

# AP Macroeconomics Syllabus 2013/2014

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**Prep period:** period 4

## Basic economic concepts (weeks 1-4)

- Scarcity and opportunity cost
- Supply and demand

## Measurement of economic performance (weeks 5-6)

- Gross domestic product
- National income
- Personal income
- Disposable income
- Expenditure approach/income approach
- Depreciation
- Subsidy payments
- Net domestic product

## Inflation and price indices (weeks 7-8)

- Inflation/deflation
- Nominal/real
- Money illusion
- (4) detrimental effects of inflation
- Benefits of inflation
- Consumer price index (cpi) defined
- Cpi calculations
- Producer price index (ppi)
- Gross domestic product deflator

## Unemployment (weeks 9-10)

- Labor force
- What does “unemployed” mean?
- Labor force participation rate
- (4) categories of unemployment
- Discouraged workers/dishonest workers
- Natural rate of unemployment

- Full employment
- Okum's law

### National income and price determination

#### Aggregate supply /aggregate demand (weeks 11-12)

- Price level vs price
- Depression or keynesian state
- Intermediate state
- Classical state
- Figure 57 page 119 draw, explain and perfectly label
- Shifting aggregate supply to the right pages 120-121
- The opposite causes as curve to shift left

#### Long-run aggregate supply (las) (weeks 13-14)

- Long-run aggregate supply curve
- Figure 59 page 121 draw, explain and perfectly label
- Classical analysis
- Say's law
- Figure 60 the capital market
- Figure 60 draw, explain and perfectly label
- Figure 61 draw, explain and perfectly label

### Keynesian analysis

#### John maynard keynes view of aggregate supply (week 15)

- "sticky" wages
- Contrast with laissez-faire view

#### Rational expectations (week 16)

- Define rational expectations
- Figure 62 draw, explain and perfectly label

#### Section review(weeks 17-18)

- Key terms page 125
- Multiple choice questions page 126
- Midterm exam

### Aggregate demand (weeks 19-20)

- Circular flow: flow of resources through the economy
- Figure 63 page 127: draw, explain and perfectly label
- Aggregate income=aggregate expenditures=gdp

### Components of aggregate demand(weeks 21-23)

- Figure 64 page 128: draw, explain and perfectly label
- Why aggregate demand has a negative slope
- Real wealth
- Foreign trade
- Interest rates
- Figure 65 page 130: draw, explain and perfectly label
- Shifting aggregate demand
- Consumption increases/investment increases/government carries out expansionary policy/net exports increase
- The opposite shifts ad curve to the left

### Equilibrium of aggregate demand and supply (week 24-25)

- Figure 66: draw, explain and perfectly label
- Understand the concept of long-run aggregate supply
- Figure 67 page 131: draw, explain and perfectly label
- Cost-push or supply-side inflation
- Stagflation
- Demand-pull inflation
- Creeping/galloping/hyperinflation

### The multiplier(week 26)

- Figure 68 panels a-b-c: draw, explain and perfectly label
- Equilibrium real gdp less than full employment output level equals a recessionary gap
- Equilibrium real gdp equals full employment output level results in full employment occurring at long-run equilibrium
- When equilibrium real gdp is greater than full employment output level, the result is an inflationary gap
- Keynesian theory compared to classical theory for dealing with “gaps.”

### Page 133: the multiplier (continued): calculating the spending multiplier (week 27)

- Marginal propensity to consume (mpc)
- Marginal propensity to save (mps)
- Multiplier =  $1/1-mpc = 1/mps$
- Understand and be able to explain all formulas on page 133

- Table 6 page 134: understand and be to explain
- Review key terms and questions page 135
- 60 multiple choice questions
- 3 free-response questions

#### Days 1 and 2: reading 136-137-138: fiscal policy (weeks 28-29)

- Fiscal policy
- Expansionary fiscal policy
- Contractionary fiscal policy
- Government spending multiplier
- Tax multiplier
- Balanced budget multiplier
- Figure 69 page 137: draw, explain and perfectly label
- Crowding out
- Partial crowding out
- Figure 70 page 137: draw, explain and perfectly label
- Summarize expansionary fiscal policy
- Summarize contractionary fiscal policy

#### Fiscal policy in an open economy (week 30)

- Understand that expansionary fiscal policy can cause a decline in net exports
- Understand that contractionary fiscal policy can cause an increase in net exports

#### The loanable funds market (week 31)

- Figure 71: draw, explain and perfectly label
- Understand the difference between the money market and the loanable funds

#### Supply side fiscal policy (week 31)

- Three primary arguments of supply-siders
- Understand three critical arguments against supply-side economics

#### Monetary policy (week 31)

- Expansionary monetary policy
- Figure 72 panels a-b-c page 140 draw, explain and perfectly label
- The effects of expansionary monetary policy
- The effects of contractionary fiscal policy

#### Money and banking (week 32)

- Definition of money
- Creation of money
- Three primary functions of money

- Medium of exchange
- Unit of account
- Store of value
- Money supply
- M1-m2-m3
- Fractional reserve banking system
- Balance sheet
- T-accounts
- Figure 73: draw, explain and perfectly label
- Know, understand and explain the 2 ways a bank can come “back into balance.”
- Money creation
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#### Tools of central bank policy (week 33)

- Three primary tools
- Money supply
- Discount rate
- Open market operations

#### Fiscal and monetary (week 34)

- Interaction of fiscal and monetary policy
- Monetarist vs. Keynesian controversy
- Liquidity trap
- Figure 75: draw, explain and perfectly label
- Understand the difference between the keynesian view and the monetarists view
- Equation of exchange
- Velocity of money
- Quantity theory of money
- Real interest rate
- Nominal interest rate
- Natural rate of interest

#### Monetarist/classical/keynesian (week 35)

- Be able to compare and contrast in detail keynes and the classics
- Review key terms
- Review multiple choice questions

#### Review week/full-length practice ap exams (week 36)

- 60 multiple choice questions
- 3 free response questions