

Principles of Macroeconomics | Table of Contents

Chapter 1: Welcome to Economics!

1.1 What is Economics and Why is it Important?

- Evaluate the significance of scarcity (4)
- Explain the relationship between production and division of labor (5)
- Contrast microeconomics and macroeconomics (5)

1.2 Economic Theories, Models, and Systems

- Explain the importance of economic theories and models (4)
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- Contrast traditional economies, command economies, and market economies (5)
- Assess the importance and effects of globalization (4)

Chapter 2: Choice in a World of Scarcity

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Chapter 3: Introduction to Demand and Supply

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- Interpret demand schedules and demand curves (5)
- Explain supply, quantity supplied, and the law of supply (4)
- Interpret supply schedules and supply curves (5)
- Define equilibrium (5)
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- Identify equilibrium using demand/supply schedules (40)
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- Define the ceteris paribus assumption (4)
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- Explain how changes in price of substitute goods can affect demand (4)
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- Analyze the effects of price ceilings on market equilibrium (40, 3)

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- Calculate cross-price elasticity of demand (40)
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Chapter 6: The Macroeconomic Perspective**6.1 Measuring the Size of the Economy: Gross Domestic Product**

- Identify the goals of macroeconomic policy (4)
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6.2 Adjusting Nominal Values to Real Values and Tracking Real GDP Over Time

- Define nominal value, real value, and GDP deflator (4)
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- Explain modern economic growth, the Industrial Revolution, and growth before the Industrial Revolution (4)
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- Understand which components of economic growth have been found to be most important (4)
- Understand the factors that contribute to a health climate for economic growth (4)
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Chapter 8: Unemployment

8.1 Defining and Computing Unemployment Rate and Patterns in Unemployment

- Define labor force, employed, and unemployed (4)
- Calculate the unemployment rate (40)
- Calculate the labor force participation rate (10)
- Understand sources of hidden unemployment (4)
- Understand how the BLS calculates unemployment and potential issues with the measurement (5, 5)
- Compare unemployment in the US over time, by race and ethnicity, and by age group (5, 5)
- Understand why people are unemployed, how long unemployment lasts, and how the US compares to other countries (5, 5)

8.2 What Causes Changes in Unemployment Over the Short Run

- Understand cyclical employment and define involuntary unemployment (5, 5)
- Understand sticky wages (5, 5)
- Understand various explanations for sticky wages in the labor market (5, 5)
- Explain sticky wages using a labor supply-labor demand diagram (10)

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 - Understand how wages adjust to changes in labor productivity growth (5, 4)
 - Understand how government policy affects the natural rate of unemployment (5, 5)
 - Understand factors influencing the natural rate of unemployment in the US and in Europe (4)
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Chapter 9: Inflation

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- Explain inflation (4)
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- Calculate inflation using index numbers (10)

9.2 How to Measure Changes in the Cost of Living

- Define the Consumer Price Index and understand the substitution and quality/new goods biases (4)
- Understand how CPI is calculated and define the core inflation index (4)
- Explain prices indices other than the CPI (5)

9.3 How the U.S. and Other Countries Experience Inflation

- Understand historical patterns of inflation in the US and abroad (4)
- Explain how inflation affects real interest rates and real wages (4)
- Understand how inflation affects savers, like retirees, and borrowers (4)
- Understand some costs of inflation and one potential benefit (4)
- Explain indexing and some key examples of indexing (4)

Chapter 10: The International Trade and Capital Flows

10.1 Measuring Trade Balances

- Define balance of trade, trade surplus, and trade deficit (4)
- Define merchandise trade balance, current account balance, income payments, and unilateral transfers (4)
- Calculate current account balance (10)

10.2 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 (4)
- Understand how trade surpluses and deficits lead to lending money or borrowing money abroad (4)
- Understand balance of payments and the relationship with balance of trade (4)

10.3 The National Saving and Investment Identity

- Use the national saving and investment identity to explain the balance of trade (4)
- Understand how changes to investment, private saving, and public saving impact the balance of trade (4)
- Use the savings and investment identity to determine investment spending, private saving, or public saving (10)
- Understand the relationship between the business cycle and the balance of trade (4)

10.4 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 (4)
 - Define level of trade and explain what factors are likely to affect a country's level of trade (4)
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Chapter 11: The Aggregate Demand/Aggregate Supply Model

11.1 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 (4)
- Explain the shape of the aggregate supply curve and identify aggregate supply and potential GDP it on a graph (4)
- Explain the shape of the aggregate demand curve and identify it on a graph (4)
- Use a table to construct an aggregate supply and aggregate demand curve (10)
- Identify equilibrium price level of Real GDP in the AD-AS model (10)
- Define short run aggregate supply and long run aggregate supply (4)

11.2 Shifts in Aggregate Supply

- Understand how productivity growth affects the AS curve and illustrate this graphically (10)
- Understand how changes in input prices and other supply shocks impact AS (4)
- Illustrate the effect of a change in input prices on the aggregate supply curve and equilibrium (10)

11.3 Shifts in Aggregate Demand

- Explain how business and consumer confidence affect AD (4)
- Illustrate graphically how business and consumer confidence affect AD (10)
- Explain how government policy affects AD and illustrate this graphically (10)

11.4 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 (5)
- Use the AD/AS model to show inflationary pressures from a shift in the AS curve or a shift in the AD curve (5, 5)
- Use the AS curve to identify the Keynesian zone, the intermediate zone, and neoclassical zone (4)

Chapter 12: The Keynesian Perspective

12.1 Aggregate Demand in Keynesian Analysis

- Define recessionary gap and inflationary gap (4)
- Understand the three factors that affect consumption (4)
- Understand the two factors that affect investment spending (4)
- Understand the two factors that affect net exports (5)

12.2 The Building Blocks of Keynesian Analysis

- Explain how a lack of demand and slow responding prices cause a recession (5)
- Illustrate how a leftward shift in aggregate demand curve causes a recession (10)
- Define macroeconomic externality and understand the expenditure multiplier (4)

12.3 The Phillips Curve

- Understand the Phillips curve (10)
 - Explain stagflation and understand how stagflation affects the Phillips curve (5)
 - Understand how expansionary fiscal policy can be used to close a recessionary gap (5)
 - Understand how contractionary fiscal policy can be used to close an inflationary gap (5, 5)
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Chapter 13: The Neoclassical Perspective

13.1 The Building Blocks of Neoclassical Analysis

- Explain the determinants of potential GDP and explain the long run aggregate supply curve (5)
- Understand the role of flexible prices in bringing an economy back to potential GDP from an inflationary gap or recessionary gap (4)
- Illustrate the effects of price flexibility on macroeconomic equilibrium using an AD/AS diagram (5)
- Explain rational and adaptive expectations and how these expectations will impact the speed of economic adjustment (5)

13.2 The Policy Implications of the Neoclassical Perspective and Balancing Keynesian and Neoclassical Models

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14.2 Measuring Money: Currency, M1 and M2

- Explain M1 money (5)
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- Explain financial intermediary and the role of banks in reducing transactions costs (5)
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- Use a T-account to calculate net worth (10)
- Explain assets and liabilities for a bank (4)
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- Define central bank and explain the structure of the Federal Reserve system (5)
 - Explain bank regulation and bank supervision (4)
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- Define bank run and explain the role of banks in preventing bank runs (4)

15.2 How a Central Bank Executes Monetary Policy

- Explain the Federal Open Market Committee, open market operations, and the federal funds rate (5)
- Explain how the Fed selling and buying bonds impacts the money supply (5)
- Explain how the Fed can use reserve requirements and the discount rate to affect the money supply (4)

15.3 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 (4)
- Explain how monetary policy affects aggregate demand and illustrate this graphically (10)
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- Understand Fed responses to economic conditions and how quantitative easing was used during the Great Recession (4)

15.4 Pitfalls for Monetary Policy

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- Understand the quantity equation of money and what this equation means for expansionary monetary policy (4)
- Understand the neoclassical view of monetary policy and explain inflation targeting (4)
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- Define the foreign exchange market and identify which currencies are traded most frequently (5)
- Define Foreign Direct Investment and portfolio investment and explain hedging (4)
- Identify demanders and suppliers of U.S. dollars on the foreign exchange market (4)
- Define currency appreciation and depreciation and understand who benefits from appreciation and depreciation of the US dollar (4)

16.2 Demand and Supply Shifts in Foreign Exchange Markets

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- Understand how expectations affect the demand and supply for currency (4)
- Understand how changes in expectations of future exchange rates affect equilibrium in the foreign exchange market (4)
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 - Understand how monetary policy can be used to affect exchange rates and explain Tobin taxes (4)
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Chapter 19: Macroeconomic Policy Around the World**19.1 The Diversity of Countries and Economies Across the World**

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- Understand growth policies appropriate for middle-income countries (4)
- Understand growth policies appropriate for low-income countries (5)
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- Explain causes and solutions to inflation in various parts of the world (5, 5)
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- Calculate a country's opportunity cost of producing one unit of a good and use this to determine comparative advantage (10)
- Explain the relationship between comparative advantage and specialize and calculate world production before and after specialization (10)
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20.2 Absolute Advantage, Intra-Industry Trade Between Similar Economies, and Reducing the Barriers to International Trade

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- Illustrate gains from trade when one country has an absolute advantage in both goods (10)
- Explain why comparative advantage increases production for all countries (5)
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- Explain the World Trade Organization and understand the benefits to reducing trade barriers (4)

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 - Explain the infant industry argument and dumping (4)
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- Explain the environmental protection argument, the unsafe consumer products argument, and the national interest argument (4)

21.3 How Governments Enact Trade Policy and The Tradeoffs of Trade Policy

- Explain The main objective of the WTO/GATT and understand regional trade agreements (5)
- Explain the relationship between free trade and domestic interests and how trade policy has evolved over time (4)
- Explain why free trade should be a first priority for policymakers (4)

Appendix

Indifference Curves

- Draw an indifference curve (10)
- Interpret an indifference curve and explain its slope (5)
- Explain why higher indifference curves are preferred to lower ones and how indifference curves differ across individuals (4)
- Understand how an individual uses indifference curves and a budget line to maximize utility (5)
- Explain how changes in income affect the utility maximizing choice (4)
- Identify the income and substitution effects graphically (10)
- Draw a labor-leisure indifference curve and budget line (10)
- Explain the effect of a change in the wage on a worker's labor-leisure choice (5)
- Draw an intertemporal choice indifference curve and budget line (10)
- Explain the effect of a change in the interest rate on the choice between present and future consumption (5)
- Sketch income and substitution effects (10)

Present Discounted Value

- Calculate present discounted value of a stock (10)
- Calculate present discounted value of a bond and understand the relationship between present value and interest rates (10)

The Expenditure-Output Model

- Identify aggregate expenditure, the 45-degree line, and potential output on a graph (5)
 - Define MPC and MPS (4)
 - Draw a pre-tax consumption function (10)
 - Explain the investment function and government spending function (4)
 - Draw a post-tax consumption function (10)
 - Explain the exports function and draw an imports function (10)
 - Use the expenditure-output model to calculate expenditure and analyze how changing components affect expenditure (10)
 - Explain equilibrium in the Keynesian cross model (10)
 - Identify inflationary and recessionary gaps on an aggregate expenditure gap (5)
 - Calculate and explain the spending multiplier (10)
 - Use the spending multiplier to calculate the effect of an increase in spending on Real GDP (10)
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