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# AP Microeconomics

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**MR. MIRELES**  
Email: [marcos\\_mireles@sanger.k12.ca.us](mailto:marcos_mireles@sanger.k12.ca.us)  
Google: [marcos\\_mireles@sangerusd.net](mailto:marcos_mireles@sangerusd.net)

**Summer Assignment 2017**  
Phone: 524-7121 Ext. 7392  
Room: 1402    Remind: @mmirele

## Overview:

AP Economics is a college level course and will be taught as such. The course is divided into two semesters: AP Microeconomics (1st semester) and AP Macroeconomics (2nd semester). The purpose of the summer assignment will be to introduce you to the basic economic concepts we will study in our first semester of AP Microeconomics. It will serve as a foundation of general concepts, skills, and vocabulary, which we will build on throughout the year as we begin to apply economic analysis and its relevance to your everyday life.

## Assignment Description:

The summer assignment will consist of three essential parts:

- 1. Read chapters 1, 2, 3, and 6 of “Naked Economics - Undressing the Dismal Science” and answer the reading questions below. Must be typed!**
  - Author: Charles Wheelan
  - Label each section appropriately with the appropriate chapter title.
  - This can be checked out in the school library.
- 2. Complete flash cards of the assigned key terms listed below.**
  - Must be completed on index cards only.
- 3. Watch Mr. Clifford’s 6 Minute Econ in the Movies Video – Star Wars Then, list and explain which of the basic economic principles are covered in the video using the principles listed below.**
  - You can access the video with this link [bit.ly/econstarwars](http://bit.ly/econstarwars)
  - Must be typed!

**\*\*\*Due Date: First Day of Class! No points will be awarded for late work. You will have an EXAM on the assigned chapters and the key terms on the second day of school.**

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## Part 1: Chapter Reading Questions:

### Foreword by Burton G. Malkiel

1. The influence of economics is present in many business, financial, and government communities. What are some institutions and agencies that rely on economics in some significant way?

### Introduction

2. Give one example of a politician (in the United States or abroad) who has failed to understand economics and as a result, failed to understand how to solve a problem society faces.

### Chapter 1: The Power of Markets

3. Soviet shop owner and American shop owner example. Come up with questions that each must answer (1 per shop owner). Consider the problem(s) they are trying to fix.

4. What does it mean to “maximize your utility?”

5. What are some “barriers to entry” that make it so only seller can provide a good or service? Why are barriers to entry important?
6. What is meant by “price discrimination?” Why do you think airlines are able to price discriminate?
7. Besides prices, what is another way that firms can compete in order to outperform their competition?

### **Chapter 2: Incentives Matter**

8. Pick a school or societal problem (behavior to be encouraged / discouraged). Study the government-imposed incentive structure put in place to manage the problem. Create your own incentive structure to solve the same problem.
9. What problem do communal resources present, as compared to privately owned resources?
10. Why do incentives matter? Use an example from the book as well as from your own life to explain your response.
11. Name 3 underground economies created as a result of taxes.

### **Chapter 3: Government and the Economy**

12. What positive and negative externalities are associated with cigarette smoking? Can you make the case that the positives outweigh the negatives?
13. Describe a positive or negative externality in your own words and come up with an example for each.
14. What makes taxation a good solution to the problem of negative externalities?

### **Chapter 6: Productivity and Human Capital**

15. What human capital do you possess? (Brainstorm possible investments in human capital. What is your best investment in your own human capital?)
16. How does the poverty line right now compare to 100 years ago? Why is America like a real life version of “Revenge of the Nerds?”

## **Part 2: Key Terms:**

Economics	Specialization	Trade
Scarcity	Self-Interest	Microeconomics
Trade-Off	Free-Market System	Macroeconomics
Ceteris Paribus	Laissez Faire	Product Market
Opportunity Cost	Adam Smith	Factor Market
Consumer Goods	Capital Goods	Production Possibilities Curve (PPC)

## **Part 3: Basic Economic Principles:**

**When watching Mr. Clifford's video, list and explain as many of the principles below that you can find**

### **1. People choose to do the things they believe are best for them.**

- a. We live in a world where we can't have everything we want.
- b. Resources, goods, services, time, and money are scarce, so we have to make choices.

### **2. Choices have costs – opportunity costs.**

- c. It is the inevitable nature of choice that we give up the opportunity to have something else when we choose.
- d. It is as important to examine what we forgo, as well as what we will get if we choose one alternative over another.

### **3. Rational people think at the margin.**

- e. Rational people systematically and purposefully do the best they can to achieve their objectives, given the available opportunities.
- f. People make decisions by evaluating costs and benefits of marginal changes (incremental adjustments to an existing plan). A rational decision maker takes an action if and only if the marginal benefit of the action exceeds the marginal cost.

### **4. People respond in predictable ways because of incentives.**

- g. Rational people seek positive rewards.
- h. Rational people seek to avoid negative consequences.

### **5. People create economic systems that influence choices and incentives.**

- i. A society's economic system organizes the production, distribution, and consumption of goods and services.
- j. How people work together in an economic system is governed by both written and unwritten rules.
- k. When rules change, incentives change; when incentives change, choices change.

### **6. Voluntary trade creates wealth.**

- l. People tend not to enter into transactions that they believe will make them worse off, rather than better off.
- m. People can produce more in less time by concentrating on what they do best.
- n. Specialization based on comparative advantage combined with voluntary trade results in increased total output.

### **7. The consequences of choices lie in the future.**

- o. We cannot change the past but we can influence the future.
- p. Every choice or decision we make is based on prediction of what the benefit and cost of our alternatives will be.
- q. The more information we have about alternatives, the better our predictions tend to be.

## "Naked Economics" Reading Guide

Your test on Naked Economics will only focus on the assigned chapters, however I have listed a reading guide below of all the chapters in the book.

### **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  
Prisoners dilemma  
Creative destruction  
Tax & gov't program disincentives

### **Chapter 3 – Government and the Economy**

Externalities  
Gov't solutions to externalities  
Gov't makes market economy possible – rights, laws, regulations  
Public goods  
Redistribution

### **Chapter 4 – Government and the Economy II**

Gov't inefficiency  
Gov't allocation vs private allocation  
Effects of regulation  
Effects of taxation

### **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 9 – Keeping Score**

GDP: importance, real vs nominal, per capita  
GDP growth & wage growth  
GDP misses social progress  
Recessions  
Fiscal & monetary policy  
Other "vital signs": unemployment, poverty, inequality, gov't budget, deficit, current acct, national savings, demographics

### **Chapter 10 – The Federal Reserve**

Importance of Fed  
Easy money causes inflation  
FOMC & monetary policy tools  
Difficulty of policy decision-making  
Money  
Inflation & effects  
Political pressure to allow inflation  
Deflation

### **Chapter 11 – Trade and Globalization**

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

### **Chapter 12 – Development Economics**

Importance of policies (vs resources)  
Effective development policies  
Exchange rates  
IMF

### **Epilogue – Life in 2050: Seven Questions**