**AP MACROECONOMICS – UNIT 1 REVIEW**

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| **ECONOMICS –**  **A SOCIAL SCIENCE CONCERNED WITH THE EFFICIENT USE OF SCARCE RESOURCES TO FULFILL SOCIETIES UNLIMITED ECONOMIC WANTS.** |
| **MACROECONOMICS –**  **THE STUDY OF THE WHOLE OR ENTIRE ECONOMY**  **EXAMPLES:**   * **GDP** * **AGGREGATE EXPENDITURES** * **INFLATION** * **DEFLATION** * **MONETARY POLICY** * **FISCAL POLICY** |
| **MICROECONOMICS –**  **THE STUDY OF INDIVIDUAL PARTS OF THE ECONOMY**  **EXAMPLES:**   * **INCOME OF A PARTICULAR HOUSEHOLD** * **REVENUE OF A PARTICULAR BUSINESS** * **ELASTICITY OF SUPPLY & DEMAND** * **COST OF PRODUCTION** * **MONOPOLIES, OLIGOPOLY** * **PURE COMPETITION, MONOPOLISTIC COMPETITION** |
| **FACTORS OF PRODUCTION**  **LAND – RENT**  **LABOR – WAGES**  **CAPITAL – INTEREST**  **ENTREPRENEURSHIP ABILITY - PROFIT** |
| **LIMITED RESOURCES ARE SCARCE RESOURCES** |
| **SCARCITY EXISTS BECAUSE ECONOMIC WANTS ARE GREATER THAN AVAILABLE PRODUCTIVE RESOURCES** |
| **MARGINAL –**   * **EXTRA** * **ADDITIONAL** * **CHANGE-IN** |
| **CETERIUS PARIBUS –**   * **OTHER THINGS EQUAL ASSUMPTION** |
| **DIRECT, POSITIVE RELATIONSHIP BETWEEN TWO VARIABLES:**   * **UPSLOPING LINE** * **BOTH VARIABLES ARE MOVING IN THE SAME DIRECTION** |
| **INVERSE, NEGATIVE RELATIONSHIP BETWEEN TWO VARIABLE:**   * **DOWNSLOPING LINE** * **ONE VARIABLE MOVING UP, AND THE OTHER VARIABLE MOVING DOWN** |
| **CAPITAL –**  **TOOLS, MACHINES, EQUIPMENT, FACTORIES USED TO PRODUCE PRODUCTS** |
| **SCIENTIFIC METHOD –**  **HYPOTHESIS ----- THEORY ------ LAW/PRINCIPAL/MODEL** |
| **HUMAN CAPITAL –**  **THE EDUCATION AND TRAINING A WORKER RECEIVES TO BE PRODUCTIVE ON THE JOB** |
| **OPPORTUNITY COST –**  **THE MOST DESIRABLE ALTERNATIVE GIVEN UP AS A RESULT OF A DECISION** |
| **THE LAW OF INCREASING OPPORTUNITY COST –**  **IF SOCIETY WANTS TO PRODUCE MORE OF A PARTICULAR GOOD, IT MUST SACRIFICE LARGER AND LARGER AMOUNTS OF OTHER GOODS TO DO SO.** |
| **POINTS INSIDE THE PRODUCTION POSSIBILITIES MODEL ILLUSTRATE A WEAK ECONOMY** |
| **POINTS OUTSIDE THE PRODUCTION POSSIBILITIES MODEL ILLUSTRATE A STRONG ECONOMY** |
| **ECONOMIC GROWTH –**   * **INCREASE QUANTITY OF RESOURCES** * **INCREASE THE QUALITY OF RESOURCE** * **NEW AND IMPROVED TECHNOLOGY** |
| **THE LAW OF INCREASING OPPORTUNITY COST –**  **EXISTS BECAUSE RESOURCES ARE NOT PERFECTLY SHIFTED FROM ONE GOOD TO ANOTHER GOOD** |
| **MARGINAL BENEFIT MUST BE GREATER THAN THE MARGINAL COST** |
| **UTILITY –**  **PLEASURE, ENJOYMENT, SATISFACTION THE CONSUMER RECEIVES FROM A PRODUCT OR SERVICE** |
| **PRODUCTION POSSIBILITES CURVE –**  **IS A GRAPH THAT SHOWS ALTERNATIVE WAYS TO USE AN ECONOMIES PRODUCTIVE RESOURCES** |
| **THEORETICAL ECONOMICS –**  **INVOLVES FORMULATING THEORIES, LAWS, PRINCIPALS, AND MODELS AND USING THEM TO UNDERSTAND AND EXPLAIN ECONOMIC BEHAVIOR AND THE ECONOMY** |
| **POLICY ECONOMICS –**  **FIX ECONOMIC PROBLEMS AND PROMOTE ECONOMIC GOALS**  **EXAMPLES:**   * **MONETARY POLICY** * **FISCAL POLICY** |
| **POSITIVE ECONOMICS –**   * **FACTUAL STATEMENTS** * **“WHAT IS:** * **EXAMPLE: UNEMPLOYMENT IS 5.1%, FED FUNDS RATE IS 0.00-0.25%** |
| **NORMATIVE ECONOMICS –**   * **OPINIONS** * **“WHAT OUGHT TO BE”** * **THE FED SHOULD RAISE INTEREST RATES** |
| **FIVE FUNDAMENTAL ECONOMIC QUESTIONS**   * **WHAT GOODS AND SERVICES WILL BE PRODUCED?** * **HOW WILL THE GOODS AND SERVICES BE PRODUCED?** * **WHO WILL GET THE GOODS AND SERVICES?** * **HOW WILL THE SYSTEM ACCOMMODATE CHANGE?** * **HOW WILL THE SYSTEM PROMOTE PROGRESS?** |
| **CHARACTERISTICS OF A FREE MARKET ECONOMY**   * **COMPETITION** * **SELF-INTEREST** * **ECONOMIC FREEDOM** * **SPECIALIZATION** * **FREEDOM OF CHOICE** * **PRIVATE PROPERTY** * **ACTIVE, BUT LIMITED GOVERNMENT** |
| **FREE MARKET ECONOMY –**   * **CAPITALISM, “LAISSEZ FAIRE”, PURE MARKET ECONOMY, FREE ENTREPRISE SYSTEM** |
| **COMMAND SYSTEM –**   * **GOVERNMENT CONTROLS THE FACTORS OF PRODUCTION** * **100% - NORTH KOREA & CUBA** |
| **MIXED ECONOMY –**   * **COMBINATION OF CAPITALISM AND THE COMMAND SYSTEM** * **CHINA & RUSSIA** |
| **ADAM SMITH –**   * **ECONOMIST – 1776** * **“WEALTH OF NATIONS”** * **“INVISIBLE HAND”** |
| **FREE ENTERPRISE SYSTEM –**  **THE FACTORS OF PRODUCTION ARE CONTROLLED BY THE PRIVATE SECTOR**  **(CONSUMERS AND BUSINESS)** |
| **GDP –**   * **ECONOMIC GROWTH** * **GROSS DOMESTIC PRODUCT** * **THE TOTAL MARKET VALUE OF ALL FINAL GOODS AND SERVICES PRODUCED IN AN ECONOMY DURING A GIVEN PERIOD OF TIME** * **GDP = C +Ig + Xn +G** * **GDP – 2ND QUARTER OF 2014 = +4.6%** * **GDP – 1ST QUARTER OF 2014 = -2.2%** |
| **THREE MAIN ECONOMIC GOALS IN OUR ECONOMY:**   * **BALANCED GDP (ECONOMIC GROWTH) = 3.5%** * **PRICE-LEVEL-STABILITY (BALANCE BETWEEN INFLATION & DEFLATION) = 2.0%** * **FULL-EMPLOYMENT – EVERYONE BETWEEN 16 & 65 WILL, ABLE, AVAILABLE TO WORK TO BE WORKING** * **NRU = 4.5% - 5.0%** |
| **GDP ON A PER-CAPITA BASIS SINCE 1950 = 2.3%** |
| **BUSINESS CYCLE:**   * **PEAK** * **RECESSION (DOWNTURN)** * **TROUGH** * **RECOVERY/EXPANSION** |
| **FORMS OF BUSINESS ORGANIZATIONS:**  **SOLE-PROPRIETORSHIP -**   * **A FORM OF BUSINESS ORGANIZATION OWNED AND OPERATED BY ONE PERSON**   **PARTNERSHIP -**   * **A FORM OF BUSINESS ORGANIZATION OWNED AND OPERATED BY TWO OR MORE PEOPLE**   **CORPORATION -**   * **A FORM OF BUSINESS ORGANIZATION CHARTERED BY THE STATE AND OWNED BY STOCKHOLDERS AND BONDHOLDERS** |
| **DIVIDEND –**   * **A DISTRIBUTION OF CASH PAID TO SHAREHOLDERS BASED ON A CORPORATIONS PROFIT** |
| **THREE FUNCTIONS OF MONEY**   * **MEDIUM OF EXCHANGE** * **UNIT OF ACCOUNT** * **STORE OF VALUE** |
| **THE FEDERAL RESERVE IS THE CENTRAL BANK OF THE U.S.** |
| **LAW OF DEMAND –**   * **AS PRICE GOES UP, QUANTITY DEMANDED GOES DOWN** * **AS PRICE GOES DOWN, QUANTITY DEMANDED GOES UP** |
| **LAW OF SUPPLY –**   * **AS PRICE GOES UP, QUANTITY SUPPLED GOES UP** * **AS PRICE GOES DOWN, QUANTITY SUPPLIED GOES DOWN** |
| **AN INCREASE IN DEMAND WILL CAUSE THE DEMAND CURVE TO SHIFT TO THE RIGHT** |
| **A DECREASE IN DEMAND WILL CAUSE THE DEMAND CURVE TO SHIFT TO THE LEFT** |
| **AN INCREASE IN SUPPLY WITH SHIFT THE SUPPLY CURVE TO THE RIGHT** |
| **A DECREASE IN SUPPLY WILL SHIFT THE SUPPLY CURVE TO THE LEFT** |
| **SHIFTS IN THE DEMAND CURVE TO THE LEFT OR RIGHT (CHANGE IN DEMAND)** |
| **SHIFTS IN THE SUPPLY CURVE TO THE LEFT OR RIGHT (CHANGE IN SUPPLY)** |
| **ONE PRICE QUANTITY COMBINATION TO ANOTHER PRICE QUANTITY COMBINATION ON ONE DOWNSLOPING DEMAND CURVE – CHANGE IN QUANTITY DEMANDED** |
| **ONE PRICE QUANTITY COMBINATION TO ANOTHER PRICE QUANTITY COMBINATION ON ONE UPSLOPING SUPPLY CURVE – CHANGE IN QUANTITY SUPPLIED** |
| **WHEN THE SELLING DECISIONS OF PRODUCERS AND BUYING DECISIONS OF CONSUMERS ARE EQUAL IS CALLED MARKET EQUILIBRIUM (NEITHER A SURPLU OR SHORTAGE)** |
| **NORMAL GOOD –**   * **AS INCOME INCREASES --- CONSUMPTION WILL INCREASE** |
| **INFERIOR –**   * **AS INCOME INCREASES --- CONSUMPTION FOR THE INFERIOR GOOD DECREASES** |
| **A PRICE ESTABLISHED ABOVE EQUILIBRIUM IS CALLED A PRICE FLOOR**  **CREATE A SURPLUS OF INVENTORY**  **EXAMPLES : MINIMUM WAGE, AGRICULTURE PRODUCTS** |
| **A PRICE ESTABLISHED BELOW EQUILIBRIUM IS CALLED A PRICE CEILING**  **CREATE A SHORTAGE OF INVENTORY**  **EXAMPLES: RENT CONTROLS, USURY LAWS** |
| **SUBSTITUTE GOODS –**   * **COKE & PEPSI** * **NIKE – NEW BALANCE** * **BEEF & CHICKEN** |
| **COMPLEMENTARY GOODS –**   * **PEANUT BUTTER & JELLY** * **PEANUT BUTTER & FLUFF** * **HOT DOGS & HOT DOG ROLL** * **HAMBURGER & HAMBURGER ROLL** * **GAS & SUV** |
| **RECESSION –**   * **AT LEAST 2 CONSECUTIVE QUARTERS OF NEGATIVE ECONOMIC GROWTH** * **EXAMPLE: 1ST QUARTER GDP = -1.3% AND S2ND QUARTER GDP = -1%** |
| **NOMINAL GDP –**   * **GDP UNADJUSTED FOR INFLATION** * **EXAMPLE: PRICE x QUANTITY $10 x 100 = $1000 – NOMINAL GDP** |
| **REAL GDP –**   * **GDP ADJUSTED FOR INFLATION** * **REAL GDP = NOMINAL GDP/PRICE INDEX** |
| **SAVING –**  **DISPOSABLE INCOME = CONSUMPTION + SAVINGS**  **$100 = $90 + 10**  **SAVINGS IS LEAKAGE IN THE AGGREGATE EXPENDITURES MODEL**  **GDP = C + Ig + Xn + G** |
| **INVESTMENT –**  **INJECTION OF SPENDING IN THE AGGREGATE EXPENDITURES MODEL**  **DEMAND SHOCKS –**   * **UNEXPECTED CHANGES IN THE DEMAND FOR GOODS AND SERVICES** * **POSITIVE DEMAND SHOCK**   **DEMAND IS HIGHER THAN EXPECTED**   * **NEGATIVE DEMAND SHOCK**   **OCCURS WHEN DEMAND IS LESS THAN EXPECTED** |
| **SUPPLY SHOCKS –**   * **UNEXPECTED CHANGES IN THE SUPPLY OF GOODS AND SERVICES** |
| **STICKY AND FLEXIBLE PRICES – P.480/481** |