

## 2023 Summer Assignment AP Macroeconomics

*Your success in this class and on the AP test hinges on three things: being familiar with the language of the discipline, being able to depict those terms and concepts graphically, and being able to apply those terms and concepts to real world situations. Your summer assignment is built around that triad of skills.*

**Skill 1: Building Vocabulary.** Economics will be a completely new language to many of you. In order to become conversant with the language of the field, I want you to memorize the meaning of the 30 or so terms listed on page 2 of this assignment. This is just a small sample of the terms you will need to know for the course but learning them now will allow you to hit the ground running in August. You can use [this copy of the textbook glossary](#) or on-line resources to define these terms. However, if you use on-line resources, be sure you have found the specific macroeconomic meaning of the word. (For example, contrary to popular use, capital does not mean “money”). You will take a quiz on the first day of class that tests your understanding of many of these terms.

**Skill 2: Graphing.** There are 6 or 7 graphs (or what economists call “models”) that you need to know for the AP test. Commit two of them to memory now so as to ease the burden during the course. The two models can be found on pages 2 and 3 of this assignment. Again, you will take a quiz on the first day of class that tests your knowledge of these models. (You may have to draw them in their entirety, or you may have to assign missing labels).

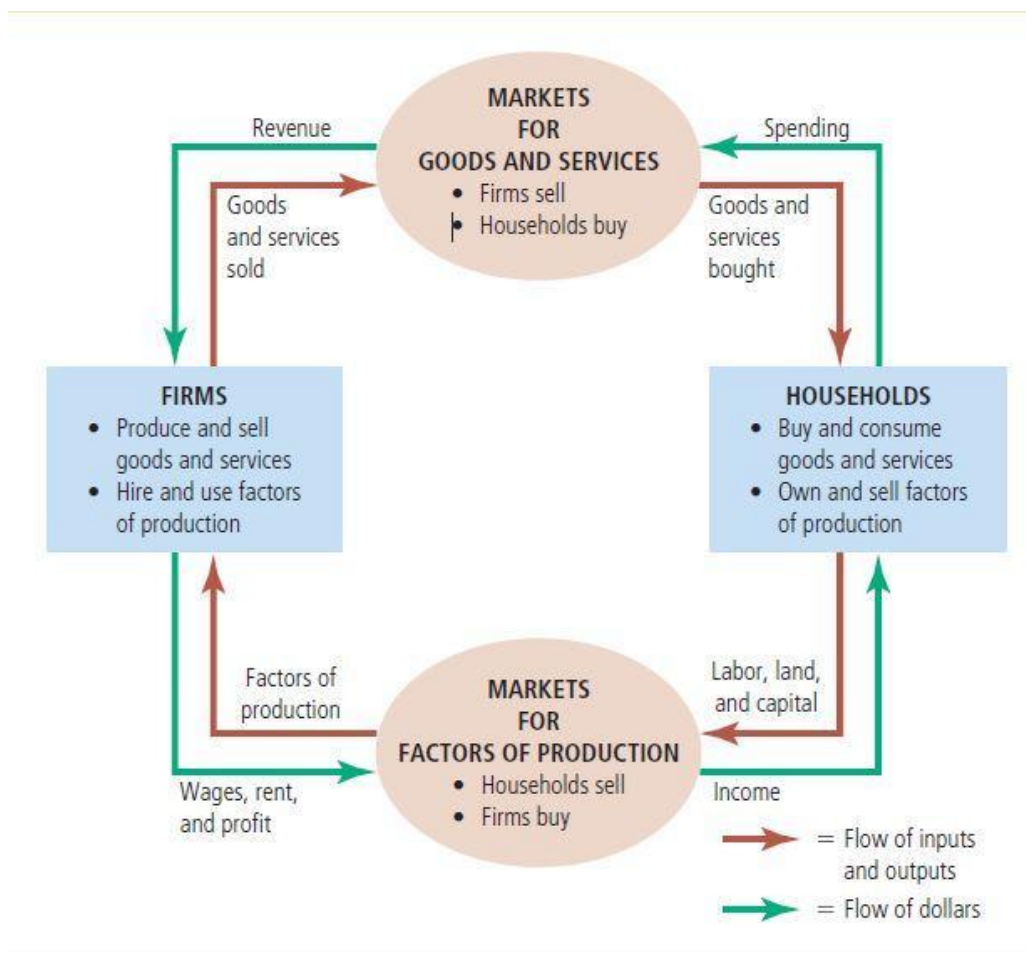
**Skill 3: Real World Application.** What effect does a rise in the value of the dollar relative to the euro have on US net exports? What is the impact of an increase in the CPI for people on fixed incomes? How does a change in interest rates affect consumption and investment? These are the kinds of questions that you’ll be asked on the AP test. They are questions that require you to go beyond a simple textbook definition of a term and think about how economic concepts apply to the real world. In order to ramp-up your understanding of how all the component parts of the economy interact in the real world you are going to analyze four economic news articles. See page 4 for the specifics on this part of the assignment.

**Skill 1: Building Vocabulary.** Define and commit to memory the following terms:

Appreciation, depreciation, substitute, complement, capital, investment, budget deficit, budget surplus, frictional unemployment, structural unemployment, cyclical unemployment, efficiency, equity, crowding out, fiscal policy, monetary policy, inferior good, normal good, GDP, nominal GDP, real GDP, recession, inflation, stagflation, scarcity, utility, opportunity cost, net exports, factors of production, free market economy, command economy, mixed economy.<sup>1</sup>

**Skill 2: Graphing.** Study the two models below and be prepared to replicate or label missing parts.

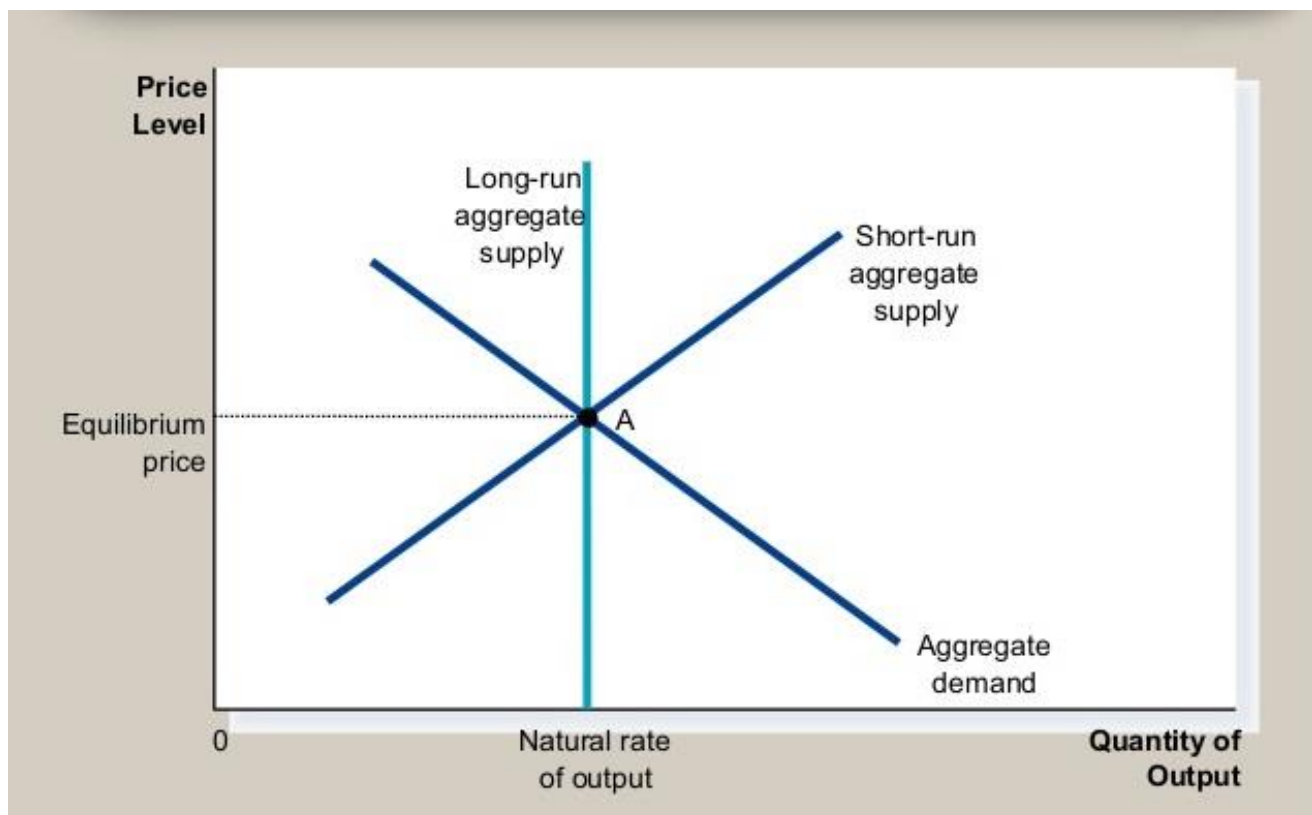
### The Circular Flow Model



<sup>1</sup> You can make flash cards or lists or do whatever kind of vocab drill works for you. I will not be collecting flashcards. Evidence that you have drilled will be demonstrated on your day 1 quiz.

The diagram above is a schematic representation of the organization of the economy. Decisions are made by households and firms. Households and firms interact in the markets for goods and services (where households are buyers and firms are sellers) and in the markets for the factors of production (where firms are buyers and households are sellers). The outer set of arrows shows the flow of dollars, and the inner set of arrows shows the corresponding flow of inputs and outputs.

### The Aggregate Demand/Aggregate Supply Model



Economists use the AD/AS model to analyze economic fluctuations. On the vertical axis is the overall (or aggregate) level of prices in the economy. On the horizontal axis is the economy's total output of goods and services, also known as Real GDP (or RGDP). The SRAS curve is always upward sloping; the AD curve is always downward sloping; and the LRAS curve is always vertical. The point at which SRAS and AD intersect is called equilibrium price and output. The point at which LRAS intersects the X axis is called the NRO. It is important to note that these three lines don't always intersect. It is possible for LRAS to be to the right or to the left of Point A. In the former case, this would indicate a recession. In the latter case, it would indicate an inflationary gap.

**Skill 3: Real World Application.** Your news article assignment is as follows: Choose a topic from the list below to follow for the summer. Search for articles related to this concept in reputable news sources.<sup>2</sup> Select an article that is at least 700 words long. It can be web-based or an actual newspaper/magazine article.

1. Economic Growth/GDP
2. Unemployment
3. Business Decisions
4. Inflation/Prices
5. National Debt or Deficit
6. Government Intervention in the Economy
7. Taxes

Starting the week of July 17<sup>th</sup>, you must have one article dated from each of the following weeks: July 17, 24, 31, and August 7.<sup>3</sup>

Once you find your article complete the following questions:

1. Who is being affected? How are they being affected?
2. What, if any, action is being taken to correct the situation? And by whom?
3. How does this article relate to the principles articulated in the Handy Guide to Economics attached at the end of this packet? (For example, are people/governments behaving in a rational, predictable way, are the incentives in line with the desired outcomes, etc.).
4. What are your thoughts/opinions/solutions about the situation? What would you do?

Your responses can be typed or (legibly) handwritten. Attach a copy of each article to each of your write-ups. When citing the article, use MLA format. The write-up should be  $\frac{3}{4}$  of a page in length.

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<sup>2</sup> This includes journals like *The Economist*, *The Wall Street Journal*, *The New York Times*, *The Washington Post*, *Bloomberg News*, *Time*, *Newsweek*, *The Atlantic* and comparable newspapers and magazines. It does not include *Buzzfeed*, *Yahoo News*, *The Daily Kos*, *Breitbart News* and other sensational or ideologically slanted sources. Also, no blogs of any kind.

<sup>3</sup> I am deliberately requesting that you wait till mid-July to start so that the news you track is not out of date by the time school starts; and I am deliberately requesting that the articles be spaced out in time so that you can track changes in your chosen topic over time.

## HANDY GUIDE TO ECONOMICS

*Like all academic disciplines, economists make assumptions about how the world works and how humans behave. Here is a list of assumptions that economists make about the world. It is interesting to think about how these assertions might be flawed, and I hope we have a chance to discuss that. Nevertheless, since these are the building blocks of the discipline you need to be intimately familiar with them. Keep this guide throughout the year, as it gives you a snapshot of how economists view the world.*

### **1. People choose to do the things they think are best for them.**

- a. We live in a world where we can't have everything we want.
- b. Resources, goods, services, time, and money are scarce, so we have to make choices.

### **2. Choices have costs.**

- a. When we choose something, we give up the opportunity to have something else. It is the inevitable nature of choice.
- b. It is as important to examine what we forgo as it is to think about what we will get if we choose one alternative over another.

### **3. People respond in predictable ways.**

- a. Rational people seek positive rewards.
- b. They also seek to avoid negative consequences.

### **4. People create economic systems that influence choices and incentives.**

- a. A society's economic system organizes the production, distribution, and consumption of goods and services.
- b. How people work together in the system is governed by both written and unwritten
- c. When the rules change incentives change; when incentives change choices change.

### **5. Voluntary trade creates wealth.**

- a. People tend not to enter into transactions that they believe will make them worse off rather than better off.
- b. People can produce more in less time by concentrating on what they do best.
- c. Specialization based on comparative advantage combined with voluntary trade means there will be more total output.

### **6. The consequences of choices lie in the future.**

- a. We cannot change the past, but we can influence the future.
- b. Every decision we make is based on a prediction of what the costs and benefits of that choice will be.
- c. The more information we have about alternatives the better our predictions should be.