# Principles of Economics | Table of Contents

## Chapter 1: Welcome to Economics!

### 1.1 Understanding the Importance of Economics
- Evaluate the significance of scarcity
- Explain the relationship between production and division of labor
- Contrast microeconomics and macroeconomics

### 1.2 Using Theories and Models
- Explain the importance of economic theories and models
- Interpret a circular flow diagram

### 1.3 How Economies Can Be Organized
- Contrast traditional economies, command economies, and market economies
- Understand the basic relationship between government, regulations, and markets
- Assess the importance and effects of globalization

## Chapter 2: Choice in a World of Scarcity

### 2.1 How Individuals Make Choices Based on Their Budget Constraint
- Calculate and graph budget constraints
- Explain opportunity costs
- Define Sunk Costs
- Evaluate the law of diminishing marginal utility

### 2.2 The Production Possibilities Frontier and Social Choices
- Interpret production possibilities frontier graphs
- Explain the law of diminishing returns
- Contrast productive efficiency and allocative efficiency
- Explain comparative advantage

## Chapter 3: Demand and Supply

### 3.1 Demand in Markets for Goods and Services
- Explain demand, quantity demanded, and the law of demand
- Interpret a demand curve

### 3.2 Supply in Markets for Goods and Services
- Explain supply, quantity supplied, and the law of supply
- Interpret a supply curve

### 3.3 Equilibrium in Markets for Goods and Services
- Explain equilibrium, equilibrium price, and equilibrium quantity
- Define economic surpluses and shortages

### 3.4 Shifts in Demand for Goods and Services
- Define the Ceteris Paribus Assumption
- Identify the effects of income on the demand curve
- Identify factors that affect the demand curve
- Graph shifts in demand

### 3.5 Shifts in Supply for Goods and Services
- Identify the effects of production costs on the supply curve
3.6 Changes in Equilibrium Price and Quantity
- Changes in equilibrium price and quantity
- Graph equilibrium price and quantity

3.7 Price Ceilings and Price Floors
- Explain price ceilings
- Explain price floors

3.8 Demand Supply and Efficiency
- Contrast consumer surplus, producer surplus, and social surplus
- Explain why price floors and price ceilings can be inefficient
- Analyze demand and supply as a social adjustment mechanism

Chapter 4: Labor and Financial Markets
4.1 Demand and Supply at Work in Labor Markets
- Analyze examples of equilibrium in the labor market
- Identify factors that shift labor demand
- Identify factors that shift labor supply

4.2 Demand and Supply in Financial Markets
- Explain how interest rates can affect supply and demand
- Explain equilibrium in the financial market
- Define intertemporal decision making

4.3 Effects of Price Controls in the Labor Market
- Explain the role of price ceilings and usury laws in the U.S.
- Apply demand and supply models to analyze prices and quantities
- Explain the effects of price controls on the equilibrium of prices and quantities

Chapter 5: Elasticity
5.1 Price Elasticity of Demand and Price Elasticity of Supply
- Define elasticity
- Calculate price elasticity of demand
- Calculate price elasticity of supply

5.2 Polar Cases of Elasticity and Constant Elasticity
- Explain infinite elasticity
- Explain zero elasticity
- Analyze constant unitary elasticity

5.3 Elasticity and Pricing
- Analyze how price elasticities impact revenue
- Explain the relationship between production and consumer cost
- Explain the effects of elasticity on tax incidence
- Analyze changes in elasticity over time

5.4 Elasticity in Areas Other Than Price
- Calculate the income elasticity of demand
- Calculate the cross-price elasticity of demand
Chapter 6: Consumer Choices
6.1 Consumption Choices
- Understand the concept of total utility
- Derive an individual's demand curve
- Derive the market demand curve from the demand curves of individuals
- Explain the concept of maximizing utility
6.2 How Changes in Income and Prices Affect Consumption Choices
- Contrast the substitution effect and the income effect
- Interpret the indifference curve

Chapter 7: Cost and Industry Structure
7.1 Introduction to Cost and Industry Structure
- Define firm and outline the scope of production
- Explain and calculate explicit and implicit costs
7.2 The Structure of Costs in the Short Run
- Differentiate between fixed costs and variable costs
- Analyze short-run costs
- Understand average total cost, average variable cost, marginal cost
7.3 The Structure of Costs in the Long Run
- Define production technologies
- Explain economies of scale, diseconomies of scale, and constant returns to scale
- Describe implications of the long-run average cost curve on the size and number of firms in an industry

Chapter 8: Perfect Competition
8.1 Introduction to Perfect Competition
- Explain the characteristics of a perfectly competitive market
- Describe how perfectly competitive firms react in the short run
8.2 How Perfectly Competitive Firms Make Output Decisions
- Identify profits and losses with the average cost curve
- Calculate marginal revenue and interpret a marginal revenue curve
- Calculate profits by comparing total revenue and total cost
- Explain shutdown point
8.3 Perfectly Competitive Markets in the Long Run
- Explain why firms enter and exit the market
- Discuss the long-run adjustment process
- Apply concepts of efficiency to perfectly competitive markets
Chapter 9: Monopolies
9.1 How Monopolies Form Barriers to Entry
   ● Explain the characteristics of a monopoly
   ● Analyze how monopoly promotes innovation
   ● Analyze demand in a monopoly

9.2 The Inefficiency of Monopoly
   ● Determine total cost and total revenue for a monopolist
   ● Calculate marginal revenue and marginal cost for a monopoly
   ● Explain efficiency in a monopoly

Chapter 10: Monopolistic Competition
10.1 Monopolistic Competition
   ● Define monopolistic competition
   ● Analyze the demand curve for a monopolistic competitor
   ● Analyze profit-maximization in monopolistic competition
   ● Discuss entry, exit, and efficiency in monopolistic competition

10.2 Differentiated Products
   ● Explain the consequences of variety and product differentiation
   ● Discuss the possible effects of advertising on competition, price, and output

10.3 Oligopoly and Theories of Oligopoly Behavior
   ● Explain the main characteristics of oligopoly
   ● Explain the collusion model of oligopoly
   ● Discuss how game theory can be used to understand the behavior of firms in an oligopoly

Chapter 11: Monopoly and Antitrust Policy
11.1 Corporate Mergers
   ● Explain antitrust law
   ● Calculate concentration ratios
   ● Calculate the Herfindahl Herschman Index
   ● Evaluate methods of antitrust regulation

11.2 Regulating Anti-competitive Behavior
   ● Analyze restrictive practices
   ● Explain tying sales, bundling, and predatory pricing
   ● Evaluate a real-world situation of possible anticompetitive and restrictive practices

11.3 Regulating Natural Monopolies
   ● Evaluate the appropriate competition policy for a natural monopoly
   ● Interpret a graph of regulatory choices
   ● Contrast cost plus and price cap regulation

11.4 The Great Deregulation Experiment
   ● Evaluate the effectiveness of price regulation and antitrust policy
   ● Explain regulatory capture and its significance
Chapter 12: Environmental Protection and Negative Externalities

12.1 The Economics of Pollution
- Discuss examples of positive externalities
- Discuss examples of negative externalities
- Define externalities
- Evaluate how firms can contribute to market failure

12.2 Command-and-Control Regulation
- Explain command and control regulation
- Evaluate the effectiveness of command and control regulation

12.3 Market-Oriented Environmental Tools
- Show how pollution charges impact firm decisions
- Suggest other laws and regulations that could fall under pollution charges
- Explain the significance of marketable permits and property rights
- Evaluate which policies are most appropriate for various situations

12.4 The Benefits and Costs of U.S. Environmental Laws
- Evaluate the benefits and costs of environmental protection
- Explain the effects of ecotourism
- Apply marginal analysis to illustrate the marginal costs and marginal benefits of reducing pollution

12.5 International Environmental Issues
- Explain biodiversity
- Analyze the partnership of high income and low income countries in efforts to address international externalities

12.6 The Tradeoff between Economic Output and Environmental Protection
- Apply the production possibility frontier to evaluate the tradeoff between economic output and the environment
- Interpret a graphic representation of the tradeoff between economic output and environmental protection

Chapter 13: Positive Externalities and Public Goods

13.1 Public Goods
- Identify a public good
- Explain the free rider problem
- Identify several sources of public goods

13.2 Why the Private Sector Under Invests in Innovation
- Identify the positive externalities of new technology
- Explain the difference between private benefits and social benefits and give examples of each
- Calculate and analyze rates of return

13.3 How Governments Can Encourage Innovation
- Explain the effects of intellectual property rights on social and private rates of return
- Identify three U.S. Government policies and explain how they encourage innovation
Chapter 14: Poverty and Economic Inequality

14.1 Earnings and Discrimination
- Explain economic inequality and how the poverty line is determined
- Identify potential issues in government programs that seek to reduce poverty
- Explain a Lorenz curve

14.2 The Safety Net
- Identify the anti-poverty government programs that compose the safety net
- Explain the primary goals of the safety net programs and how these programs have changed over time
- Discuss the complexities of these safety net programs and why they can be controversial

14.4 Government Policies to Reduce Income Inequality
- Explain the arguments for and against government intervention in a market economy
- Identify beneficial ways to reduce the economic inequality in a society
- Show the tradeoff between incentives and income equality

14.3 Measurement and Causes of Income Inequality
- Explain the distribution of income and analyze the sources of income inequality in a market economy
- Measure income distribution in quintiles
- Show income inequality through demand and supply diagrams

Chapter 15: Issues in Labor Markets

15.1 Unions
- Evaluate arguments for and against labor unions
- Analyze reasons for the decline in U.S. union membership

15.2 Employment Discrimination
- Explain the arguments for and against government intervention in a market economy
- Explain the impact of discrimination in a competitive market
- Identify U.S. public policies designed to reduce discrimination
- Analyze earnings gaps based on race and gender

15.3 Immigration
- Analyze historical patterns of immigration
- Explain economic effects of immigration
- Evaluate notable proposals for immigration reform

Chapter 16: Information, Risk, and Insurance

16.1 The Problem of Imperfect Information and Asymmetric Information
- Analyze the impact of both imperfect information and asymmetric information
- Evaluate the role of advertisements in creating imperfect information
- Identify ways to reduce the risk of imperfect information
- Explain how imperfect information can affect price, quantity, and quality

16.2 Insurance and Imperfect Information
- Explain how insurance works
- Identify and evaluate various forms of government and social insurance
• Discuss the problems caused by moral hazard and adverse selection
• Analyze the impact of government regulation of insurance

Chapter 17: Financial Markets
17.1 How Businesses Raise Financial Capital
• Describe financial capital and how it relates to profits
• Discuss the purpose and process of borrowing, bonds, and corporate stock
• Explain how firms choose between sources of financial capital

17.2 How Households Supply Financial Capital
• Show the relationship between savers, banks, and borrowers
• Calculate bond yield
• Contrast bonds, stocks, mutual funds, and assets
• Explain the tradeoffs between return and risk

17.3 How to Accumulate Personal Wealth
• Explain the random walk theory
• Calculate simple and compound interest
• Evaluate how capital markets transform financial capital

Chapter 18: Public Economy
18.1 Voter Participation and Costs of Elections
• Explain the significance of rational ignorance
• Evaluate the impact of election expenses

18.2 Special Interest Politics
• Explain how special interest groups and lobbyists can influence campaigns and elections
• Describe pork barrel spending and logrolling

18.3 Flaws in the Democratic System of Government
• Assess the median voter theory
• Explain the voting cycle
• Analyze the interrelationship between markets and government

Chapter 19: The Macroeconomic Perspective
19.1 Measuring the Size of the Economy
• Define Gross Domestic Product
• Measure GDP using the income approach
• Measure GDP using the expenditures approach
• Measure GDP using the output approach
• Understand the problem of double counting

19.2 Implications of GDP
• Understand Gross National Product
• Differentiate between nominal GDP and real GDP
• Understand tracking real GDP over time
• Evaluate the limitations of GDP as a measure of the standard of living
Chapter 20: Economic Growth
20.1 Labor Productivity and Economic Growth
- Explain the conditions that have allowed for modern economic growth in the last two centuries
- Identify factors that affect labor productivity
- Analyze the sources of economic growth using the aggregate production function
20.2 Components of Economic Growth
- Discuss the components of economic growth
- Explain capital deepening
- Identify factors that contribute to a healthy climate for economic growth

Chapter 21: Unemployment
21.1 Unemployment
- Define employed, unemployed, and labor force
- Calculate the unemployment rate and understand the labor force percentage
- Explain types of unemployment
- Evaluate the collection and interpretation of unemployment data
- Understand government policies to reduce unemployment

Chapter 22: Inflation
22.1 Inflation
- Calculate the annual rate of inflation
- Use the Consumer Price Index to calculate inflation rates
- Differentiate among the Consumer Price Index, the Producer Price Index, and the GDP deflator
- Identify patterns of inflation for the United States
- Explain the economic challenges of inflation

Chapter 23: The International Trade and Capital Flows
23.1 The International Trade and Capital Flows
- Identify components of current account balance
- Explain balanced trade in terms of investment and capital flows
- Identify and calculate supply and demand for financial capital
- Predict the effect of savings and investments on a nation's balance of trade
- Identify the advantages and disadvantages of trade deficits and surpluses

Chapter 24: The Aggregate Demand / Aggregate Supply Model
24.1 Macroeconomic Perspectives on Demand and Supply
- Explain Say's Law and determine whether it applies in the short run or the long run
- Explain Keynes' Law and determine whether it applies in the short run or the long run
24.2 Building a Model of Aggregate Demand and Aggregate Supply
- Explain the aggregate supply curve
- Explain the aggregate demand curve
- Identify the point of equilibrium in the aggregate demand/aggregate supply model
24.3 Shifts in Aggregate Supply and Aggregate Demand
- Explain how aggregate supply can shift
- Explain how aggregate demand can shift
- Evaluate why economists disagree on the topic of tax cuts
- Explain how unemployment and inflation impact the aggregate demand/aggregate supply model
- Recognize the neoclassical zone, the intermediate zone, and the Keynesian zone in the aggregate demand aggregate supply model

Chapter 25: The Keynesian Perspective
25.1 Aggregate Demand in Keynesian Analysis
- Identify recessionary gaps and inflationary gaps on the Keynesian AD/AS model
- Identify the determining factors of both consumption expenditure and investment expenditure
- Analyze the factors that determine government spending and net exports

25.2 The Building Blocks of Keynesian Analysis
- Evaluate the Keynesian view of recessions
- Understand the factors that contribute to price stickiness
- Analyze the impact of the expenditure multiplier

25.3 The Phillips Curve
- Understand the Phillips curve
- Identify factors that cause the instability of the Phillips curve

Chapter 26: The Neoclassical Perspective
26.1 The Building Blocks of Neoclassical Analysis
- Explain the importance of potential GDP in the long run
- Analyze the role of flexible prices
- Evaluate different ways for measuring the speed of macroeconomic adjustment

26.2 The Policy Implications of the Neoclassical Perspective
- Discuss why and how inflation expectations are measured
- Analyze the impacts of fiscal policy and monetary policy on aggregate supply and aggregate demand
- Explain the neoclassical Phillips curve
- Explain the differences between neoclassical economics and Keynesian economics

26.3 Balancing Keynesian and Neoclassical Models
- Evaluate how neoclassical economists and Keynesian economists react to recessions
- Analyze the interrelationship between the neoclassical and Keynesian economic models

Chapter 27: Money and Banking
27.1 Defining Money by Its Functions
- Explain the various functions of money
- Contrast commodity money and fiat money
- Contrast M1 money supply and M2 money supply
27.2 The Role of Banks and How Banks Create Money
● Explain how banks act as intermediaries between savers and borrowers
● Understand the money multiplier formula
● Analyze and create T-account balance sheets

Chapter 28: Monetary Policy and Bank Regulation
28.1 Bank Regulation and Monetary Policy
● Explain the structure and organization of the U.S. Federal Reserve
● Explain the functions of a central bank
● Discuss the purpose of bank regulation
28.2 How a Central Bank Executes Monetary Policy
● Explain the reason for open market operations
● Evaluate reserve requirements and discount rates
28.3 Monetary Policy and Economic Outcomes
● Explain how monetary policy impacts interest rates and aggregate demand
● Evaluate Federal Reserve decisions over the last forty years
● Explain the significance of quantitative easing (QE)
28.4 Pitfalls for Monetary Policy
● Analyze whether monetary policy decisions should be made more democratically
● Understand the velocity of money

Chapter 29: Exchange Rates and International Capital Flows
29.1 How the Foreign Exchange Market Works
● Define the foreign exchange market
● Identify demanders and suppliers of currency
● Explain how the appreciating or depreciating of currency affects exchange rates
● Identify who benefits from a stronger currency and who benefits from a weaker currency
29.2 Demand and Supply Shifts in Foreign Exchange Markets
● Explain supply and demand for exchange rates
● Define arbitrage
● Explain relative inflation
● Explain purchasing power parity's importance when comparing countries
29.3 Macroeconomic Effects of Exchange Rates and Policies
● Explain how exchange rate shifting influences aggregate demand
● Define the various types of exchange rate systems
● Identify the tradeoffs that come with a floating exchange rate, a soft peg, a hard peg, and a merged currency

Chapter 30: Government Budgets and Fiscal Policy
30.1 Government Spending
● Understand total U.S. government spending
● Understand state and local government spending
30.2 Taxation
  ● Define federal taxes
  ● Define state and local taxes

30.3 Federal Deficits and the National Debt
  ● Explain the debt / GDP ratio
  ● Explain the path from deficits to surpluses to deficits

30.4 Using Fiscal Policy to fight Recession, Unemployment, and Inflation
  ● Explain expansionary fiscal policy
  ● Explain contractionary fiscal policy
  ● Explain how to counterbalance recession and boom

30.5 Fiscal Policy and Balanced Budget
  ● Understand the connection between fiscal policy and interest rates
  ● Understand different types of lags and fiscal policies

Chapter 31: The Impacts of Government Borrowing
31.1 Fiscal Policy, Investment, and Economic Growth
  ● Explain the national saving and investment identity in terms of demand and supply
  ● Explain crowding out and its effect on physical capital investment
  ● Explain the relationship between budget deficits and interest rates

31.2 Fiscal Policy and the Trade Balance
  ● Discuss twin deficits as they relate to budget and trade deficit
  ● Explain the relationship between budget deficits and exchange rates

Chapter 32: Macroeconomic Policy Around the World
32.1 The Diversity of Countries and Economies across the World
  ● Identify what classifies a country as low-income, middle-income, or high-income
  ● Explain how standards of living are influenced by geography, demographics, industry structure, and economic institutions
  ● Analyze growth policies for high-income, middle-income, and low-income countries

32.2 Causes of Inflation and the Balance of Trade Concerns
  ● Identify the causes and effects of inflation in various economic markets
  ● Analyze concerns over international trade in goods and services and international flows of capital

Chapter 33: International Trade
33.1 International Trade: Absolute and Comparative Advantage
  ● Explain gains from trade
  ● Understand production possibilities and comparative advantage
  ● Identify situations of mutually beneficial trade
  ● Identify at least two advantages of intra-industry trading

33.2 The Benefits of Reducing Barriers to International Trade
  ● Identify at least two benefits of reducing barriers to international trade
Chapter 34: Globalization and Protectionism

34.1 Protectionism: An Indirect Subsidy from Consumers to Producers
- Explain protectionism and its three main forms
- Analyze protectionism through concepts of demand and supply, noting its effects on equilibrium
- Calculate the effects of trade barriers

34.2 International Trade and its Effects on Jobs, Wages, and Working Conditions
- Discuss how international trade influences the job market
- Explain and analyze various arguments that are in support of restricting imports

34.3 Arguments in Support of Restricting Imports
- Explain dumping and race to the bottom
- Evaluate the significance of countries' perceptions on the benefits of growing trade

34.4 How Trade Policy is Enacted: Globally, Regionally, and Nationally
- Explain the origin and role of the World Trade Organization (WTO) and General Agreement on Tariffs and Trade (GATT)
- Discuss the significance and provide examples of regional trading agreements

34.5 The Tradeoffs of Trade Policy
- Analyze trade policy at the national level
- Assess the complexity of international trade
- Explain disruptive market change