**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** |