

AP Microeconomics

AP Microeconomics is a one-semester, college-level course. Each student is expected to take the AP Microeconomics Exam that is administered in May. Successful achievement on the AP Exam allows the student to earn three hours of college credit.

AP Microeconomics is a nine week study of economic principles concerning individual decision makers within an economy. The main areas of concentration include basic economic concepts; the nature and functions of product markets; factor markets; and efficiency, equity and role of government. Students are expected not only to know the material but also apply critical thinking skills to the units covered.

Text

Campbell R. McConnell and Stanley L. Brue, *Economics: Principles, Problems and Policies*, 16th edition, McGraw-Hill Irwin

Supplements

John S. Morton and Rae Jean B. Goodman, *Advanced Placement Economics: Microeconomics*, 3rd edition, National Council on Economic Education

Part I: Introduction to Economics (15 days)

3 quizzes, 3 FRQs, 1 Test

McConnell Brue Chapter 1: The Nature and Method of Economics

Morton: Activity 1

- Scarcity and Choice
- Opportunity Costs
- Rational Behavior
- Marginalism: Benefits and Costs
- Theoretical Economics
- ceteris paribus*
- Economic Policy
- Economics Goals
- Pitfalls to Sound Reasoning

McConnell Brue Chapter 2: The Economizing Problem

Morton: Activity 2, 3, 4, 5

- Foundations: Wants vs. Needs
- Resources: Land, Labor, Capital, Entrepreneurial Ability
- Full Employment
- Full Production
- Production Possibilities Frontier
- Law of Increasing Opportunity Cost
- Allocative Efficiency
- Unemployment and Productive Inefficiency
- Economic Growth
- International Trade
- Economic Systems: Market, Command, Transitional
- Circular Flow Model

McConnell Brue Chapter 3: Individual Markets: Demand and Supply

Morton: Activity 9, 10, 11, 12, 13, 14, 15, 16, 22

- Demand
 - Law of Demand
 - Demand Curve
 - Market Demand
 - Determinants of Demand
 - Shift vs. Slide
 - Price/Non-price factors

- Supply
 - Law of Supply
 - Supply Curve
 - Determinants of Supply
 - Shift vs. Slide
 - Price/Non-price factors
- Equilibrium
 - Surplus
 - Shortage
 - Market Clearing Price
- Rational Function of Prices
- Changes in Supply, Demand and Equilibrium
- Price Ceilings and Shortages
 - Problems
- Price Floors and Surpluses
 - Problems

McConnell Brue Chapter 4: The Market System

- Characteristics of the Market System
 - Private Property
 - Self-Interest
 - Competition
 - Markets and Prices
- Market System at Work
 - Basic Economic Questions

McConnell Brue Chapter 5: The U.S. Economy: Private and Public Sectors

- Circular Flow Model
- Business Organizations
- Government Finance

McConnell Brue Chapter 6: The United States in the Global Economy

Morton: Activity 6, 7

- U.S. and World Trade
- Specialization and Comparative Advantage
- Foreign Exchange Market
- Government and Trade
- Multilateral Trade Agreements and Free Trade Zones

McConnell Brue Chapter 20: Elasticity of Demand and Supply

Morton: 17, 18, 19, 20

- Price Elasticity of Demand
 - Coefficient
 - Elastic
 - Inelastic
 - Unit Elastic
 - Total Revenue Test
 - Price Elasticity and TR Curve
 - Determinants
 - Excise taxes
 - Minimum Wage and Rent Controls
- Price Elasticity of Supply
 - Short Run
 - Long Run
- Cross Elasticity and Income Elasticity of Demand
- Income Elasticity of Demand
 - Normal Goods
 - Inferior Goods

McConnell Brue Chapter 21: Consumer Behavior and Utility Maximization

Morton: Activity 21

- Income and Substitution Effect
- Law of Diminishing Marginal Utility
- Consumer Choice and Budget Constraint
- Utility-Maximizing Rule
- Utility Maximization and the Demand Curve

Part II: Microeconomics of Product Markets (14 days)

3 quizzes, 3 FRQ's, 1 test

McConnell Brue Chapter 22: The Costs of Production

Morton: Activity 24, 25, 26

- Economic Costs
 - Implicit and Explicit Costs
 - Normal Profit as a Cost
 - Economic/Pure Profit
 - Economic Loss
 - Short Run/Long Run
- Short Run Relationships
 - TP, MP and AP
 - Law of Diminishing Returns
- Short Run Production Costs
 - Fixed
 - Variable
 - Total
 - AFC, AVC, ATC
 - Marginal Cost and Marginal Product
 - Relationship of MC to AVC and ATC
 - Shifts of Cost Curves
- Long Run Production Costs
 - LR Cost Curve
 - Economies of Scale
 - Labor Specialization
 - Managerial Specialization
 - Efficient Capital
 - Other Factors
 - Diseconomies of Scale

McConnell Brue Chapter 23: Pure Competition

Morton: Activity 27, 28, 29, 30, 31

- Four market Models
 - Pure Competition, Pure Monopoly, Monopolistic Competition, Oligopoly
- Characteristics of Pure Competition
- Demand: Purely Competitive Seller
 - Perfectly Elastic Demand
 - AR, TR and MR
- Profit Maximization in the Short Run
 - TR and TC
 - MR and MC
 - MR=MC Rule
 - Three Characteristics of MR=MC Rule
 - Profit Max Rule
 - Loss Minimizing Rule
 - MC and Short Run Supply
 - Changes in Supply
 - Market Price and Profits

- Firm vs. Industry
- Profit Maximization in the Long Run
 - Long Run Equilibrium
 - Entry Eliminates Economic Profits
 - Exit Eliminates Losses
 - Long Run Supply
 - Perfectly Elastic Long Run Supply
 - Increasing Cost Industry
 - Decreasing Cost Industry
- Pure Competition and Efficiency
 - Productive Efficiency
 - Allocative Efficiency
 - Underallocation
 - Overallocation
 - Efficient Allocation
 - Invisible Hand

McConnell Brue Chapter 24: Pure Monopoly

Morton: 32, 33, 34, 36, 37, 38, 39

- Characteristics of a Pure Monopoly
 - Examples
- Barriers to Entry
 - Economies of Scale
 - Legal
 - Patents
 - Licenses
 - Ownership or Control of Essential resources
 - Pricing
- Monopoly Demand
 - MR less than P
 - Price Maker/Price Setter
 - Setting Price
 - MR=MC Rule
 - Supply Curve: None
 - Total vs. Unit Profit
 - Loss by Monopolist
- Economic Effects of Monopoly
 - Price, Output and Efficiency
 - Income Transfer
 - Economies of Scale
- Price Discrimination
 - Conditions
 - Examples
 - Outcomes
- Regulated Monopoly
 - Socially Optimal Price: $P=MC$
 - Fair Return Price: $P=ATC$
 - Dilemma of Regulation

McConnell Brue Chapter 25: Monopolistic Competition and Oligopoly

Morton: Activity 40, 41, 42

- Characteristics of Monopolistic Competition
 - Demand Curve
 - Short Run Profit/Loss
 - Long Run Normal Profit
- Monopolistic Competition and Efficiency
 - Productive/Allocative Efficiency
 - Excess Capacity

- Characteristics of Oligopoly
 - Behavior
 - “Game Theory”
 - Collusive Tendencies
 - Incentives to Cheat
- Oligopoly Models
- Kinked-Demand Theory
 - Noncollusive Oligopoly
- Cartels and Collusion
 - OPEC
 - Price Leadership
- Oligopoly and Efficiency

Part III: Microeconomics of Resource Markets (10 days)

2 quizzes, 2 FRQs, 1 Test

McConnell Brue Chapter 27: The Demand for Resources

Morton: Activity 43, 44, 45, 46, 47

- Significance of Resource Pricing
- Marginal Productivity Theory of Resource Demand
 - Derived Demand
 - Marginal Revenue Product
 - Rule for Employing Resources
 - $MRP=MRC$
 - MRP as Resource Demand Schedule
 - Resource Demand under Imperfect Product Market Competition
 - Market Demand for a Resource
- Determinants of Resource Demand
 - Product Demand
 - Productivity
 - Price of Other Resources
- Elasticity of Resource Demand
- Optimal Combination of Resources
 - Least Cost Rule
 - Profit Maximizing Rule
- Marginal Productivity Theory of Income Distribution

McConnell Brue Chapter 28: Wage Determination

Morton: Activity 48, 49

- Labor, Wages and Earnings
- Level of Wages
 - Productivity
 - Real Wages
 - Growth
- Perfectly Competitive Labor Market
 - Market Demand
 - Market Supply
 - Market Equilibrium
- Monopsony
 - Supply Curve
 - MRC/Wage Rate
 - Equilibrium Wage
 - Examples
- Union Model
- Minimum Wage Controversy
- Wage Differentials
- Pay for Performance

McConnell Brue Chapter 29: Rent, Interest and Profit

Morton: Activity 50, 51

- Economic Rent
- Interest
 - Loanable Funds
- Interest Rates
- Economic Profit

Part IV: Microeconomics of Government (6 days)

1 quiz, 1 FRQ, 1 Test

McConnell Brue Chapter 30, Government and Market Failure

Morton: Activity 52, 54, 55

- Public Goods
- Externalities
 - Spillover Costs
 - Spillover Benefits
 - Marginal Social Benefit
 - Marginal Social Costs
- Subsidies
- Private Goods

McConnell Brue Chapter 31, Public Choice Theory and the Economics of Taxation

Morton: Activity 56, 59, 60

- Government Failure
- Apportioning the Tax Burden
 - Benefits Received versus Ability to Pay
 - Progressive, Proportional and Regressive Taxes
- Tax Incidence and Efficiency Loss
 - Elasticity and Tax Incidence
 - Efficiency Loss of a Tax
 - Probable Incidence of U.S. Taxes
 - U.S. Tax Structure