

AP Macroeconomics Summer Assignment

Over the summer you will be required to complete a summer assignment in order to prepare for the AP Macroeconomics course. The assignment is as follows:

- 1. You will be required to read, *Naked Economics: Undressing the Dismal Science*, by Charles Wheelan. The book can be found at any local bookstore like Barnes & Noble or online at www.amazon.com**
- 2. You will have a 20 question quiz covering *Naked Economics* on the 1st day of school (20 points)**
- 3. Below is a study guide that is intended to help you in your reading.**
- 4. You will also be required to provide a 3-4 sentence explanation/definition for the 10 concepts below that are going to be fundamental to your understanding of AP Macroeconomics.**

Key Macro Concepts

- 1. Aggregate Demand**
- 2. Aggregate Supply**
- 3. Fiscal Policy**
- 4. Monetary Policy**
- 5. Open Market Operations**
- 6. Money Market**
- 7. Loanable Funds Market**
- 8. Phillips Curve**
- 9. Unemployment (include the 4 types)**
- 10. Inflation**

“Naked Economics” Study Guide

The following reflects the major areas of Naked Economics from which questions will be taken. **This is not intended as shortcut around reading the entire book**, but rather is meant to help you concentrate your final preparation for the Naked Econ exam.

Chapter 1 - The Power of Markets

Market allocation
Assume rational utility-maximizers
Opportunity costs
Profit max
Prices allocate resources
Barriers to entry
Market price, pricing decision & price discrimination
Lessons of markets

Chapter 2 - Incentives Matter

Wrong incentives lead to undesirable outcomes
Principal-agent problem
Prisoner's dilemma
Creative destruction
Tax and govt program disincentives

Chapter 3 – Government and the Economy

Externalities
Government solutions to externalities
Government makes market economy possible – rights, laws regulations
Public goods
Redistribution

Chapter 4 – Government & the Economy II

Government inefficiency
Government allocation vs. private allocation
Effects of regulation
Effects of taxation
Summary

Chapter 5 – Economics of information

Adverse selection
Firm screening
Branding provides information
Branding versus commodities
Signaling mechanisms

Chapter 6 – Productivity and Human Capital

Human capital
Job creation
Effects of human capital on standard of living
Productivity
Income inequality

Chapter 7 – Financial Markets

Purposes of financial instruments
Efficient markets & index funds
Investment guidelines

Chapter 8 – The power of Organized Interests

Interest groups & politicians' incentives
Some regulations benefit business
Tyranny of the status quo

Chapter 11 – Trade and Globalization

Benefits of trade
Comparative advantage & specialization
Losers from trade
Protectionism
Trade raises real income
Trade benefits for poor countries
Cultural homogenization
Sweatshops