

Orange Unified School District
ECONOMICS MICRO AP
Semester Course

GRADE LEVEL: 12

PREREQUISITES: Prior AP coursework or teacher approval.

INTRODUCTION TO THE SUBJECT:

Advanced Placement Microeconomics studies the existence of limited resources and unlimited wants with opportunity costs and tradeoffs playing an important role. The course examines how various economic systems attempt to solve this scarcity problem. The nature and function of product markets are explored by analyzing how goods and services are produced. Supply and demand models, consumer choice, production costs and market structures are the four broad areas of study for product markets. The study of factor markets such as labor, capital and land provides an understanding for the labor supply, wage and employment determination. Arguments for and against government intervention in our competitive market system will be examined. The impact of governmental tax policies and transfer programs on distribution of income and economic efficiency will be analyzed. This course is aligned with the California State Standards for Economics.

COURSE OBJECTIVES:

BY THE END OF THE COURSE THE STUDENT WILL BE ABLE TO:

Define opportunity cost, scarcity, comparative and absolute advantage.

Describe and give examples of the law of comparative advantage.

Describe how parties in a trade gain from voluntary exchange.

Analyze the “economic way of thinking.”

Graph and distinguish among inverse, direct and zero relationships.

Graph and distinguish between constant and variable relationships.

Identify conditions that give rise to the economic problem of scarcity.

Identify the opportunity costs of various courses of action involving a hypothetical problem.

Construct production possibilities curves from sets of hypothetical data.

Apply the concept of opportunity cost to a production possibilities curve.

Analyze the significance of different locations on above and below a production possibility curve.

Compare and contrast the effects of societal priorities on the slope, outer limits, and operating points on the curve.

Identify the three questions every economic system must answer.

Analyze the advantage and disadvantages of the three basic economic systems.

List and explain the determinants of supply and demand.

Define diminishing marginal utility and explain its law.

Determine and graph equilibrium supply and demand.

Differentiate between “change in quantity demand” and “change in demand.”

Analyze determinants that cause supply and demand curves to shift.

Define the price elasticity of demand.

Explain the factors that make demand elastic or inelastic.

Define elasticity for supply and factors that make it elastic or inelastic.

Define and graph price ceilings and price floors.

Evaluate the effects on the markets of price ceilings and price floors.

Define and graph the various costs of production for the firm.

Define and graph profit, loss, break-even point and shut-down points.

Analyze the contrasts between explicit and implicit costs.

Compute and graph average fixed costs, average variable costs, average total cost, and marginal costs.

Define and list characteristics of perfect competition, monopoly, monopolistic competition and oligopoly.

Describe how a profit-maximizing firm determines the amount.

Explain and graph the profit-maximizing rule for all types of competition.

Contrast monopolies and natural monopolies.

Describe the advantages and disadvantage of the different structures of firms in the market.

Explain and graph the relationship of marginal revenue to price.

In the factor market, define derived demand, marginal revenue product, marginal physical product and marginal resource cost of resources to be used.

Explain the marginal productivity theory.

Define economic rent and how it is determined.

Compare and contrast public and private goods.

Define externalities and their role in the production of goods.

Define tax incidence and graph how it is shifted.

Use cost benefit analysis to explain world trade actions.

Identify incentives that encourage specialization and trade.

Describe and analyze protectionism and free trade.

Explain how exchange rates work.

COURSE OVERVIEW AND APPROXIMATE UNIT TIME ALLOTMENTS:
(California Content Standards noted in **bold**)

FIRST SEMESTER

WEEKS

| | | |
|----|--|---|
| I. | Basic Economic Concepts | |
| A. | Scarcity: the nature of economic systems (12.1.1) | 3 |
| B. | Opportunity costs and production possibilities (12.1.2) | |
| C. | Specialization and comparative advantage (12.1.3, 12.6.3) | |
| D. | The functions of all economic systems (12.1.5) | |
| E. | Property rights and the role of incentives (12.1.4) | |
| F. | Marginal analysis (12.1.2) | |

II. The Nature and Functions of Product Markets

A. Supply and demand

1. Market equilibrium (12.2.1, 12.2.2)
2. Price quantity and determination (12.2.1, 12.2.2)
3. Basic manipulation of supply and demand including price floors and ceilings (12.2.6)
4. Elasticity (12.2.4)
 - a. Price, income and cross-price elasticity of demand
 - b. Price elasticity and supply

B. Models of consumer choice

1. Total utility and marginal utility (12.2.5 to 12.2.8)
2. Individual and market demand curves (12.2.5, 12.2.7)
3. Utility maximization: equalizing marginal utility (12.2.8)
4. Income and substitution effects (12.2.4)

C. Firm's production, costs, revenues

1. Production functions: short and long term (12.1.3)
2. Marginal product and diminishing returns (12.2.1)
3. Short-run costs (12.2.2)
4. Long-run costs and economies of scale (12.2.7)
5. Cost minimizing input combination (12.2.7)

D. Firm's behavior and market structure

1. Profit
 - a. Accounting vs. economic profit (12.1.3)
 - b. Normal profit (12.1.3)
 - c. Profit maximization rule: $mr = mc$ (12.1.2)
2. Perfect competition (12.2.2, 12.2.3)
 - a. Profit maximization
 - b. Short-run supply and shutdown decision
 - c. Firm's behavior in the short and long run
 - d. Efficiency and perfect competition
3. Imperfect competition (12.2.2, 12.2.3)
 - a. Monopoly
 1. Sources of market power
 2. Profit maximization
 3. Inefficiency of monopoly
 4. Price discrimination
 - b. Oligopoly
 1. Interdependence, collusion, cartels
 2. Game theory and strategic behavior
 - c. Monopolistic competition
 1. Product differentiation and role of advertising
 2. Profit maximization
 3. Short-run and long-run equilibrium
 4. Excess capacity and inefficiency

WEEKS

- III. Factor Markets 3
- A. Derived factor demand (12.4.1, 12.4.2)
 - B. Determination of wages and other factor prices (12.4.3, 12.4.4)
 - C. Labor market and firm's hiring of labor (12.4.1, 12.4.2)
 - D. Market distribution of income (12.5.2)
- IV. Market Failure and the Role of Government 3
- A. Externalities (12.3.1, 12.3.2, 12.6.4)
 - 1. Marginal social benefit and marginal social cost (12.6.1, 12.6.2)
 - 2. Positive externalities
 - 3. Negative externalities
 - 4. Remedies
 - B. Public goods (12.1.4, 12.4.1)
 - 1. Public versus private goods
 - 2. Provision of public goods
 - C. Public policy to promote competition (12.3.3, 12.3.4, 12.5.3)
 - 1. Antitrust policy
 - 2. Regulation
 - D. Distribution of income (12.4.3, 12.4.4)
 - 1. Equity
 - 2. Sources of income inequality

DATE OF CONTENT REVISION: NEW - May 2005

DATE OF BOARD APPROVAL: June 23, 2005

Addendum
THE CALIFORNIA CONTENT STANDARDS
GRADE 12 ECONOMICS

PRINCIPLES OF ECONOMICS

12.1 Students understand common economic terms and concepts and economic reasoning.

1. Examine the causal relationship between scarcity and the need for choices.
2. Explain opportunity cost and marginal benefit and marginal cost.
3. Identify the difference between monetary and non-monetary incentives and how changes in incentives cause changes in behavior.
4. Evaluate the role of private property as an incentive in conserving and improving scarce resources, including renewable and nonrenewable natural resources.

5. Analyze the role of a market economy in establishing and preserving political and personal liberty (e.g., through the works of Adam Smith).

12.2 Students analyze the elements of America’s market economy in a global setting.

1. Understand the relationship of the concept of incentives to the law of supply and the relationship of the concept of incentives and substitutes to the law of demand.
2. Discuss the effects of changes in supply and/or demand on the relative scarcity, price, and quantity of particular products.
3. Explain the roles of property rights, competition, and profit in a market economy.
4. Explain how prices reflect the relative scarcity of goods and services and perform the allocative function in a market economy.
5. Understand the process by which competition among buyers and sellers determines a market price.
6. Describe the effect of price controls on buyers and sellers.
7. Analyze how domestic and international competition in a market economy affects goods and services produced and the quality, quantity, and price of those products.
8. Explain the role of profit as the incentive to entrepreneurs in a market economy.

12.3 Students analyze the influence of the federal government on the American economy.

1. Understand how the role of government in a market economy often includes providing for national defense, addressing environmental concerns, defining and enforcing property rights, attempting to make markets more competitive, and protecting consumers’ rights.
2. Identify the factors that may cause the costs of government actions to outweigh the benefits.
3. Describe the aims of government fiscal policies (taxation, borrowing, spending) and their influence on production, employment, and price levels.
4. Understand the aims and tools of monetary policy and their influence on economic activity (e.g., the Federal Reserve).

12.4 Students analyze the elements of the U.S. labor market in a global setting.

1. Understand the operations of the labor market, including the circumstances surrounding the establishment of principal American labor unions, procedures that unions use to gain benefits for their members, the effects of unionization, the minimum wage, and unemployment insurance.
2. Describe the current economy and labor market, including the types of goods and services produced, the types of skills workers need, the effects of rapid technological change, and the impact of international competition.
3. Discuss wage differences among jobs and professions, using the laws of demand and supply and the concept of productivity.
4. Explain the effects of international mobility of capital and labor on the U.S. economy.

12.5 Students analyze the aggregate economic behavior of the U.S. economy.

1. Distinguish between nominal and real data.
2. Define, calculate, and explain the significance of an unemployment rate, the number of new jobs created monthly, an inflation or deflation rate, and a rate of economic growth.
3. Distinguish between short-term and long-term interest rates and explain their relative significance.

12.6 Students analyze issues of international trade and explain how the U.S. economy affects, and is affected by, economic forces beyond the United States's borders.

1. Identify the gains in consumption and production efficiency from trade, with emphasis on the main products and changing geographic patterns of twentieth-century trade among countries in the Western Hemisphere.
2. Compare the reasons for and the effects of trade restrictions during the Great Depression compared with present-day arguments among labor, business, and political leaders over the effects of free trade on the economic and social interests of various groups of Americans.
3. Understand the changing role of international political borders and territorial sovereignty in a global economy.
4. Explain foreign exchange, the manner in which exchange rates are determined, and the effects of the dollar's gaining (or losing) value relative to other currencies.



