AP Economics

Unit	Objectives	Standards	Resources
Benchmark Assessments		**NJ: 2014 SLS: 21st Century Life and Careers** **NJ: All Grades** **Career Ready Practices** **Career Ready Practices** CRP8. Utilize critical thinking to make sense of problems and persevere in solving them. **NJ: Grade 12** **9.1 Personal Financial Literacy** **Strand A: Income And Careers** 9.1.12.A.11 Explain the relationship between government programs and services and taxation. Copyright © State of New Jersey, 1996 - 2016.	
Unit 1: Basic economic concepts	**Unit 1: An Introduction to Economics (18 class periods)** **Topic I: To Underst and Basic Economic Concepts [CR1]** 1. Scarcity, choice, and opportunity cost a To **Define** factors of production: labor, capital, technology, and entrepreneurship	**ECON: Economics (2010)** **ECON: Grade 12** **Standard 1: Scarcity** **Students will understand that: Productive resources are limited. Therefore, people can not have all the goods and services they want; as a result, they must choose some things and give up others.** 1. Choices made by individuals, firms, or government officials are constrained by the resources to which they have access 2. Choices made by individuals, firms, or government officials often have long run unintended consequences that can partially or entirely offset or supplement the initial effects of the decision.	*Krugmans Economics for AP* textbook *Crash Course Economics* video ***Other resources will be used during this course when and where deemed appropriate.***

Unit 2: Supply and Demand & Equilibrium	**Topic II: Demand, Supply and price determination (market equilibrium)** 1.Demand: To **Define and illustrate** demand through schedules and Graphs. 1. **To Differentiate** between a change in quantity demanded and a change in demand. b. To **Illustrate** these changes graphically and explain in words c **To Identify** and explain the determinants of demand: price of goods, Prices of related goods, income, consumer taste, consumer Expectations, number of buyers.	**ECON: Economics (2010)** **ECON: Grade 12** **Standard 2: Decision Making** **Students will understand that:** **Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something: few choices are "all or nothing" decisions.** 1. To produce the profit-maximizing level of output and hire the optimal number of workers, and other resources, producers must compare the marginal benefits and marginal costs of producing a little more with the marginal benefits and marginal costs of producing a little less. 2. To determine the optimal level of a public policy program, voters and government officials must compare the marginal benefits and marginal costs of providing a little more of a little less of the program's services. 3. To compare marginal benefits with marginal costs that are realized at different times, benefits and costs must be adjusted to reflect their values at the time a decision is made about them. The adjustment reflects expected returns to investment compounded over time. 4. Costs that have already been incurred and benefits that have already been received are sunk and irrelevant for decisions about the future.	*Krugmans Macroeconomics for AP* Jacob Clifford's youtube video series

	2. Supply: Define and illustrate supply through schedules and graphs. a. To **Examine** the relationship between quantity supplied and price b To **Differentiate** between a change in quantity demanded and a change in demand. c. To **Identify** and explain the determinates of supply: price of goods, imput prices(land , labor, and capital), technology, producer expectations. b. To **Illustrate** these changes graphically and explain in words. 3. Equilibrium Price and Quantity: To **Define and illustrate** equilibrium	http://councilforeconed.org/resource/national-standards-for-financial-literacy/ [Interdisciplinary Standard (AP ECON).docx]	

	through schedules and graphs. [CR2] a To **Define** surpluses and shortages. b To **Define** the effects of surpluses and shortages on price and quantities. c To **Interpret** the effects of a price floor and price ceiling on equilibrium price and quantity. 1. **To Illustrate** the effect on equilibrium of changes in determinates of demand. 2. **To Illustrate** the effect on equilibrium of changers in determinates o supply.		

Explain their answer to the following question: If you were going to lend $100 to someone for a year, would you ask for more or less interest if you expected the prices of most things you buy to rise substantially over the year?

For each of the following cases, tell who would be harmed by an unexpected 10 percent inflation rate, who would benefit, and explain why: (1) Mike's retirement income is $24,000 a year; (2) Bonnie borrowed $5,000 last year and must pay it back at the end of this year; (3) John lent the $5,000 to Bonnie last year and will be paid back at the end of this year; (4) Bob and Mary bought several houses as an investment 10 years ago, and now they plan to sell them; (5) businesses selling consumer products such as clothing and food.

7. Identify assets people can buy to protect themselves financially against inflation and discuss how much time people spent with this problem in times of high inflation compared to times of low inflation.

Standard 20: Fiscal and Monetary Policy

Students will understand that:
Federal government budgetary policy and the Federal Reserve System?s monetary policy influence the overall levels of employment, output, and prices.

1. Fiscal policies are decisions to change spending and tax levels by the federal government. These decisions are adopted to influence national levels of output, employment, and prices.

2. In the short run, increasing federal spending and/or reducing taxes can promote more employment and output, but these policies also put upward pressure on the price level and interest rates. Decreased federal spending and/or increased taxes tend to lower price levels and interest rates, but they reduce employment and output levels in the short run.

		3. Over time, the interest-rate effects of expansionary fiscal policy may lead to changes in private investment spending that offsets the output and employment effects of fiscal policy. 4. The federal government's annual budget is balanced when its revenues from taxes and user fees equal its expenditures. The government runs a budget deficit when its expenditures exceed its revenues. The government runs a surplus when its revenues exceed its expenditures. 5. When the government runs a budget deficit, it must borrow to finance that deficit. 6. The national debt is the accumulated sum of all its past annual deficits and surpluses. In the long-run, inflation results from increases in a nation's money supply that exceed increases in its output of goods and services. 7. Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money and the availability of credit. Changes in the money supply can influence overall levels of spending, employment, and prices in the economy by inducing changes in interest rates charged for credit, and by affecting the levels of personal and business investment spending. The major monetary policy tool that the Federal Reserve System uses is open market purchases or sales of government securities. Other policy tools used by the Federal Reserve System include increasing or decreasing the discount rate charged on loans it makes to commercial banks and raising or lowering reserve requirements for commercial banks. **Students will be able to use this knowledge to: Anticipate the impact of federal government and Federal Reserve System macroeconomic policy decisions on themselves and others.**	

Unit 4: Aggregate Demand & Supply; National Income	**Topic 1: Introduction to Macroeconomic relationship;**
	
	The Aggregate Expenditure Model: Investment & Consumption) (chap. 8 & 9)
	
	1. **To Define** the income and consumption and income-savings relationship
	
	(Consumption function)
	
	1. **To Graph** the income and savings schedule
	2. To Introduce the marginal propensity to consume (MPC) and Marginal propensity to save (MPS)
	3. **To Compute** MPC and MPS
	4. **To Explain** the non-income determinants of consumption and savings
	    1. Expectation
	    2. Wealth
	    3. Real interest rates
		ECON: Economics (2010)
		ECON: Grade 12
		Standard 18: Economic Fluctuations
		Students will understand that:
		Fluctuations in a nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy. Recessions occur when overall levels of income and employment decline.
		
		1. An increase in GDP may reflect increases in the production of goods and services, and also increases in prices. GDP adjusted for price changes is "real GDP." Real GDP per capita is a basis for comparing material living standards over time and among different countries.
		
		2. The potential level of real GDP for a nation is determined by such things as the size and skills of its labor force, the size and quality of its stock of capital goods, the quantity and quality of its natural resources, its technological capabilities, and its legal and cultural institutions.
		
		3. A business cycle involves fluctuations of real GDP around its potential level.
			Krugman's Economics for AP
			
			Jacob Clifford's youtube channel

	5. **To Explain** the role of the Investment function
	6. **To List and define** non-interest rate determinates of investment demand (shift of the investment demand curve)
	    1. expectations
	    2. technological change
	    3. taxes
	    4. capacity utilization
	7. **Graphing** the aggregate expenditure function
	
	Topic II: **Introduction to Macroeconomic relationship;**
	
	Aggregate Expenditures Model: Government & Net exports Keynesian Model in Action (chp. 9&10)
	
	1. Adding the international trade to the aggregate expenditure model
	
	To list and **define** the determinates of export spending and import
	
	spending.
	
	1. Adding government spending and how it effects aggregate demand
		4. Fluctuations of real GDP around its potential level occur when overall spending declines, as in a recession, or when overall spending increases rapidly, as in recovery from a recession or in an expansion.
		
		5. When real GDP rises above its potential, there is a tendency for inflation to rise. When real GDP is below its potential (as in a recession), there is a tendency for inflation to fall.
		
		Students will be able to use this knowledge to: Interpret media reports about current economic conditions and explain how these conditions can influence decisions made by consumers, producers, and government policy makers.
		
		1. Gather current and historical data on nominal GDP and real GDP and describe why the annual changes may differ. Collect real GDP per capita for the United States, Japan, Peru, and South Korea and use these data to describe a relationship between real GDP per capita and material standards of living.
		
		Copyright 2013. Council for Economic Education. All Rights Reserved.
		http://councilforeconed.org/resource/national-standards-for-financial-literacy/
		Interdisciplinary Standard (AP ECON).docx	

	2. To Use a correctly labeled diagram to illustrate how the changes in determinants of AD cause the AD curve to shift.
	3. **To Explain** the autonomous spending multiplier and its effects (Chp. 8)
	4. **To Explain** the nature and causes of "recessionary and inflationary gaps" and the impact of fiscal policies
	5. **To Explain** and graph equilibrium GDP
	
	g. To **Explain** how deficit spending may not result in an increase in GDP
	
	as large as the spending multiplier would predict-i.e., crowding out
	
	Topic III: AD/AS Macroeconomic Model (chp. 10)
	
	I. Aggregate Demand
	
	1. **To Explain** the aggregate demand curve and the reasons for its shape.
	    1. How a change in price level produces a **real-balance effect**
	    2. Interest rate effect
	    3. Net export effect		

	1. **To List and define** Determinants of Aggregate Demand: Factors that shift the Aggregate Demand Curve: 1. Change in consumer spending 1. Consumer wealth 2. Consumer expectations 3. Household debt 4. Taxes 1. Changes in investment spending 1. interest rates 2. Expected returns i. expected future business conditions ii. Technology iii. Degree of excess capacity iv. Business taxes 3. Changes in government spending 4. Change in net export spending a. National income abroad b. Exchange rates c. To use a correctly labeled diagram **to illustrate** how the changes in determinants of Aggregate Demand cause the AD curve to shift II. Aggregate Supply:		

	1. **To Define** short-run Aggregate Supply (SRAS) 2. **To Differentiate** between the short-run Aggregate Supply (SRAS) and the Long-run AS (LRAS) 1. **To Define** the concept of sticky wages i. To define and explain the reasons that wages and prices might be sticky: minimum wage, lack of knowledge about the market wage, contracts, menu costs, fear of price wars. d. To **list and explain** determinants or changes of (SRAS); input prices, productivity, changes in taxes subsidies and changes in government regulation. e. To **define** long-run aggregate supply (LRAS) i. To List and explain determinants of LRAS (potential GDP): changes in factors of production including land, labor, capital (physical and human), entrepreneurship; and technology		

	f. To **Explain** the impact of policies on long-run and short-run AS. g. To **Explain** how the short-run AS curve differs between the: i. classical view (almost vertical) ii. Keynesian view (Horizontal or slopes) iii. rational expectationist view (Vertical) III. Macroeconomic Equilibrium and changes in Equilibrium: 1. Real output (GDP) and price level i. To Use the AS/AD model to explain the determination of short-run macroeconomic equilibrium ii. To Use the AS/AD model to explain the determination of long-run macroeconomics equilibrium iii.To Use the AS/AD diagram to identify the impact of changes in AD and AS 1. **To Explain** demand pull Inflation as it relates to increases in AD.		

	2. **To Explain** cost push inflation as it relates to decreases in AS 3. **To Explain** Recession and cyclical unemployment as it relates to decreases in AS 4. **To Explain** full employment as it relates to increases in AS **Topic IV: Fiscal Policy and the AD/AS Model (Chp. 11**) 1. **To Explain** expansionary Fiscal policy- increased government spending and tax reductions 2. **To Explain** contractionary Fiscal Policy-decreased gov. spending and tax Increases 3. **To Explain** the impact on discretionary fiscal policies on a recessionary gap, And on an inflationary gap 4. **To Explain** government spending patterns as it relates to politics and public debt 5. **To List** and explain types of taxation: i. progressive ii. proportional iii. regressive 1. **To Explain** federal deficits and the national debt.		

<table>
<tr><td></td><td>i. Should we worry about deficits or debt?</td><td></td><td></td></tr>
<tr><td>Unit 5: Financial Sector: Money, Banking, and Money</td><td>Topic I: The functions of Money and the components of U.S. money supply

(Chap. 12)

1. ToDefine money and the three functions of money
2. To Define stocks and bonds
3. ToList and define the measures and uses of money supply:

i. M1: most narrowly defined money supply

ii. M2: adding near money to M1

iii.M3: adding large time deposits to M2

1. What stands behind the U.S. dollar?
2. ToExplain the time value of money (present and future value)

Topic II: Banks and Creation of Money- Fractional Reserve System (Chap. 13)

1. To explain how banks create money by making loans
2. To identify how T-accounts are used for accounting purposes</td><td>ECON: Economics (2010)
ECON: Grade 12
Standard 20: Fiscal and Monetary Policy
Students will understand that:
Federal government budgetary policy and the Federal Reserve System?s monetary policy influence the overall levels of employment, output, and prices.

7. Monetary policies are decisions by the Federal Reserve System that lead to changes in the supply of money and the availability of credit. Changes in the money supply can influence overall levels of spending, employment, and prices in the economy by inducing changes in interest rates charged for credit, and by affecting the levels of personal and business investment spending.

8. The Federal Reserve System’s major monetary policy tool is open market purchases or sales of government securities, which affects the money supply and short-term interest rates. Other policy tools used by the Federal Reserve System include making loans to banks (and charging a rate of interest called the discount rate). In emergency situations, the Federal Reserve may make loans to other institutions. The Federal Reserve can also influence monetary conditions by changing depository institutions’ reserve requirements

9. The Federal Reserve targets the level of the federal funds rate, a short-term rate that banks charge one another for the use of excess funds. This target is largely reached by buying and selling existing government securities.

10. The Federal Reserve tends to increase interest rate targets when it feels the economy is growing too rapidly and/or the inflation rate is accelerating.</td><td>Krugmans Economics for AP

Jacob Clifford's youtube channel</td></tr>
</table>

Unit 6: Inflation, Unemployment, and Stabilization	**Unit 5: Inflation, Unemployment, and Stabilization (Chap. 15,16&17)** **(45 class periods)** **Topic I: Fiscal and monetary policies** 1. **To Distinguish** between short-run and long-run effects	**ECON: Economics (2010)** **ECON: Grade 12** **Standard 19: Unemployment and Inflation** **Students will understand that: Unemployment imposes costs on individuals and the overall economy. Inflation, both expected and unexpected, also imposes costs on individuals and the overall economy. Unemployment increases during recessions and decreases during recoveries.** 1. The unemployment rate is an imperfect measure of unemployment because it does not: (1) include workers whose job prospects are so poor that they	*Krugmans Macroeconomics for AP* Jacob Clifford's youtube video series

	2. **To Analyze** the impact of government spending when the economy is below full-employment, and **illustrate** on a diagram 1. **To Analyze** the impact of government spending when the economy is below full-employment, using the loan funds market diagram 1. **To Explain** and **illustrate** impact of reduction in corporate taxes in the short and long run 1. **To Explain** and **illustrate** long-run economic growth with AD/AS diagram and with PPC diagram 1. **To distinguish** between fiscal and monetary policies 2. **To explain and illustrate** the short- and long-run effects of discretionary monetary policy 3. **To explain and illustrate** the short- and long-run effects of discretionary fiscal policy 4. **To determine** appropriate fiscal policies to reduce the rate of unemployment e. **To distinguish** between recessionary gap and inflationary gap and appropriate for each	are discouraged from seeking jobs, (2) reflect part-time workers who are looking for full-time work. 2. Unemployment rates differ for people of different ages, races, and sexes. This reflects differences in work experience, education, training, and skills, as well as discrimination. 3. Unemployment can be caused by people changing jobs, by seasonal fluctuations in demand, by changes in the skills needed by employers, or by cyclical fluctuations in the level of national spending. 4. Some people are unemployed when the economy is said to be functioning at full employment. 5. Changes in total employment are an important indicator of economic performance and influence levels of real GDP 6. Unexpected inflation imposes costs on many people and benefits others because it arbitrarily redistributes purchasing power among different groups of people. Unexpected inflation hurts savers and people on fixed incomes; it helps people who have borrowed money at a fixed rate of interest. 7. Inflation can reduce the rate of growth of national living standards because individuals and organizations use resources to protect themselves against the uncertainty of future prices. **Students will be able to use this knowledge to: Make informed decisions by anticipating the consequences of inflation and unemployment.** 2. Locate data pertaining to unemployment rates for young people and minorities, and explain why unemployment rates for these groups differ from the unemployment rates for other groups in the economy.	

	f. **To explain and illustrate** the effect of government borrowing on real interest rates, using the loanable funds l. To **explain and illustrate** linkage between expansionary fiscal policy and higher interest rates 1. **To explain and illustrate** crowding out of private spending that results from higher interest rate due to government borrowing ▪ **To explain** central bank tools and their impact on money market ○ Using AD/AS model and diagrams, **explain** and **illustrate** linkages from determinants of AS and AD to a domestic recessionary/inflationary gap, fiscal and monetary policies to correct the domestic problem **Topic II: Inflation and unemployment** **1. Types of Inflation**	3. Give examples of each type of unemployment, analyze the differences among them, and identify which types cause more serious problems in the economy. 4. Identify why people might be unemployed even when the economy appears to be at full employment. 5. Using data on employment and real GDP, identify the relationship between the two. http://councilforeconed.org/resource/national-standards-for-financial-literacy/ Interdisciplinary Standard (AP ECON).docx	

	To Identify sources of demand-pull inflation 1. **To Identify** sources of cost-push inflation 2. **To Identify** impact of inflation on asset holders and debtors 3. **To Explain and illustrate** how fiscal and monetary policy can be used to mitigate inflation 4. **To Explain** the impact of inflation on nominal interest and the value of currency **2. The Phillips curve; short run versus long-run (tradeoff between Inflation & Unemployment)** a. To **explain** and illustrate the short-run Phillips curve b. To **explain** what would cause the Phillips curve to shift c. To **explain** the shape of the Phillips curve d. To explain and **illustrate** the long-run Phillips curve e. To **explain** the relationship between changes in aggregate demand and the short run Phillips curve		

	f To e**xplain** the relationship between short-run aggregate supply and the Long-run Phillips curved (i.e., leftward shift of SRAS will cause the Short-run Phillips curve to shift to the right 1. **To explain** why the Phillips curve is vertical in the long run. 2. **To role of expectations** a. **Explain** the effects of inflation expectations on the short-run Phillips curve 4**. To Compare monetary policy points of view**: a. Monetarists b. Keynesian c. classical		
Unit 7: Economic Growth and Productivity(14 class	**Unit 6: Economic Growth and Productivity(14 class periods)** **Topic I: Economic Growth and Productivity**	**ECON: Economics (2010)** **ECON: Grade 12** **Standard 15: Economic Growth** **Students will understand that:** **Investment in factories, machinery, new technology, and in the health, education, and**	*Krugmans Macroeconomics for AP* Jacob Clifford's youtube video series

Unit 8: Open Economy: International Trade and Finance	**Unit 7: Open Economy: International Trade and Finance (22 Class Periods)** **Topic I: International Trade (chp. 5, 18,19)**	**ECON: Economics (2010)** **ECON: Grade 12** **Standard 5: Trade** **Students will understand that:** **Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.**	*Krugmans Macroeconomics for AP* Jacob Clifford's youtube video series

	1. International Trade 1. Explain why nations trade at all 2. Define comparative and absolute advantage 3. Describe and evaluate the case for free trade 4. Describe and evaluate the case for protectionism **2. Balance of Payments accounts** a. Define balance of trade b. Define components of capital accounts **3. Current Account** a. Define current account b. Identify components of current account **4. Capital Account** a. Define capital account b. Identify components of capital account	1. Imports are paid for by exports, savings, or borrowing. 2. When imports are restricted by public policies, consumers pay higher prices and job opportunities and profits in exporting firms decrease. **Students will be able to use this knowledge to: Negotiate exchanges and identify the gains to themselves and others. Compare the benefits and costs of policies that alter trade barriers between nations, such as tariffs and quotas.** 1. Participate in a trading simulation where students represent people or organizations in different countries with specific goods to sell and specific goods they want to buy; explain how each nation pays for its imports with its exports. After concluding the simulation, ask students how they might acquire additional imports after they had exhausted their export revenues. 2. Analyze the political and economic implications of a proposed ban on imported products. http://councilforeconed.org/resource/national-standards-for-financial-literacy/ Interdisciplinary Standard (AP ECON).docx	

	Topic II: Foreign Exchange Market **1. Foreign Exchange Market** a. Explain the foreign exchange market b. Draw foreign exchange market diagram **2. Demand for and supply of foreign exchange** a. Define demand and supply for currencies b. Identify determinants of demand for a currency c. Identify determinates of supply of a currency **3. Exchange rate determination** a. Using a foreign exchange market diagram, illustrate how exchange rate equilibrium is determined		

	b. Explain the determination of exchange rate determination when demand and /or supply changes **4. Currency Appreciation and Depreciation** a. Explain how market forces and government policies affect the demand and supply of currency in foreign exchange markets and lead to currency appreciation and depreciation 5. **Net Exports and Capital flows** **a.** Explain how currency appreciation or depreciation affect net exports b. Explain how changes in net exports and capital flows affect the financial markets and the product (goods) markets		

	6. Links to financial goods markets **a.** Explain how changing capital flows affect exchange rates b. Explain how domestic public policy impacts international trade and international finance transactions d. Explain links from interest rates to asset demand, to currency values, to trade flows		