

***Thank you for downloading your free lesson.***

If you'd like more lessons like these, you can get them by purchasing ***Advanced Placement 4th Edition: Macroeconomics Teacher & Student Manual*** in paperback and/or e-book version:

**<http://bit.ly/2mtA2ob>**.

Receive a special **20% discount** by using the code "**Download**" at check-out. This discount cannot be combined with any other offers and/or discounts.

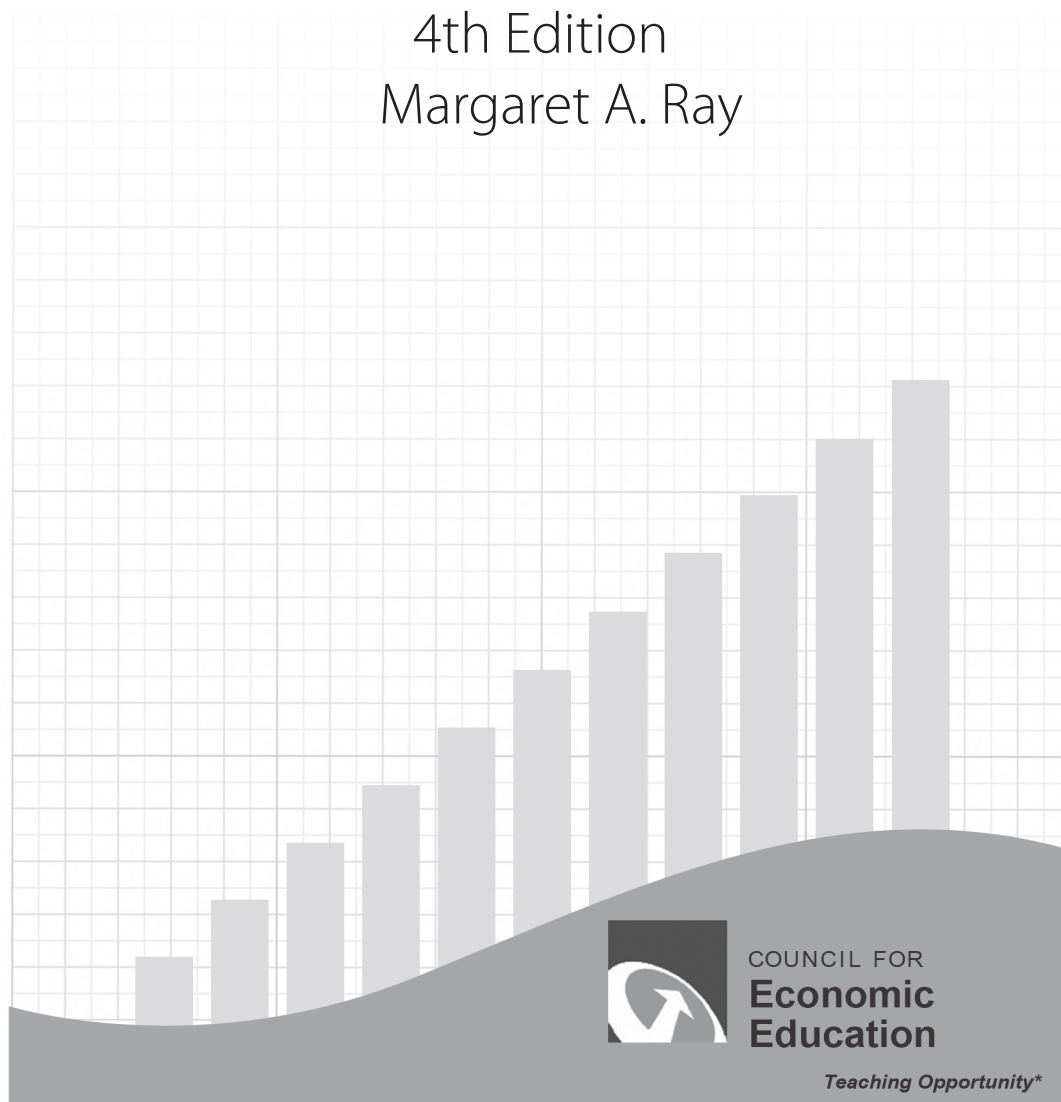


To learn more about the Council for Economic Education's mission visit: **[www.councilforeconed.org](http://www.councilforeconed.org)**.

# ADVANCED PLACEMENT ECONOMICS **MACROECONOMICS**

## Teacher Resource Manual

4th Edition  
Margaret A. Ray



Unit 1 focuses on basic economic concepts, including the framework of demand and supply in a competitive market. These concepts account for 8–12 percent of the Advanced Placement (AP) Macroeconomics Exam. More importantly, if students do not understand these concepts, they will have a difficult time throughout the course.

The most important introductory concept is scarcity. In any economy, scarce resources and unlimited wants result in the need to make choices. Students must understand scarcity, opportunity cost, and trade-offs. They should be able to illustrate these concepts on a production possibilities curve (PPC).

A key part of a macroeconomics course focuses on how specialization and exchange increase the total output of goods and services. Students must be able to differentiate between absolute advantage and comparative advantage. Comparative advantage is the key to specialization and trade. Be certain that students understand the difference between input and output examples of comparative advantage.

Unit 1 introduces students to the market forces of demand and supply. It is critical for their success on the AP Macroeconomics Exam that students understand how demand and supply determine the market price and quantity, and how changes in demand and supply affect the market equilibrium. Much of the material in the AP Macroeconomics course requires students to understand the concepts of demand and supply.

## The Lesson Planner

**Lesson 1** The Economic Way of Thinking; Activity 1-1 and Visual 1-1

**Lesson 2** Scarcity, Opportunity Cost, and Production Possibilities Curves; Activity 1-2 and Visual 2-2

**Lesson 3** Absolute Advantage and Comparative Advantage, Specialization, and Trade; Activity 1-3 and Visuals 1-3 and 1-4

**Lesson 4** Understanding Demand; Activities 1-4 and 1-5, and Visuals 1-5 and 1-6

**Lesson 5** Understanding Supply; Activities 1-6 and 1-7, and Visuals 1-7 and 1-8

**Lesson 6** Equilibrium Price and Quantity, Interrelation of Markets; Activities 1-8 and 1-9, and Visuals 1-9 and 1-10

**Lesson 7** The Business Cycle: Introduction to Macroeconomic Indicators; Activity 1-10 and Visual 1-11

## Practice Free Response Questions (FRQs)

The supply and demand model is covered in the multiple-choice section of the Advanced Placement (AP) Macroeconomics Exam. This model is the foundation for questions about macro-related markets (e.g., the loanable funds market, the money market, foreign exchange markets) throughout the multiple-choice and free-response sections of the AP Macroeconomics Exam. Problems for students with questions related to these models are identified in later units.

The following FRQ and grading rubrics that can be used with each unit of the *Advanced Placement Economics: Macroeconomics* resource manual are available at AP Central on the College Board Web site: <http://apcentral.collegeboard.com>

**2008**              Question 3: production possibilities curve; comparative advantage



## Additional Resources

To download visuals for each lesson and to find related material, visit <http://www.councilforeconed.org/ap-economics>

## The Economic Way of Thinking

### Introduction and Description

AP Economics has many details that can confuse students. Students need a framework to organize these details. This lesson acquaints students with basic economic concepts and methodology. It begins with some key economic ideas that represent a new way of looking at the world. The lesson ends with a test of economic myths that should get students' attention. This exercise also gives the teacher a way of reinforcing the economic concepts taught at the beginning of the lesson.

### Objectives

1. Define *scarcity*.
2. Define *opportunity cost*.
3. Define the *economic way of thinking*.
4. Apply *scarcity* concepts to a variety of economic and noneconomic situations.

### Time Required

One class period or 45 minutes

### Materials

1. Activity 1-1
2. Visual 1-1



### Bell Ringer

Have you ever been treated to a free lunch? What do economists mean when they say, "There is no such thing as a free lunch"? Explain the TINSTAFL Principle, and have students give examples of this principle in their own lives.



**Teacher Alert:** Be sure students understand what "marginal" really means. Reinforce the difference between "marginal" and "total" frequently

throughout your course. Economists work on the *margin* to maximize *total* concepts such as total profit, total utility, and total surplus.

### Procedure

1. Display Visual 1-1 and discuss the economic way of thinking. Here are some discussion ideas for each point on the visual.

#### ■ Everything has a cost.

This is the basic idea of the TINSTAFL Principle. It means that every action costs someone time, effort, or lost opportunities to do something else. Introduce the term *opportunity cost* here. Stress the concept that people incur costs when making decisions, even when people appear to pay nothing. Help students recognize that the true cost of a decision is measured in foregone alternatives rather than in dollars.

#### ■ People choose for good reasons.

Because of scarcity, people always face choices, and they should choose the alternative that gives them the most advantageous combination of costs and benefits. You might stress here that if people have different values, they may make different choices. This might be a good place to discuss *normative* versus *positive economics*. Economists tend to be tolerant because they realize people choose for good reasons.

#### ■ People gain from voluntary trade.

People trade when they believe the trade makes them better off. If they expect no benefits, they don't trade. Part of the AP Macroeconomics course focuses on international trade. However, once again it is people, not countries, that trade. A market system is about voluntary trade. Economics

is about voluntary trade between parties that respond to incentives.

■ **Economic thinking is marginal thinking.**

*Students must understand the fact that marginal choices involve the effects of additions and subtractions from current conditions. (Should I study another hour for my economics exam? Should I work another hour this weekend?)* Marginal thinking will be stressed in Units 3 and 4, where the theories of the firm and factor markets are discussed. It is important that marginal decision making is discussed in every unit.

■ **The value of a good or service is affected by people's choices.**

Goods and services do not have intrinsic value; their value is determined by the preferences of buyers and sellers. Because of this, trading moves goods and services to higher-valued uses. This is why trading is so important. The price of a good or service is set by supply and demand.

■ **Economic actions create secondary effects.**

Good economics involves analyzing secondary effects. For example, rent controls make apartments more affordable to some consumers, but they

also make it less profitable to build and maintain apartments. The secondary effect is a shortage of apartments and houses for rent.

■ **The test of a theory is its ability to predict correctly.**

Students will discuss many theories in an AP Economics course. All these theories have simplifying assumptions. However, the proof of the pudding is in the eating. If the theory correctly predicts the consequences of actions, it is a good theory. Nothing is “good in theory but bad in practice.”

2. Tell students that they are going to take a brief quiz. Have students turn to Activity 1-1 in the student resource manual. Give them a few minutes to answer the questions.
3. When everyone is finished, either poll students on their answers or simply announce that all the answers are false. Some students will think this is a cheap trick.
4. Discuss the answers, and as you do, explain some of the basic laws of economics. Economics is the study of human behavior, and principles have been developed to explain this behavior.

You are laying the foundation for your students' understanding of the economic way of thinking!

## The Economic Way of Thinking

- Everything has a cost.
- People choose for good reasons.
- People gain from voluntary trade.
- Economic thinking is marginal thinking.
- The value of a good or service is affected by people's choices.
- Economic actions create secondary effects.
- The test of a theory is its ability to predict correctly.

- Scarcity exists because we have limited resources and unlimited wants. No society has ever had enough resources to produce all the goods and services its members wanted.
- Goods and services are produced from resources. These resources—land, labor, capital, and entrepreneurship—are limited.
- Scarcity requires people to make choices. If we use scarce resources for one purpose, we cannot use them for another.
- Opportunity cost is the forgone benefit of the next best alternative when resources are used for one purpose rather than another.
- Because of scarcity, every decision has an opportunity cost.
- Economic costs take account of the opportunity cost of doing one thing rather than another.
- Economic costs include explicit costs and implicit costs. Explicit costs are expenditures for something. Implicit costs are the opportunity costs of using your own resources rather than selling them to someone else. Both implicit and explicit costs are opportunity costs.
- Using free goods does not involve opportunity cost because free goods are available in unlimited quantities.
- Economics is concerned with marginal decision making. In economics, “making decisions at the margin” is very important. Marginal choices involve the effects of additions and subtractions from the current situation. We compare the marginal benefit of an extra unit of an activity with that unit’s marginal cost.
- A production possibilities curve can be used to illustrate scarcity, choice, and opportunity cost graphically.
- The slope of a production possibilities curve shows the opportunity cost of producing another unit of one good in terms of the amount of the other good that must be given up.
- Because resources are scarce, using them efficiently allows us to get the most from them. Efficiency is increased through specialization and trade. Economists use the concept of comparative advantage to explain why trade takes place between countries and between individuals. This concept is based on the differences in producers’ opportunity costs of producing goods and services.
- The law of comparative advantage shows how everyone can gain through trade.
- Economic theory is useful in analyzing and understanding the world around us.
- The test of an economic theory is its ability to predict correctly the future consequences of economic actions.
- The broad social goals of a society influence decisions about how best to use resources.
- Markets bring together buyers and sellers of a good or service.
- The law of demand states that buyers will want more of an item at a low price than at a high price, other things being equal.
- The law of supply states that sellers will provide more of an item at a high price than at a low price, other things being equal.
- The equilibrium price is the price at which the quantity demanded of an item equals the quantity supplied. That quantity is called the equilibrium quantity.
- Shifts in the market demand and supply curves result in new values of the equilibrium price and quantity. Understanding what causes shifts in the



# 1 Macroeconomics

## KEY IDEAS (CONTINUED)

- demand and supply curves is an important part of knowing how a market operates.
- There are three important goals for the macroeconomy: full employment, price stability, and economic growth.
  - A business cycle describes the ups and downs of economic activity over a period of years.
  - The phases of the business cycle are expansion (recovery), peak, contraction (recession), and trough.

## *Do You Think Like an Economist?*

Circle T for *true* or F for *false* in the statements that follow.

- |   |   |  |
|---|---|--|
| T | F | 1. Because it is desirable, sunshine is scarce.  |
| T | F | 2. Because it is limited, polio is scarce.   |
| T | F | 3. Because water covers three-fourths of the earth's surface and is renewable, it cannot be considered scarce.               |
| T | F | 4. The main cost of going to college is tuition, room, and board.  |
| T | F | 5. If mass transportation fares are raised, almost everyone will take the trains anyway.                                     |
| T | F | 6. You get what you pay for.   |
| T | F | 7. If someone makes an economic gain, someone else loses.  |
| T | F | 8. If one nation produces everything better than another nation, there is no economic reason for these two nations to trade. |
| T | F | 9. A nonregulated monopoly tends to charge the highest possible price.   |
| T | F | 10. A business owner's decision to show more care for consumers is a decision to accept lower levels of profits.             |