

## AP MACROECONOMICS

**Read Ch. 1-10** in *Naked Economics: Undressing the Dismal Science*, Charles Wheelan (W.W. Norton & Co., 2010)  
ISBN-13: 978-0393337648

You will have a summer reading exam on the FIRST DAY of the semester in which you have the course (i.e. first day of first or second semester).

### "Naked Economics" Study Guide

#### Chapter 1- The Power of Markets

Market allocation  
Assumption of rational utility-maximizers  
Opportunity costs  
Profit maximization  
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 & govt program disincentives

#### Chapter 3 – Government and the Economy

Externalities  
Govt solutions to externalities  
Govt makes market economy possible – rights, laws, regulations  
Public goods  
Redistribution

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

Govt inefficiency  
Govt allocation vs private allocation  
Effects of regulation

Effects of taxation  
Summary

### 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, govt 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