



# Survey of Economics

978-1-63545-095-8



To learn more about all our offerings  
Visit [Knewton.com](https://www.knewton.com)



Source	Author(s) (Text or Video)	Title(s)	Link (where applicable)
OpenStax	Senior Contributing Authors: Steve Greenlaw - University of Mary Washington Timothy Taylor - Macalester College	Principles of Economics, 2nd Edition	<a href="#">OpenStax</a>
Marginal Revolution University	Tyler Cowen and Alex Tabarrok		<a href="#">MRUniversity Videos</a>

Alta Survey of Economics was developed to meet the scope and sequence of most introductory Survey of Economics courses. To develop the course, Knewton used a variety of content, including OpenStax, MRU, and a team of Subject Matter Experts (SMEs). The SMEs come from diverse backgrounds and are all accomplished academics in the field of Economics. Alta Survey of Economics covers the breadth of introductory economics topics and also provides the necessary depth to ensure the course is manageable and engaging for instructors and students alike.

Alta Survey of Economics has one to two pieces of instruction for every learning objective, giving students multiple, diverse opportunities to learn new concepts. Alta Survey of Economics covers the typical breadth of economics topics and also provides the necessary depth to ensure the course is manageable and engaging for instructors and students alike.

---

## Survey of Economics | Table of Contents

### Chapter 1: Welcome to Economics!

#### 1.1 What is Economics and Why is it Important?

- Evaluate the significance of scarcity
- Explain the relationship between production and division of labor
- Contrast microeconomics and macroeconomics

#### 1.2 Economic Theories, Models, and Systems

- Explain the importance of economic theories and models
- Interpret a circular flow diagram
- Contrast traditional economies, command economies, and market economies
- 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

- Interpret budget constraints
- Calculate a budget constraint using an equation
- Graph budget constraints
- Explain opportunity cost
- Calculate opportunity cost
- Understand how to use marginal analysis
- Define sunk costs

#### 2.2 The Production Possibilities Frontier and Social Choices

- Define production possibilities frontier
- Calculate opportunity cost based on a production possibilities frontier
- Understand the law of diminishing returns and how it relates to the shape of the PPF
- Define productive efficiency and allocative efficiency
- Define comparative advantage

#### 2.3 Confronting Objections to the Economic Approach

- Recall arguments against economic approaches to decision-making
- Classify normative statements and positive statements

### Chapter 3: Introduction to Demand and Supply

#### 3.1 Demand, Supply, and Equilibrium in Markets for Goods and Services

- Explain demand, quantity demanded, and the law of demand
  - Interpret demand schedules and demand curves
  - Explain supply, quantity supplied, and the law of supply
  - Interpret supply schedules and supply curves
  - Define equilibrium
  - Identify equilibrium using demand/supply curves
  - Identify equilibrium using demand/supply schedules
  - Explain how a market moves from shortage or surplus to an equilibrium
-

### 3.2 Shifts in Demand and Supply for Goods and Services

- Define the ceteris paribus assumption
- Contrast normal and inferior goods
- Identify the effects of income on shifts in demand
- Explain how changes in price of substitute goods can affect demand
- Explain how changes in price of complement goods can affect demand
- Identify factors that shift demand curves
- Explain how changes in the price of inputs affect supply
- Identify factors that shift supply curves
- Graph shifts in demand
- Graph shifts in supply

### 3.3 Changes in Equilibrium Price and Quantity: The Four-Step Process

- Use the four-step process to explain how shifts in demand affect equilibrium
- Use the four-step process to explain how shifts in supply affect equilibrium
- Use a supply and demand schedule to explain how shifts in demand or supply affect equilibrium
- Use the four-step process to explain how simultaneous shifts in supply and demand affect equilibrium
- Contrast shifts of demand or supply and movements along a demand or supply curve

### 3.4 Price Ceilings and Price Floors

- Explain price ceilings
- Explain price floors
- Analyze the effects of price floors on market equilibrium
- Analyze the effects of price ceilings on market equilibrium

### 3.5 Demand, Supply, and Efficiency

- Define Consumer Surplus
- Define Producer Surplus
- Explain how price ceilings and price floors reduce social surplus
- Explain why taxes on buyers and sellers can be inefficient

## **Chapter 4: Labor and Financial Markets**

### 4.1 Demand and Supply at Work in Labor Markets

- Identify equilibrium in the labor market using supply and demand schedules or curves
- Explain shifts in the demand curves of the labor market
- Explain how shifts in demand and supply for labor affect labor market equilibrium
- Explain shifts in the supply curves of the labor market
- Explain price floors in the labor market such as minimum wage or a living wage

### 4.2 Demand and Supply in Financial Markets

- Explain how interest rates can affect supply and demand in financial markets
  - Explain equilibrium in financial markets
  - Explain shifts in the demand and supply of financial capital
  - Analyze how shifts in the demand or supply of financial capital affect equilibrium
  - Explain the impact of price ceilings and usury laws in the financial markets
-

#### 4.3 The Market System as an Efficient Mechanism for Information

- Understand the market system as an efficient mechanism for information
- Apply demand and supply models to analyze prices and quantities

### **Chapter 5: Elasticity**

#### 5.1 Price Elasticity of Demand and Price Elasticity of Supply

- Define price elasticity
- Classify price elasticity as elastic, inelastic, or unitary
- Calculate the price elasticity of demand
- Calculate the price elasticity of supply
- Contrast price elasticity with slope

#### 5.2 Polar Cases of Elasticity and Constant Elasticity

- Define and identify polar cases of elasticity
- Distinguish areas on a demand or supply curve that are inelastic, unitary elastic, and elastic

#### 5.3 Elasticity and Pricing

- Explain the relationship between changes in price and total revenue based on the elasticity of demand
- Explain the relationship between shifts in supply and changes in equilibrium price based on the elasticity of demand
- Explain the relationship between elasticity and tax incidence
- Explain the long-run and short-run impacts of elasticity

#### 5.4 Elasticity in Areas Other Than Price

- Define income elasticity of demand
- Calculate income elasticity of demand
- Define cross-price elasticity of demand
- Calculate cross-price elasticity of demand

### **Chapter 6: Production, Costs, and Industry Structure**

#### 6.1 Explicit and Implicit Costs, and Accounting and Economic Profit

- Understand the concept of the firm and production
- Understand revenue, cost, and profits
- Use revenue and cost information to calculate accounting and economic profit

#### 6.2 Production in the Short Run

- Understand the factors of production and be able to group factors into one of five categories
- Understand and differentiate between fixed and variable inputs in production
- Calculate marginal product and understand the law of diminishing marginal product

#### 6.3 Costs in the Short Run

- Identify the factor payments associated with the five factors of production
  - Calculate cost from a production function
  - Use a cost function to calculate marginal and average costs
  - Understand fixed, variable, and total costs of production
  - Use fixed and variable costs to calculate average variable, average fixed, and average total costs
  - Identify average total cost, average variable cost, and marginal cost on a graph
  - Define average profit and profit margin
-

## 6.4 Costs in the Long Run

- Understand the relationship between labor and machinery prices and firm production decisions
- Recognize when an average cost curve exhibits economics of scale
- Understand the long run average cost curve and identify the economies of scale and constant returns to scale zones
- Understand diseconomies of scale and identify this on the long run average cost curve
- Understand the relationship between the shape of the long-run average cost curve and industry structure

## Chapter 7: Perfect Competition

### 7.1 How Perfectly Competitive Firms Make Output Decisions

- Understand market structure and the characteristics of a perfectly competitive industry
- Understand two different formulas for calculating profit
- Use a graph or table to determine the profit-maximizing level of output based on total revenue and total cost
- Use total revenue to calculate marginal revenue in perfect competition
- Find the profit-maximizing level of output using marginal revenue and marginal cost
- Understand profit margin and identify profit on a graph
- Use price and average total cost to calculate profit
- Understand the firm's short run production decision and identify the short run supply curve

### 7.2 Entry and Exit in the Long Run and Efficiency in Perfectly Competitive Markets

- Understand why firms enter or exit a competitive industry
- Understand how a competitive industry arrives at the long run equilibrium
- Understand the cost structure of a competitive industry and identify long run industry supply on a graph
- Understand efficiency and how it relates to perfect competition

## Chapter 8: Monopoly

### 8.1 How Monopolies Form: Barriers to Entry

- Understand monopoly and barriers to entry
- Understand how natural monopolies arise and identify them graphically
- Understand control of a physical resource, legal restrictions, intellectual property, and predatory pricing as sources of barriers to entry

### 8.2 How a Profit-Maximizing Monopoly Chooses Output and Price

- Differentiate between demand facing a perfectly competitive firm and a monopolist
  - Use total revenue to calculate marginal revenue for a monopolist
  - Use marginal revenue and marginal cost to find the profit maximizing quantity and calculate profits
  - Identify monopoly profits on a graph and determine the monopolist's price
  - Understand allocative efficiency in a monopoly
-

## **Chapter 9: Monopolistic Competition and Oligopoly**

### 9.1 Introduction to Monopolistic Competition and Oligopoly

- Remember the characteristics of monopolistic competition and oligopoly
- Identify examples of product differentiation
- Understand demand as perceived by a monopolistically competitive firm
- Use a graph or table to determine the monopolistic competitor's outcome
- Use a graph or table to determine the monopolistic competitor's profit
- Illustrate the transition to the long run in monopolistic competition when firms make short run profits
- Illustrate the transition to the long run in monopolistic competition when firms suffer short run losses
- Understand efficiency in monopolistic competition
- Understand the benefits of product differentiation and how advertising affects monopolistic competition

### 9.2 Oligopoly

- Understand how oligopolies form and how they could work together in production decisions
- Understand game theory and the prisoner's dilemma
- Understand how the prisoner's dilemma relates to oligopoly and calculate the game's outcome
- Calculate the no-cooperation equilibrium in oligopoly
- Explain the kinked demand curve model of oligopoly

## **Chapter 10: Monopoly and Antitrust Policy**

### 10.1 Regulating Anticompetitive Behavior and Natural Monopolies

- Understand restrictive practices and why regulators seek to regulate them
- Interpret a graph of regulatory choices for natural monopoly
- Understand the consequences of various regulatory choices for natural monopoly
- Understand the costs and benefits of cost-plus and price cap regulation
- Understand the effects of late 20th century deregulations in the US
- Explain regulation in the financial industry

## **Chapter 11: Environmental Protection and Negative Externalities**

### 11.1 The Economics of Pollution and Command-and-Control Regulation

- Identify examples of positive and negative externalities
- Graph a market with a negative externality
- Identify the market and socially optimal equilibria in a market with a negative externality
- Identify command-and-control regulation and understand its drawbacks

### 11.2 Market-Oriented Environmental Tools

- Understand pollution charges as a market-oriented environmental tool
- Understand marketable permits as a market-oriented environmental tool
- Understand property rights as a solution to negative externality

### 11.3 The Benefits and Costs of U.S. Environmental Laws, International Environmental Issues, and The Tradeoff Between Economic Output and Environmental Protection

- Explain the costs and benefits of the Clean Air Act and ecotourism
  - Use a marginal benefits-marginal costs graph to analyze regulatory choice
-

- Understand the role of the Paris Climate Agreement in addressing international externalities
- Understand the tradeoff between environmental protection and production

## **Chapter 12: Positive Externalities and Public Goods**

### 12.1 Why the Private Sector Underinvests in Innovation and How Governments Can Encourage Innovation

- Understand private and social benefits and illustrate them graphically
- Understand the positive externalities of education
- Understand how subsidies can be a solution to positive externalities and illustrate this graphically
- Define intellectual property rights and understand why they are not always effective for promoting innovation
- Understand alternative government policies for promoting research and development

### 12.2 Public Goods

- Identify goods that are non-rival and non-excludable as public goods
- Understand the free rider problem and why it leads government to provide some public goods
- Understand common resources and the tragedy of the commons
- Explain how public health programs create positive externalities

## **Chapter 13: Labor Markets and Income**

### 13.1 The Theory of Labor Markets

- Calculate and graph the marginal product of labor
- Calculate the value of marginal product of labor and plot it on a graph
- Understand how firms in competitive labor markets choose how many workers to hire
- Calculate and graph marginal revenue product in imperfectly competitive output markets
- Understand how imperfectly competitive firms choose how much labor to employ
- Understand equilibrium wage and employment in a labor market

### 13.2 Market Power on the Supply Side of Markets and Bilateral Monopoly

- Define unions and remember basic facts about union membership in the US
- Understand how unions can affect wages
- Explain the tradeoff between wages and employment and understand the potential impacts of unions on worker productivity
- Understand possible explanations for the decline in union membership in the US
- Understand how bilateral monopoly affects employment and wages in labor markets

### 13.3 Employment Discrimination and Immigration

- Define discrimination and understand trends in wage ratios over the past 50 years
- Understand factors that affect female-male wage ratios
- Understand factors that affect black-white wage ratios
- Understand how competitive markets, the government, and growing diversity can help reduce discrimination
- Understand the costs and benefits, historical trends, and policy regarding immigration

## **Chapter 14: Poverty and Economic Inequality**

### 14.1 The Poverty Line and The Poverty Trap

- Define basic definitions related to poverty
  - Identify patterns of inequality in the US and abroad
-



- Explain the poverty trap and use a labor-leisure budget constraint to illustrate this scenario
- Explain how a guaranteed income program discourages work

#### 14.2 The Safety Net and Income Inequality

- Explain the government programs of the Temporary Assistance for Needy Families and the Earned Income Tax Credit
- Explain the Supplemental Nutrition Assistance Program and Medicaid
- Describe the US income distribution using income quintiles
- Understand how income inequality has been affected by household composition and labor demand

### **Chapter 15: Information, Risk, and Insurance**

#### 15.1 Insurance and Imperfect Information

- Calculate actuarial fair premiums
- Identify the government social insurance programs in the US
- Understand risk groups and their effect on premiums
- Understand moral hazard and what insurance companies can do to present it
- Define adverse selection and describe how this can be a problem for insurers
- Explain U.S. healthcare in an international context
- Understand the role for government in insurance markets
- Understand the Patient Protection and Affordable Care Act

### **Chapter 16: Introduction to Financial Markets**

#### 16.1 How Households Supply Financial Capital

- Define liquidity, risk, and rate of return
- Understand banks as financial intermediaries and explain the ways households use banks
- Understand how bond interest rates vary with risk and maturity rate
- Define important bond terminology
- Calculate a bond's yield rate
- Understand the major US stock indexes
- Define diversification, mutual funds, and index funds
- Calculate real estate equity
- Understand the housing bubble
- Understand the tradeoff between risk and return

#### 16.2 How to Accumulate Personal Wealth

- Explain Random Walk Theory
- Calculate simple interest
- Calculate compound interest

### **Chapter 17: The Macroeconomic Perspective**

#### 17.1 Measuring the Size of the Economy: Gross Domestic Product

- Identify the goals of macroeconomic policy
  - Define Gross Domestic Product and understand its components
  - Understand trade balance
  - Calculate GDP using the components of demand
-

- Calculate GDP by what is produced
- Understand national income and distinguish between final and intermediate goods
- Define Gross National Product and Net National Product

#### 17.2 Adjusting Nominal Values to Real Values and Tracking Real GDP Over Time

- Define nominal value, real value, and GDP deflator
- Calculate Real GDP using the GDP Deflator
- Calculate percentage change in real GDP
- Calculate the growth in nominal GDP
- Define the recessions and depressions
- Define the business cycle

#### 17.3 Comparing GDP Among Countries

- Use exchange rates to compare GDPs across countries
- Use GDP and population to calculate GDP per capita
- Explain the limitations of GDP for measuring a country's standard of living
- Understand when GDP overstates and understates changes in standard of living

### **Chapter 18: Economic Growth**

#### 18.1 Labor Productivity and Economic Growth

- Explain modern economic growth, the Industrial Revolution, and growth before the Industrial Revolution
- Explain property right, contractual right, and their importance for economic growth
- Define labor productivity and understand the factors that affect labor productivity
- Define the aggregate production function and identify its components
- Understand growth in labor productivity and the impact of the new economy
- Calculate future GDP using the compound GDP growth rate

#### 18.2 Components of Economic Growth and Economic Convergence

- Discuss the components of economic growth, including physical capital, human capital, and technology
- Understand how capital deepening impacts labor productivity
- Understand which components of economic growth have been found to be most important
- Understand the factors that contribute to a health climate for economic growth
- Explain convergence and understand why low income countries grow faster than high income countries
- Understand why economic convergence may be slow or may not occur at all

### **Chapter 19: Unemployment**

#### 19.1 Defining and Computing Unemployment Rate and Patterns in Unemployment

- Define labor force, employed, and unemployed
  - Calculate the unemployment rate
  - Calculate the labor force participation rate
  - Understand sources of hidden unemployment
  - Understand how the BLS calculates unemployment and potential issues with the measurement
  - Compare unemployment in the US over time, by race and ethnicity, and by age group
-

- Understand why people are unemployed, how long unemployment lasts, and how the US compares to other countries

#### 19.2 What Causes Changes in Unemployment Over the Short Run

- Understand cyclical employment and define involuntary unemployment
- Understand sticky wages
- Understand various explanations for sticky wages in the labor market
- Explain sticky wages using a labor supply-labor demand diagram

#### 19.3 What Causes Changes in Unemployment Over the Long Run

- Understand frictional and structural unemployment as components of the natural rate of unemployment
- Understand how wages adjust to changes in labor productivity growth
- Understand how government policy affects the natural rate of unemployment
- Understand factors influencing the natural rate of unemployment in the US and in Europe

### **Chapter 20: Inflation**

#### 20.1 Tracking Inflation

- Explain inflation
- Calculate the value of a basket of goods
- Calculate inflation using the change in cost of a basket of goods and services
- Use a base year to calculate index numbers for the cost of a basket of goods and services
- Calculate inflation using index numbers

#### 20.2 How to Measure Changes in the Cost of Living

- Define the Consumer Price Index and understand the substitution and quality/new goods biases
- Understand how CPI is calculated and define the core inflation index
- Explain price indices other than the CPI

#### 20.3 How the U.S. and Other Countries Experience Inflation

- Understand historical patterns of inflation in the US and abroad
- Explain how inflation affects real interest rates and real wages
- Understand how inflation affects savers, like retirees, and borrowers
- Understand some costs of inflation and one potential benefit
- Explain indexing and some key examples of indexing

### **Chapter 21: The International Trade and Capital Flows**

#### 21.1 Measuring Trade Balances

- Define balance of trade, trade surplus, and trade deficit
- Define merchandise trade balance, current account balance, income payments, and unilateral transfers
- Calculate current account balance

#### 21.2 Trade Balances in Historical and International Context and Flows of Financial Capital

- Describe the US trade balance historically and compare the level of globalization across countries
  - Understand how trade surpluses and deficits lead to lending money or borrowing money abroad
  - Understand balance of payments and the relationship with balance of trade
-

### 21.3 The National Saving and Investment Identity

- Use the national saving and investment identity to explain the balance of trade
- Understand how changes to investment, private saving, and public saving impact the balance of trade
- Use the savings and investment identity to determine investment spending, private saving, or public saving
- Understand the relationship between the business cycle and the balance of trade

### 21.4 The Pros and Cons of Trade Deficits and Surpluses and The Difference Between Level of Trade and the Trade Balance

- Understand the costs and benefits to running trade deficits and surpluses
- Define level of trade and explain what factors are likely to affect a country's level of trade

## **Chapter 22: The Aggregate Demand/Aggregate Supply Model**

### 22.1 Macroeconomic Perspectives on Demand and Supply and Building a Model of Aggregate Demand and Aggregate Supply

- Explain Say's law and Keynes' law and understand when these laws apply
- Explain the shape of the aggregate supply curve and identify aggregate supply and potential GDP it on a graph
- Explain the shape of the aggregate demand curve and identify it on a graph
- Use a table to construct an aggregate supply and aggregate demand curve
- Identify equilibrium price level of Real GDP in the AD-AS model
- Define short run aggregate supply and long run aggregate supply

### 22.2 Shifts in Aggregate Supply

- Understand how productivity growth affects the AS curve and illustrate this graphically
- Understand how changes in input prices and other supply shocks impact AS
- Illustrate the effect of a change in input prices on the aggregate supply curve and equilibrium

### 22.3 Shifts in Aggregate Demand

- Explain how business and consumer confidence affect AD
- Illustrate graphically how business and consumer confidence affect AD
- Explain how government policy affects AD and illustrate this graphically

### 22.4 Growth, Unemployment, and Inflation in the AD/AS Model and Exploring Keynes' Law and Say's Law in the AD/AS model

- Use the AD/AS model to explain growth, recession, and cyclical unemployment
- Use the AD/AS model to show inflationary pressures from a shift in the AS curve or a shift in the AD curve
- Use the AS curve to identify the Keynesian zone, the intermediate zone, and neoclassical zone

## **Chapter 23: Money and Banking**

### 23.1 Defining Money by Its Functions

- Explain barter and the double coincidence of wants
  - Define money by its functions
  - Explain commodity money and fiat money
-

### 23.2 Measuring Money: Currency, M1 and M2

- Explain M1 money
- Explain M2 money
- Calculate M1 and M2
- Explain "plastic money" and the relation to the money supply

### 23.3 The Role of Banks

- Explain financial intermediary and the role of banks in reducing transactions costs
- Define balance sheet, asset, liability, and net worth
- Use a T-account to calculate net worth
- Explain assets and liabilities for a bank
- Explain how a bank can go bankrupt and how it can prevent bankruptcy

### 23.4 How Banks Create Money

- Calculate the multiplier
- Calculate the total change in money supply due to the multiplier
- Explain how the money multiplier may overestimate the change in total money supply and understand costs and benefits of banks

## **Chapter 24: Monetary Policy and Bank Regulation**

### 24.1 The Federal Reserve Banking System, Central Banks, and Bank Regulation

- Define central bank and explain the structure of the Federal Reserve system
- Explain bank regulation and bank supervision
- Define bank run and explain the role of banks in preventing bank runs

### 24.2 How a Central Bank Executes Monetary Policy

- Explain the Federal Open Market Committee, open market operations, and the federal funds rate
- Explain how the Fed selling and buying bonds impacts the money supply
- Explain how the Fed can use reserve requirements and the discount rate to affect the money supply

### 24.3 Monetary Policy and Economic Outcomes

- Explain how changes in the money supply affect the equilibrium interest rate and use a supply and demand for loanable funds graph to illustrate this
- Explain how monetary policy affects aggregate demand and illustrate this graphically
- Use an AD/AS diagram to illustrate the effects of countercyclical monetary policy
- Understand Fed responses to economic conditions and how quantitative easing was used during the Great Recession

### 24.4 Pitfalls for Monetary Policy

- Explain how excess reserves and deflation can reduce the effectiveness of monetary policy
  - Understand the quantity equation of money and what this equation means for expansionary monetary policy
  - Understand the neoclassical view of monetary policy and explain inflation targeting
  - Define the leverage cycle and explain why central banks might address asset prices
  - Use the quantity equation of money to calculate the impact of monetary policy
-

## **Chapter 25: Exchange Rates and International Capital Flow**

### 25.1 How the Foreign Exchange Market Works

- Define the foreign exchange market and identify which currencies are traded most frequently
- Define Foreign Direct Investment and portfolio investment and explain hedging
- Identify demanders and suppliers of U.S. dollars on the foreign exchange market
- Define currency appreciation and depreciation and understand who benefits from appreciation and depreciation of the US dollar

### 25.2 Demand and Supply Shifts in Foreign Exchange Markets

- Understand equilibrium in the foreign exchange market
- Understand how expectations affect the demand and supply for currency
- Understand how changes in expectations of future exchange rates affect equilibrium in the foreign exchange market
- Understand how differences in relative rates of return across countries affect the foreign exchange market
- Understand how differences in relative inflation affect the foreign exchange market
- Define arbitrage and purchasing power parity

### 25.3 Macroeconomic Effects of Exchange Rates and Exchange Rate Policies

- Understand how exchange rates impact exports and international borrowers
- Explain floating exchange rate, soft peg, and hard peg
- Understand how monetary policy can be used to affect exchange rates and explain Tobin taxes
- Explain merged currency and understand how a bank can conduct countercyclical monetary policy under different foreign exchange policies

## **Chapter 26: Government Budgets and Fiscal Policy**

### 26.1 Government Spending and Taxation

- Define budget deficit, budget surplus, and balanced budget
- Understand the components of federal, state, and local government spending
- Explain sources of federal tax revenues
- Explain marginal tax rate, progressive tax, proportional tax, and regressive tax
- Explain the components of state and local tax revenues

### 26.2 Federal Deficits and the National Debt Using Fiscal Policy to Fight Recession, Unemployment, and Inflation

- Understand national debt and identify historical patterns of spendings, tax revenues, and deficits
- Explain the tools of fiscal policy and define expansionary and contractionary fiscal policy
- Illustrate the effect of expansionary fiscal policy on macroeconomic equilibrium in an AD/AS diagram
- Illustrate the effect of contractionary fiscal policy on macroeconomic equilibrium in an AD/AS diagram

### 26.3 Automatic Stabilizers, Problems with Discretionary Fiscal Policy, and the Debate of a Balanced Budget

- Explain the role of automatic stabilizers in counteracting recession and boom
  - Understand how increased government spending impacts interest rates and investment
  - Explain lags in fiscal policy
-

- Explain additional limitations of fiscal policy
- Explain the debate over balancing the budget

## **Chapter 27: Macroeconomic Policy Around the World**

### 27.1 The Diversity of Countries and Economies Across the World

- Define low, middle, and high income country and understand how these countries vary in population and share of world income
- Explain how differences in geography, demographics, industry structure, and economic institutions contribute to differences in GDP per capita around the world
- Understand growth policies appropriate for high-income countries
- Understand growth policies appropriate for middle-income countries
- Understand growth policies appropriate for low-income countries
- Explain the causes of unemployment around the world
- Explain causes and solutions to inflation in various parts of the world
- Define NAFTA and explain concerns related to trade

## **Chapter 28: International Trade**

### 28.1 Absolute and Comparative Advantage

- Explain comparative advantage and determine which country has an absolute advantage in producing a good
- Draw a country's production possibilities frontier
- Calculate a country's opportunity cost of producing one unit of a good and use this to determine comparative advantage
- Explain the relationship between comparative advantage and specialize and calculate world production before and after specialization
- Illustrate how trade can move a country beyond its production possibilities frontier

### 28.2 Absolute Advantage, Intra-Industry Trade Between Similar Economies, and Reducing the Barriers to International Trade

- Relate absolute advantage and labor productivity and calculate the increase in world output due to specialization even if one country has both absolute advantages
- Illustrate gains from trade when one country has an absolute advantage in both goods
- Explain why comparative advantage increases production for all countries
- Define and explain intra-industry trade
- Explain the World Trade Organization and understand the benefits to reducing trade barriers

## **Chapter 29: Globalization and Protectionism**

### 29.1 Protectionism: An Indirect Subsidy from Consumers to Producers

- Explain protectionism, GATT, and WTO
  - Identify equilibrium prices for a good in two countries with and without trade
  - Calculate exports and imports using supply and demand diagrams
  - Identify gains from trade on a supply and demand diagram
  - Use a supply and demand diagram to illustrate the impact of imports and identify the impact on domestic market price
  - Explain who benefits and who loses from protectionism
-

## 29.2 The Effects of International Trade and Arguments in Favor of Restricting Imports

- Explain how protectionism and trade affect jobs, wages, and working conditions
- Explain the infant industry argument and dumping
- Explain the environmental protection argument, the unsafe consumer products argument, and the national interest argument

## 29.3 How Governments Enact Trade Policy and The Tradeoffs of Trade Policy

- Explain The main objective of the WTO/GATT and understand regional trade agreements
- Explain the relationship between free trade and domestic interests and how trade policy has evolved over time
- Explain why free trade should be a first priority for policymakers

## Appendices

### A.1 Indifference Curves

- Draw an indifference curve
- Interpret an indifference curve and explain its slope
- Explain why higher indifference curves are preferred to lower ones and how indifference curves differ across individuals
- Understand how an individual uses indifference curves and a budget line to maximize utility
- Explain how changes in income affect the utility maximizing choice
- Identify the income and substitution effects graphically
- Draw a labor-leisure indifference curve and budget line
- Explain the effect of a change in the wage on a worker's labor-leisure choice
- Draw an intertemporal choice indifference curve and budget line
- Explain the effect of a change in the interest rate on the choice between present and future consumption
- Sketch income and substitution effects

### A.2 Present Discounted Value

- Calculate present discounted value of a stock
- Calculate present discounted value of a bond and understand the relationship between present value and interest rates

### A.3 The Expenditure-Output Model

- Identify aggregate expenditure, the 45-degree line, and potential output on a graph
  - Define MPC and MPS
  - Draw a pre-tax consumption function
  - Explain the investment function and government spending function
  - Draw a post-tax consumption function
  - Explain the exports function and draw an imports function
  - Use the expenditure-output model to calculate expenditure and analyze how changing components affect expenditure
  - Explain equilibrium in the Keynesian cross model
  - Identify inflationary and recessionary gaps on an aggregate expenditure gap
  - Calculate and explain the spending multiplier
  - Use the spending multiplier to calculate the effect of an increase in spending on Real GDP
-