

What is AP Economics?

Economics is the study of scarcity. In other words, we want a lot of stuff, and we can't afford it all, so we have to make decisions about what to get and what not to get. The ways that individuals, firms, and societies make these decisions is what we study in Economics. In Microeconomics, for example, we learn about supply and demand for goods and services, consumer behavior, and theoretical models of how companies function. Macroeconomics deals with measuring and determinants of national output, the policies and roles of the legislature and the Federal Reserve with respect to money in the economy, spending on a national level, and interest rates and the money supply.

Some things AP Econ does not address in detail:

- How to make money
- The stock market and investment strategies
- How to start and/or run a business
- Personal finance, like budgets and checkbooks

Many students find Economics to be equal parts social science and math, in that success hinges on reading comprehension, written expression of ideas, and analysis of actions and behavior at least as much as on dealing with numbers and graphs in sophisticated ways. Students who are good at both types of work usually do the best in AP Econ. Successful students are very good problem solvers. They can work analytically as well as graphically and numerically. They like to think about complex ideas and aren't afraid of concepts that are brand new to them. They are willing to study a lot, do homework assignments every day, and participate in class. They are good at working with their classmates as well as individually.

To be successful, students must read the textbook and supplementary materials daily, often more than once. There are quizzes on the reading and lectures almost every day. Exams are fairly frequent (two to three week intervals) and consist of both multiple choice questions and essay-type free response questions. Also, part of the course grade will come from several critical current events essays written each semester.

Below are examples of free-response questions that might appear on an AP Economics exam. Additionally, reading the complete list of course objectives on the course website is also useful for understanding what the course involves.

- A. A perfectly competitive manufacturing industry is in long-run equilibrium. Energy is an important variable input in the production process and therefore the price of energy is a variable cost. The price of energy decreases for all firms in the industry.
- Explain how and why the decrease in this input price will affect this manufacturing industry's output and price in the short run.
 - What will be the short-run effect on price, output, and profit of a typical firm in this manufacturing industry?
 - Will firms enter or exit this manufacturing industry in the long run? Why or why not?
- B. Assume that Countries A and B have equal amounts of resources and identical technologies. Country A can produce 100 bushels of wheat or 100 yards of cloth or any combination. Country B can produce 100 bushels of wheat or 300 yards of cloth or any combination.
- Which country has an absolute advantage in the production of wheat and which has an absolute advantage in the production of cloth? Explain how you determined your answer.
 - Which country has a comparative advantage in the production of wheat and which has a comparative advantage in the production of cloth? Explain how you determined your answer.
 - With specialization and trade, which country will import wheat? Explain why.
 - Assume that the two countries trade and that one bushel of wheat is exchanged for two yards of cloth. Explain why the country that imports wheat will gain from trade.