

AP Microeconomics Summer Assignment

DUE DATES:

Monday, July 20th, 12:00 noon: Questions on Chapters 1-6

Friday, August 14th, in class: Questions on Chapters 7-13

GRADE: Test Grade for Quarter 1

AP Microeconomics gives students a thorough understanding of the principles of economics that apply to the functions of individual decision makers, both consumers and producers, within the economic system. It places primary emphasis on the nature and functions of product markets and includes the study of factor markets and the role of government in promoting greater efficiency and equity in the economy.

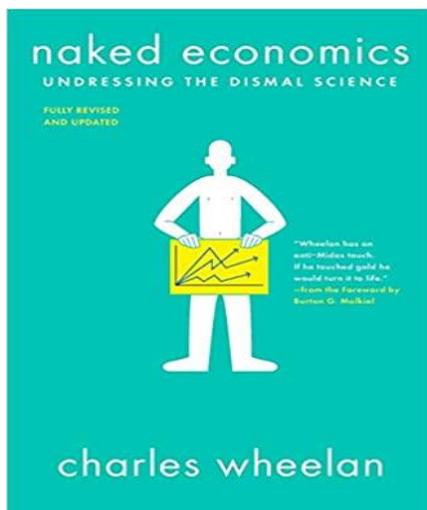
As an introduction to a full year of studying microeconomics, we will read the book “Naked Economics” by Charles Wheelan for our summer reading assignment. The book gives an overview of the subject of economics and translates the language of economics into relatable terms. We can use the text as a foundation for our understanding as well as a basis for discussion in future classes.

CONTACT: Rebecca Peak, rpeak@meadhallschool.org

TEXT: “Naked Economics: Undressing the Dismal Science”, 3rd Edition
By Charles Wheelan

ISBN-13: 978-0393356496

ISBN-10: 0393356493



After reading the book, answer the following questions for discussion. Write a full paragraph to answer each question and reference details and information from the book.

Chapter 1: The Power of Markets

What is the concept of utility? Is it the same for every person? List some examples of utility provided in the book.

What are the two basic assumptions that economists make about individuals and firms?

What is the difference between market and command economies? How does the author compare the differences when telling of his trip to Cuba?

What role do prices play in a market economy?

What are the advantages and disadvantages of a market economy?

How does the author answer the question “why did the chicken cross the road”?

Chapter 2: Incentives Matter

Explain why incentives matter.

Explain how each of the following relates to efficient outcomes in a market economy: adverse selection, “perverse incentives”, principal-agent problem, prisoner’s dilemma

Explain the term “creative destruction” and give two examples.

Why might you be able to save your face by cutting off your nose (if you are a black rhinoceros)?

Chapter 3: Government and the Economy

Explain what an externality is and give an example of your own externality.

Explain how something can have both positive and negative externalities.

If taxing externalities isn’t a perfect solution, why do we do it?

Besides addressing externalities, what other important and beneficial roles does government play in our market economy?

Chapter 4: Government and the Economy II

What lessons can we learn from our US Government monopolies?

What are the positives of regulations (why does the government issue them)? What are the negatives?

Explain the multiple purposes of taxing individuals and businesses. How does taxing affect our economy and consumers?

What are the main reasons why government should take a limited role in a market economy?

Chapter 5: Economics of Information

What does Wheelan mean by “perfect information”?

What is “informational asymmetry,” and how does it undermine our market economy? Give two examples from the book.

Explain why branding is very important, and why it is so profitable.

Explain the problem of private health insurance. Why do the costs continue to rise? What is the problem with public health insurance? Discuss “adverse selection”, as it relates to this chapter.

Chapter 6: Productivity and Human Capital

Explain human capital. Why is this important? What role does this play in our economy overall? Why does it matter so much?

The underlying problem of poverty is the lack of what? Explain.

What three factors affect productivity? Explain their specific roles.

After reading Wheelan’s argument, do you agree that Bill Gates should be so much richer than you? Explain.

What is “income inequality”? Why do economists argue that we should not care about “income inequality”?

Chapter 7: Financial Markets

Summarize the four simple needs of financial instruments: Raising capital, Storing/protecting/making profitable use of excess capital, Insuring against risk, Speculation

What does the efficient market theory have to do with financial markets? Discuss the positives and negatives of the theory.

Explain how get-rich-quick schemes violate the most basic principle of economics.

Explain the coin-flipping experiment, as it relates to investment diversification.

What advice about investing in the stock market did you find most interesting and/or useful? Why?

Chapter 8: The Power of Organized Interests

What is the idea behind a subsidy? How does this help the economy?

Why have mohair farmers earned a subsidy from the federal government for decades?

Summarize the effects that are addressed in regards to subsidies: death of a thousand subsidies, tyranny of the status quo, cut the politicians a break

Chapter 9: Keeping Score

What is real GDP, and why do we care about real vs. nominal? What is included in measuring GDP?

Why is a nation's GDP a good measure of its economic well-being and progress?

Why is a nation's GDP a poor measure of its economic well-being and progress?

Summarize each of the following indicators: unemployment, poverty, income inequality, government, deficits/surplus, savings, demographics.

Chapter 10: The Federal Reserve

What is the drastic consequence of poor monetary policy the author discusses at the start of the chapter? Do you agree with this argument? Explain.

Is the Federal Reserve part of/controlled by the government?

What is the primary role of the Federal Reserve? What is the significance of this role?

What tasks does the Federal Reserve do? What types of tools do they have?

What is deflation, and why is it worse than inflation?

Chapter 11: International Economics

Describe the economic theory of Purchasing Power Parity.

Why does the theory of Purchasing Power Parity often not hold true?

Early in the chapter, Wheelan states "currencies are no different than any other good." How are exchange rates determined?

What is the relationship between specialization and productivity?

Discuss your opinion on globalization.

Explain the “dysfunctional economic” relationship between the United States and China. What are the significant risks for each side?

Chapter 12: Trade and Globalization

How does trade make us richer and create losers?

How can free trade be good for everyone?

What is the “good news about Asian sweatshops”?

Explain how preferences change with income and environment.

What can we do to help developing nations? What do they need to do to help themselves?

Chapter 13: Development Economics

After reading this chapter, what do you believe are the two biggest obstacles preventing poor countries from becoming rich?