

# AP MACROECONOMICS SUMMER ASSIGNMENT

Mr. Strong

Welcome to AP Macroeconomics. You are an economist now so start thinking like one. Economics is the study of how we, as humans, choose to allocate our limited resources in order to deal with our unlimited wants. So, without further delay, let's start making decisions.

## Choices, choices, choices

Your summer assignment starts with a choice, or an opportunity cost if you will. "Opportunity cost" is the next best alternative that is given up to get something else. When you select one of the following options, you will pay an opportunity cost. Whether you realize it or not, you will be weighing the cost and benefits of each option. In economics, and in life, if you only think in the short-term you will find yourself behind in the long-term.

**Choice A:** Read the book and dedicate the time and effort necessary to do the assignment well.

**Choice B:** Skim the book and do the minimum to complete the assignment in the hope that I will not grade it carefully.

**Choice C:** Choose not to read the book and not to complete the assignment assuming that maybe I am bluffing about giving you a zero.

Let me explain the possible outcomes so that you can make a rational choice to do the assignment or not.

1. You will *choose* whether or not to do this assignment.
2. Your choice to read and write means you will give up the ability to do something else. I know what you are thinking, "But I can multitask..." but think about how that usually works out for you.
3. You will likely do this assignment because your incentive is a possible 280 points and you know something out of 280 is better than 0 out of 280. So using that logic, 95% of you will do this assignment. Though it may be done begrudgingly and/or poorly, you will still do it because of the incentives.
4. Now for the 5% of you that will not do the assignment, you don't get the incentive and now you have to face negative consequences in the future. The thing is, unlike an economist, you actually know what happens in the future when you make this choice so the question is, "Why would you choose that option, already knowing the future consequence?"

Now that you know the incentives and the consequences of your decisions, you have a choice to make. It is my hope that you will select **Choice A**. If so then continue reading the assignment and its particulars on the following pages. If you go with **Choice C**, then good luck. You will have your work cut out for you in the fall.

## Other Important Stuff

Please feel free to contact me if you have any questions about the summer assignment or if you need any other assistance. I will be checking my e-mail regularly over the summer; so do not hesitate in contacting me. Keep in mind that it is my summer vacation too. I will respond as quickly as possible, but expect 24-48 hours for that to happen. There will even be a part of the summer that I will be unable to check my e-mail because I will be in Alaska.

## NAKED ECONOMICS: UNDRRESSING THE DISMAL SCIENCE

(Fully revised and updated edition)

by Charles Wheelan

ISBN: 978-0-393-33764-8

### Directions:

1. Purchase a copy of **Naked Economics: Undressing the Dismal Science (Fully revised and updated edition)** by Charles Wheelan.
2. Read **Naked Economics: Undressing the Dismal Science (Fully revised and updated edition)** by Charles Wheelan.
3. You will submit your assignment on the first day of school (Monday, August 15th). Late assignments will ***NOT*** be accepted.
4. Write an analysis of each chapter focusing on questions identified in this assignment. You should follow these parameters:
  - A) Each chapter analysis should be kept separate from the others. You should use the chapter and theme as a heading for your analysis.
  - B) Use the questions as a guide to form a well-constructed analysis of each chapter. You will need to give your personal thoughts, as well.
  - C) Avoid using direct quotes from the text; interpret the concept in your own words.
  - D) Format
    - You may type or hand write all your responses. The choice is yours!
    - You must place the chapter title at the top of the first page of each chapter analysis.
    - Limit each analysis to 1 page or less. Your objective is to be brief but also be descriptive!
5. Each analysis will be worth 20 points toward your 1st quarter grade and will be graded based upon the following grading criteria:

Identification & Explanation (10 points) - Did you accurately identify and elaborate on the significant points of the chapter?

Personal Reaction (10 points) - What are your personal thoughts about the themes and topics addressed per chapter?
6. Print out your responses or submit your assignment to the Google Classroom on the first day of school (Monday, August 15<sup>th</sup>).

### *Chapter 1: The Power of Markets*

- What are the two basic assumptions that economists make about individuals and firms?
- What example does the author give to back up his statement that “maximizing utility is not synonymous with acting selfishly”?
- What is the role and significance of prices in the market economy?
- What are the advantages and disadvantages of a market economy?

### *Chapter 2: Incentives Matter*

- Explain how each of the following relates to efficient outcomes in a market economy: Adverse selection, “perverse incentives”, principal-agent problem, and the prisoner’s dilemma.
- How does the author back up his assertion that government benefits create perverse incentives?

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

- Explain externality in your own words.
- What roles does government play in a market economy?

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

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

### *Chapter 5: Economics of Information*

- How does the author use the example of the HOPE scholarships to explain the problem of asymmetry of information?
- What does the author mean by “perfect information”?

*Chapter 6: Productivity and Human Capital*

- Do you agree that Bill Gates should be richer than you? Explain.
- What is “income inequality”?
- Why do economists argue that we should not care about “income inequality”?

*Chapter 7: Financial Markets*

- How do get rich quick schemes violate the basic principals of economics?
- Do you agree with the author’s rules for investment advice? Explain.

*Chapter 8: The Power of Organized Interests*

- Why have mohair farmers earned a subsidy from the federal government?
- What does the author mean by “in politics, the tail can wag the dog”?
- What is the economic impact of the statement in the question above?

*Chapter 9: Keeping Score*

- 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?

*Chapter 10: The Federal Reserve*

- What is the primary role of the Federal Reserve?
- What is the significance of the Federal Reserve’s role?
- What is deflation? Why is deflation worse than inflation?

*Chapter 11: International Economics*

- Early in the chapter, Wheelan states “currencies are no different than any other good.” How are exchange rates determined?
- What is purchasing power parity and why is it an accurate measure of a nation’s standard of living?

*Chapter 12: Trade and Globalization*

- What is the “good news about Asian sweatshops”?
- How can free trade and the concept of specialization make all nations better off?

*Chapter 13: Development Economics*

- Based on your reading, what do you believe are the two biggest obstacles preventing poor countries from becoming rich?

*Epilogue: Life in 2050*

- What are three economic questions you have about life in 2050?