ADVANCED PLACEMENT
MICROECONOMICS SYLLABUS

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COURSE DESCRIPTION
Advanced Placement Microeconomics is a one-semester, college-level course. Each student is expected to take the AP Microeconomics Exam that is administered in May. Successful achievement on the AP exam allows the student to earn three hours of college credit.

Topics discussed will reflect the material included in the booklet, *Economics Microeconomics, Macroeconomics Course Description* from the College Board. Microeconomics will emphasize economic principles as applied to the individual segments of the economy. The decision-making processes of consumers, businesses, and government will be analyzed in their roles as participants in a market economy.

CLASS MANAGEMENT NOTES
1. Three Rules: Respect, Responsibility, Reasonability
2. All assignments will be graded using the high school’s adopted policies.
   a. Marking period grades will be 70% Assessment and 30% Practice
   b. Assessments are Test and Quizzes
   c. Practice is bellwork, group work and in-class assignments
3. Tests will include a multiple choice section and free response questions. Separate grades will be given for each part. On unit exams, the multiple choice sections will count as two grades and the free response questions will count as one grade.
4. Each quiz will be a single grade.
5. For every four completed homework assignments, a quiz grade of A will be given. If one is missing, the grade will be a C (75%), and if two are missing, the grade will be an E (50%).
6. All work must be turned in when it is due.
7. Class time should only be used for working on economics assignments.
8. Google plagiarism…. Now that you know what it is... Don’t do it if you plan on receiving credit.
9. Attendance all school attendance rules apply in Mr. Hutton’s class
10. Websites and apps: collegeboard.org, google classroom code, Everfi code ca8714d8 , reffenomics.com, khan academy.org, McGraw Hill connect code CPV9-YA7G-9KBD-3FQE-7VQ6

AP Outline

UNIT I. Basic Economic Concepts  [8-14%]

A. Scarcity, choice, and opportunity cost
B. Production possibilities curve
C. Comparative advantage, absolute advantage, specialization, and trade
D. Economic systems
E. Property rights and the role of incentives
F. Marginal analysis
List of key concepts and graphs

Concepts: Introduction to the language of economics, micro vs. macro, positive vs. normative economics, economic decision making, pitfalls of decision making, scarcity, opportunity costs, production possibilities, absolute advantage, comparative advantage, specialization, terms of trade, market, command, and mixed economic systems, questions each economic system must answer, property rights and the role of incentives, marginal decision making, economic efficiency using marginal analysis.

Graphs: Production possibilities curve (frontier)
Circular flow of economic activity

UNIT II. The Nature and Functions of Product Markets [55-70%]

A. Supply and Demand [15-20%]
1. Market equilibrium
2. Determinants of supply and demand
3. Price and quantity controls
4. Elasticity
   a. Price, income, and cross-price elasticities of demand
   b. Price elasticity of supply
5. Consumer surplus, producer surplus, and market efficiency
6. Tax incidence and deadweight loss

List of key concepts and graphs

Concepts: demand schedule, determinants of demand, individual and market demand curves, supply schedule, determinants of supply, market equilibrium, shifts in supply and demand with effects on equilibrium price and quantity, shortages, surpluses, ceilings and floors, price elasticity, characteristics of products with elastic/inelastic demand, total revenue formula, price elasticity using midpoint formula, income and cross-price elasticities, elasticity of supply, consumer surplus, producer surplus, market efficiency, taxation and who bears the burden as determined by elasticities of demand and supply, deadweight loss.

Graphs: demand and supply curves showing equilibrium, shifts of demand/supply
Demand and supply curves showing ceilings and floors
Demand and supply curves showing consumer surplus/producer surplus
Demand and supply curves showing deadweight loss

List of key words or terms

Demand, law of demand, quantity demanded, market demand, substitutes, complements, normal goods, inferior goods, supply, law of supply, quantity supplied, market equilibrium, equilibrium price, equilibrium quantity, shortage, surplus, price ceiling, price floor, elastic, inelastic, unit elastic, perfectly elastic, perfectly inelastic, total revenue, income elasticity of
 demand, cross-price elasticity of demand, elasticity of supply, consumer surplus, producer surplus, total economic surplus, market efficiency, taxation, tax incidence, deadweight loss.

**B. Theory of consumer choice (5-10%)**
1. Total utility and marginal utility
2. Utility maximization: equalizing marginal utility per dollar
3. Individual and market demand curves
4. Income and substitution effects

**List of key concepts and graphs**

**Concepts:** The law of diminishing marginal utility, marginal utility vs. total utility, equalizing marginal utility per dollar for two or more products, the derivation of the demand curve, horizontal summation of individual demand curves to achieve market demand curve, income effect and the demand curve, the substitution effect and the demand curve.

**Graphs:**
- Demand curve

**List of key words and terms**

**Key words:** Marginal utility, total utility, \( MU_a/P_a = MU_b/P_b \), individual demand curve, market demand curve, horizontal summation, substitution effect, income effect

**C. Production and costs (10-15%)**
1. Production functions: short and long run
2. Marginal product and diminishing returns
3. Short-run costs
4. Long-run costs and economies of scale
5. Cost minimizing input combination

**List of key concepts and graphs**

**Concepts:** Long-run and short run characteristics, law of diminishing marginal returns, relationship between marginal and average product, costs of production in the short run, relationship between short run production and costs, appearance of the various cost curves, cost minimizing input combination

**Graphs:**
- Marginal product—identify ranges of increasing, decreasing, and negative returns
- Marginal and average product curves on the same graph
- Total fixed cost, total variable cost, and total cost on the same graph
- Average fixed cost, average variable cost, average total cost, and marginal cost on the Same graph
- Long-run average total cost curve with three ranges
List of key words and terms

Key words: Total product, marginal product, average product, short run, long run, fixed costs, variable costs, total costs, marginal costs, average fixed costs (AFC), average variable costs (AVC), average total costs (ATC), economies of scale, constant returns to scale, diseconomies of scale, minimum efficient scale

D. Firm Behavior and Market Structure (25-35%)

1. Profit:
   a. Accounting vs. economic profits
   b. Normal profit
   c. Profit maximization: MR=MC rule

2. Perfect competition
   a. Profit maximization
   b. Short-run supply and shutdown decision
   c. Behavior of firms and markets in the short run and in the long run
   d. Efficiency and perfect competition

3. Monopoly
   a. Sources of market power
   b. Profit maximization
   c. Inefficiency of monopoly
   d. Price discrimination
   e. Natural monopoly

4. Oligopoly
   a. Interdependence, collusion, and cartels
   b. Game theory and strategic behavior

5. Monopolistic competition
   a. Product differentiation and role of advertising
   b. Profit maximization
   c. Short-run and long-run equilibrium
   d. Excess capacity and inefficiency

List of key concepts and graphs

Concepts: economic costs, determination of total revenue, types of profit, profit maximization rule

Perfect competition: characteristics of perfect competition, industry vs. firm’s demand curve, profit maximization (loss minimization) in the short run, short-run supply and shutdown decision, changes in supply/demand and the effects in short and long run, long run supply curve, efficiency.

Monopoly: characteristics of monopoly, appearance of the demand curve and marginal revenue curve, profit maximizing output and price, price discrimination, natural monopolies and price strategies, anti-trust legislation.

Monopolistic competition: characteristics of monopolistic competition, profit maximization, short-run vs. long run output, price, and profit

Oligopoly: characteristics of oligopoly, game theory model, strategic decision-making
Graphs
- Perfectly competitive side-by-side industry and firm graphs
- Perfectly competitive firm with short-run profits
- Perfectly competitive firm with short-run losses
- Perfectly competitive side-by-side industry and firm graphs in long-run equilibrium
- Monopoly firm graph with profit maximizing price and quantity
- Monopoly firm graph with socially optimal or fair return price
- Monopolistically competitive firm in the short-run
- Monopolistically competitive firm in the long-run

List of key words and terms
Implicit costs, explicit costs, economic costs, economic profit, normal profit

**Perfect competition:** price taker, total revenue, average revenue, marginal revenue, profit maximization at MR=MC, shutdown, short-run supply, long-run supply, decreasing cost industries, constant cost industries, increasing cost industries, allocative efficiency, productive efficiency.

**Monopoly:** price searcher, barriers to entry, patent, rent-seeking behavior, price discrimination, natural monopoly, socially optimal price, fair return price

**Monopolistic competition:** product differentiation, excess capacity

**Oligopoly:** cartels, collusion, Herfindahl Index, concentration ratio, prisoner’s dilemma, price leadership model

UNIT III. **Factor Markets** (10-18%)

A. Derived factor demand
B. Marginal revenue product
C. Labor market and firms’ hiring of labor
D. Market distribution of income

List of key concepts and graphs

**Concepts:** Circular flow of economic activity with emphasis on the factor market, derived demand, how marginal revenue product is determined, shifts in MRP, cost minimization when using more than one resource, profit maximization when using more than one resource, supply of resources, changes in the supply of labor, profit maximization in the perfectly competitive labor market, equilibrium in a monopsony, unions and determination of wages, bilateral monopoly, determination of other factor prices.

**Graphs:**
- Circular flow of economic activity
- Marginal revenue product (Demand) curve
- Market’s marginal revenue product and marginal resource cost (supply) curves
- Firm’s marginal revenue product and marginal resource cost (supply) curves
- Side by side perfectly competitive market and firm graphs
- Monopsony
UNIT IV. Market Failure and the Role of Government  (12-18%)

A. Externalities
   1. Marginal social benefit and marginal social cost
   2. Positive externalities
   3. Negative externalities
   4. Remedies

B. Public goods
   1. Public versus private goods
   2. Provision of public goods

C. Public policy to promote competition
   1. Antitrust policy
   2. Regulation

D. Income distribution
   1. Equity
   2. Sources of income inequality

List of key concepts and graphs

Concepts:

Market failure when marginal social benefit does not equal marginal social cost, recognizing socially optimal price/quantity, positive externalities and remedies to equate MSB and MSC, negative externalities and remedies to equate MSB and MSC, characteristics of public and private goods, various types of taxes, tax burdens, anti-trust policies, promoting competition through regulation, income distribution, issues of income inequality.

Graphs:

Market supply and demand curves with optimal price/quantity
Market supply and demand curves with positive externality
Market supply and demand curves with negative externality
Lorenz curve

List of key words or terms

Key words: Marginal cost-marginal benefit rule, positive externality, spillover benefit, negative externality, spillover cost, Coase theorem, tragedy of the commons, tax, subsidy, quantity control, rivalry, private goods, public goods, common resources, free rider, progressive tax, proportional tax, regressive tax, ability to pay principle, benefits received principle, average tax rate, marginal tax rate, Sherman Act of 1890, Clayton Act of 1914, horizontal merger, vertical merger, conglomerate merger, natural monopoly, equity, Lorenz curve, Gini coefficient, poverty rate, transfer payments, noncash transfers.