

AP Economics Scavenger Hunt: Collect all of these definitions and concepts! Wheeee!

CH. 1	Inferior goods
Scarcity and Choice	Law of Supply
Rational Behavior	Determined by: resource prices, technology, taxes and subsidies, prices of other goods, expectations, number of sellers
Marginal Analysis: Benefits and Costs of choices	Equilibrium
<i>Ceteris Paribus</i> : All other things being equal...	Shortages
Abstractions	Surpluses
Graphing	The Eight Basic Graphs
Fiscal and Monetary Policies	
Economic Goals: Growth, Employment, Efficiency, Price Stability, Freedom, Distribution of Income, Security, Balance of Trade	CH. 4
Pitfalls of Thinking: Bias, Loaded Terms, Foggy Definitions, Fallacy of Composition, Post Hoc Fallacy, Correlation vs. Causation	Private Property
	Free Enterprise
	Free Competition
HOW TO GRAPH! HOW TO DO MATH!	Self-Interest: the Invisible Hand
X-Axis	Specialization
Y-Axis	Money vs. Barter
Plotting Points	Government: the Invisible Foot
Slope: Rise over Run $(y_2 - y_1) / (x_2 - x_1)$	Four Questions: What gets made? How will it get made? Who gets it? How do you handle change?
Positive and Negative Slope	The Power of Prices
Common fractions and decimal equivalents (Halves, thirds, fourths, fifths... extra credit for sixths and eighths!)	
Direct and Inverse Relationships	CH. 5
Dependent and Independent Variables	Functional distribution of income (p.74)
Reciprocals	Personal distribution of income (p.74)
	Businesses: Proprietorships, Partnerships, Corporations, LLC, S-corporation
CH. 2	Government: Legal structure, interferes in markets, redistributes income, public goods and services, controls stability
Resources: Land, Labor, Capital, Entrepreneurial Skill (or management skill...)	Circular Flow + Government (p.84)
Full employment: not everyone is working	Government Spending
Full production	Government Income
Production Possibility Curve	
Opportunity Cost	CH. 6
Marginal Benefits and Marginal Costs and when to stop making stuff	Balance of trade
Unemployment and inefficiency	Flow of goods
Expanding the Production Possibility Curve	Flow of services
Economic systems: Market, Command, Traditional	Flow of funds
Economic thinkers: Classic, Socialist, Keynesian, Neo-classic, Monetarist	Faster-growing nations and the US
Circular Flow model: resource and product markets (p.35)	Financing the US debt
	Specialization and Comparative Advantage
CH. 3	Foreign Exchange
Law of Demand	Messing with trade: Tariffs, protectionism, quotas, nontariff barriers, export subsidies
Determined by: tastes, number of consumers, incomes, prices of related goods, expectations about the future	Trade zones: regional vs. world-wide
Substitute goods	
Complementary goods	

CH. 7

GDP

Final Goods

Consumption

Investment

Government Spending

Net eXports

Expenditure vs. Income method of counting GDP

"No government sector"

"No international sector" or "closed economy"

Personal Income

Disposable Income

Big Honkin' Circular Flow (p. 126)

Nominal vs. Real

Nominal GDP vs. Real GDP

Price Index

Baseline Year

CPI (Consumer Price Index)

Underground Economy, Environment, Goofing Off, Chilling Out

Per Capita Output

CH. 8

Economic Growth

Rule of 70 ($70/\text{growth \%} = \# \text{ of years to double}$)

Productivity

Young economy vs. Mature economy growth

Business cycle: Peak, Recession, Trough, Recovery

Smoothing the cycle

Asset bubbles

Durable and non-durable goods

Unemployment

How to fudge the numbers

Frictional

Structural

Seasonal

Cyclical

Full employment = Zero Cyclical Unemployment

Natural Rate of Unemployment

GDP Gap and Okun's Law

Bias and employment

Inflation

Demand-Pull Inflation (graph)

Cost-Push Inflation (graph)

Nominal and Real Income

Inflation hurts fixed-income, savers, creditors

Inflation helps indexed-income, debtors

Anticipated inflation

Deflationary spiral

Hyperinflation

CH. 9

Consumption

Saving

Consumption Line

Slope of consumption line = MPC (Marginal Propensity to Consume)

SLOPE! REMEMBER THAT! SLOOOOOPE!

$1 - \text{MPC} = \text{MPS}$ (Marginal Propensity to Save)

$1/\text{MPS} = \text{GDP multiplier}$ (VERY IMPORTANT!!!)

Break-even income: $C = DI$

Investment

Expected Rate of Return

Real vs. Nominal Interest rates

Investment is inversely proportional to interest rate

Ask: Would you borrow money at a high rate or a low rate?

Ask: Would you borrow more at a lower rate than at a high rate?

Shifts in Investment line: costs, expectations, tech. change, stock, taxes

Investment is constant at every level of GDP

Equilibrium GDP

CH. 10

THE GDP MULTIPLIER

$I * \text{Multiplier} = \text{additional GDP}$

$1 - \text{MPC} = \text{MPS}$

$1/\text{MPS} = \text{MULTIPLIER!!!}$ KNOW YOUR FRACTIONS!

Add Exports? MULTIPLIER THEM!

Add Government spending? MULTIPLIER THEM!

How to find Net Exports

Prosperity abroad

Tariffs

Exchange Rates

Net Exports and Government Spending are constant at all GDP

Budget balanced? Oh NO! THE MULTIPLIER IS ONE!!!

Recessionary Gap (p. 195)

Inflationary Gap (p. 195)

CH. 11

Fake graphing: Aggregate Demand and Aggregate Supply

The Interest Rate is the Price of Money...

Real Balances, Interest Rate, and Foreign Purchase effects

Messing with AD: $C + I_g + G + X_n$

The three parts of AS: Horizontal, intermediate, vertical

The three parts of AS: Keynesian, classical, full-production

Messing with AS: Resources, productivity, taxes/regulations

Price level and GDP at Equilibrium

Demand-Pull Inflation

Multiplier effects

Decreasing AD

Sticky wages

Cost-Push Inflation

Increasing AS

"Bubble" economies

CH. 12

"The economy is in a recession..." GRAPH IT!

"The economy is experiencing high inflation..." GRAPH IT!

OK, how can changes in G affect those conditions?

Tax increase

Tax Cut

Spending Increase

Spending Cut

Remember... balanced budget multiplier of 1

Tax cut is partially saved: remember MPS!

Spending changes affected by full multiplier

Expansionary means growing

Contractionary means reducing

Deficit spending: must be financed! Rates increase, I_g drops

Deficit reduction: Drops interest rates, increases I_g

Tax chart (p. 229)

Progressive, Proportional, Regressive Taxes

Those confounded tax'n'spend Republicrats!

Timing the recession: Recognition, Administrative, and Operational

Lags (think of the express elevator situation...)

Political business cycle

Crowding-Out

Effect on Exports

Supply-Side fiscal policy

CH. 13

MONEY! \$\$\$\$\$\$

Medium of exchange, unit of account, store of value

M1: Currency + Paper Money + Checking and Debit Accounts

M2: All of M1 + Savings + Small (less than \$100,000) time deposits +
Money market mutual funds

M3: All of M2 + large (over \$100,000) time deposits

Credit cards aren't money. They're loans.

As prices rise, value of money decreases

Demand for Money

Transaction demand - constant at all interest rates

Asset demand - varies inversely with interest rate

Total demand = transactional + asset

Money supply can affect interest rates, if you work the above ideas in

reverse: less money - high IR, more money - low IR

Interest rate affects investment, the I_g in AD, and therefore the
economy! Hooray for monetary policy!

Electronic transactions, though, make more money like M1: will that
spoil monetary policy?

CH. 14

Assets = Liabilities + Net Worth

Assets include cash on hand, property, reserves, securities, and loans

Liabilities and Net Worth include Checkable deposits and capital stock

Reserve ratio (try 5-50 percent in intervals of 5)

Excess reserves (not for long!)

Loans create money

Paying loans off destroys money

MONETARY MULTIPLIER = $1/(\text{reserve ratio})$

Full monetary multiplier assumes no leakages

Excess reserves * monetary multiplier = total money created

Banks want profits

Banks need to keep liquid

What's a leakage?

Overheated lending

CH. 15

Fed Assets: Securities, loans to banks, etc.

Fed Liabilities and Net Worth: Commercial bank reserves, treasury
deposits, Federal Reserve Notes (outstanding), etc.

Open-Market Operations

Buying securities from banks and public

Selling securities to banks and public

Effect on money supply

Effect on interest rate

Effect on investment and net exports

Effect on the National Debt...

Adjusting the Reserve Ratio

... and what *that* does to the economy...

Setting the discount rate

... and what *that* does to the economy...

Easy Money

Tight Money

OPEN MARKET OPERATIONS OWN MONETARY POLICY!!!

Speed of monetary policy

Isolation from political pressure

Velocity of money: declines with lower interest rates, which will slow
things down... increases at high rates, so monetary policy can
backfire (See JAPAN)

Monetary policy great for putting on the brakes, not so good for getting
the economy restarted. (and see p. 300~!)

CHS. 16-19

Don't worry... I'll go over this stuff so you won't have to read much...

Long-Run Aggregate Supply (LRAS)

Demand-pull and LRAS

Cost-push and LRAS

Recession and LRAS

Inflation vs. Unemployment: Phillips Curve

Tax revenue weirdness: Laffer Curve

CHS. 37-39

US exports are 12% of our economy. 56% of Dutch and 41% of Canadian. We export the most total stuff and import even more than that.

Labor-intensive goods

Land-intensive goods

Capital-intensive goods

Services

Outsourcing

Comparative Advantage

Implications to kids to-day...

Trading additions to Production-Possibility Curve

Costs of trade

Protectionism

Free-Trade: fact and fiction

Military protectionism

Save local jobs protectionism

"One-crop economies"

Dumping

Slave labor

Cheap labor

Fair businesses

Exploitative businesses

Balance of payments

Currency exchange rates

Currency reserves

Vulnerable currencies

Developing nations

Population growth

Capital Flight

Emigration

AIDS

Botched Privatization

Corruption

Capital improvement vs. local development

Military support