as a free lunch." Is this true? (Use the concept of opportunity cost.)

9. What is the difference between microeconomics (which we will be studying first semester) and macroeconomics? Create some examples of microeconomic questions. Create some examples of macroeconomic questions. See table 1.1 for examples.

10. What is the difference between positive and normative economics? Create an examples of positive and normative statements. (Understanding this part of economics will help you begin to understand politics.)

11. Explain the importance of “ceteris paribus” to economists.

Module 3: The Production Possibilities Curve Module (pages 16-21)

1. Terms:

a. trade-off

b. production possibilities curve

c. efficient

d. technology

2. How can the production possibilities curve (PPC) be useful?

3. Draw a correctly-labeled PPC graph. Label an “inefficient but possible” point, an “efficient” point, and a point that is “unattainable”.

4. The opportunity cost of producing something is not its “price”. Explain.

5. What is the connection between the concepts of opportunity cost and trade-off?

6. Draw a PPC graph with constant opportunity costs.

7. Draw a PPC graph with increasing opportunity costs.

8. Why do increasing opportunity costs occur?

9. Using a correctly labeled PPC graph, show economic growth.

10. What are the sources of economic growth?

Module 4: Comparative Advantage and Trade (pages 23-29)

1. Terms:

a. trade

b. gains from trade

c. specialization

d. comparative advantage

e. absolute advantage

2. Why trade?

3. What is the benefit of specialization? Explain using the excerpt from Adam Smith's book, The Wealth of Nations.

4. What is the difference between comparative advantage and absolute advantage?

5. Look at Figure 4.1. How do you calculate the opportunity cost of each product?

Section 2: Supply and Demand

Module 5: Supply and Demand: Introduction (pages 48-56)

1. Terms:

a. competitive market

b. supply and demand model

c. demand schedule

d. quantity demanded

e. demand curve

f. law of demand

g. change in demand

h. movements along a demand curve

i. substitutes

j. complements

k. normal goods

l. inferior goods

m. individual demand curve

2. What are the two components of a market?

3. Are all markets equally competitive? Explain.

4. Explain the importance of price in understanding demand for a particular good.

5. What is the difference between a demand schedule and a demand curve?

6. Draw a correctly labeled graph showing a demand curve.

7. Explain why the terms, “demand” and “quantity demanded” are actually referring to different concepts.

8. Explain the difference between a change in demand and a movement along the demand curve?

9. Draw a correctly labeled demand curve showing movement along the curve. Draw another graph next to your first showing a shift in demand.

10. What 5 factors cause demand to shift? (Determinants of demand)

11. Explain the impact the price of a substitute has on the demand for a good. (Identify the relationship.) This is called the substitute effect.

12. Explain the impact the price of a complement has on the demand for a good. (Identify the relationship.)

13. Explain the impact the change in income has on the demand for a good. (Identify the relationship.) This is called the income effect.

14. How are normal goods and inferior goods different? Create a list of normal goods and a list of inferior goods. Explain your reasoning for the items on each list.

15. Explain the impact of a change in taste (preference) has on the demand for a good. (Identify the relationship.)

16. Explain the impact a change in expectations has on the demand for a good. (Identify the relationship.)

17. Explain the impact a change in population has on the demand for a good. (Identify the relationship.)

18. What is the market demand curve? How is it derived?

Module 6: Supply and Demand: Supply and Equilibrium (pages 59-69)

1. Terms:

a. quantity supplied

b. supply schedule

c. supply curve

d. law of supply

e. change in supply

f. movements along the supply curve

g. input

h. individual supply curve

i. equilibrium

j. equilibrium price

k. equilibrium quantity

l. market-clearing price

m. surplus

n. shortage

2. Explain the importance of price in understanding supply.

3. Draw a correctly labeled supply curve.

4. Describe the relationship between price and quantity supplied.

5. What is the difference between “change in supply” and “quantity supplied”.

6. Draw a correctly labeled supply curve. Show movement along the curve and show a shift in the supply curve.

7. Explain how the following would cause a shift in the supply curve:

a. changes in input prices

b. changes in prices of related goods or services

c. changes in technology

d. changes in expectations

e. changes in the number of producers

8. How does the concept of equilibrium helps us understand price?

9. Draw a correctly labeled supply and demand graph. Put supply and demand on the same graph. Label the equilibrium point, equilibrium price, and equilibrium quantity.

10. Why do all sales and purchases in a market take place at the same price? (What are economists assuming buyers and sellers are doing?)

11. Why does the market price fall if it is above the equilibrium price?

12. Why does the market price rise if it is below the equilibrium price?

13. Draw a correctly-labeled supply and demand graph. Label the equilibrium point, equilibrium price, and equilibrium quantity. Then show a market that is experiencing a surplus. Label the price at which a surplus might occur, the quantity supplied at that price (Qs), the quantity demanded at that price (Qd), and shade in the area of surplus.

14. Draw a correctly-labeled supply and demand graph. Label the equilibrium point, equilibrium price, and equilibrium quantity. Then show a market that is experiencing a shortage. Label the price at which a shortage might occur, the quantity supplied at that price (Qs), the quantity demanded at that price (Qd), and shade in the area of shortage.

Module 7: Supply and Demand: Changes in Supply and Demand (pages 71-74)

1. Why would an increase in the price of tea increase the demand for coffee?

2. Create a correctly-labeled supply and demand graph for coffee showing the impact on price and quantity demanded when the demand curve shifts right (demand increases)

3. What is the general principle when demand increases? When demand falls? What happens to equilibrium quantity?

4. What is the general principle when supply increases? When supply falls? What happens to equilibrium quantity?

5. Create a correctly-labeled supply and demand graph showing what happens to price and quantity when supply shifts right?