

AP Macroeconomics  
**2019 Summer Assignment**  
(due the 2<sup>nd</sup> day of school)

May 2019

Dear Prospective 12<sup>th</sup>-grade AP Macroeconomics Students:

I know many of you as former students in my AP English Language & Composition classes. Others of you I will be meeting for the first time. I am honored to be your 12th-grade AP Economics and AP U.S. Government & Politics teacher, and I look forward to working with each of you next year.

AP Economics provides a detailed introduction to—and working knowledge of—economic issues that affect your life as a consumer, saver, and potential investor or business owner. It also offers a thoughtful analysis of issues that affect our nation and its evolving role in a world that is increasingly interdependent in matters of trade, productivity, employment, and growth. An understanding of these ideas will transform you into a more astute decision maker and a more informed citizen. Economics is about how the world really works. In a very real sense, therefore, a basic knowledge of economics can reward you with a better, more prosperous life, no matter what career you choose. Really.

For your summer work, you must carefully—and repeatedly—read the **first three chapters** of the textbook, *Principles of Economics* by Harvard professor N. Gregory Mankiw, 6<sup>th</sup> Edition, then fully answer the questions on the following pages.

This summer's assignment represents less than half of the summer-work problems assigned in past years. Please understand that I am not doing this to make your summer workload lighter, but to give you time to fully master the concepts, formulas, and graphs in these chapters. These ideas are critical to what follows. I will grade your summer assignment rigorously, expecting to see a complete understanding of the material.

As in all courses at Marshall, in AP Economics I will severely punish plagiarism in any form (including copying from the internet, books, magazines, or other students). This is an intense, demanding course that culminates in an extremely difficult exam. We must move through the curriculum rapidly. Neither I nor the committed students in my class have any time to waste with cheaters or people who simply don't want to try.

Please know that, as serious as all this sounds and is, I will work tirelessly to make this subject as interesting and entertaining as possible. Honest.

See you in August.

Richard Boling

## AP Economics Summer Work (2019)

Teacher: Richard Boling

**Instructions:** Answer each of the following questions fully. For those problems that require graphs and/or calculations, label everything on the graph and show all of your calculations as part of your answer. **YOU MUST EXPLAIN EACH OF YOUR ANSWERS, EVEN ON THE MULTIPLE-CHOICE QUESTIONS.** This assignment is due on the second day of school.

### Chapter One: Ten Principles of Economics

1. The entire field of economics is based on the phenomenon of *scarcity*? Explain why.
2. How does the price of a good or service illustrate the concept of scarcity? For example, why does a diamond cost more than a gallon of water?
3. A rich aunt you didn't know you had dies and leaves you \$3,000. You have a choice between (a) spending the money now or (b) putting it in a bank savings account that will pay you 5 percent interest at the end of one year. What is the *opportunity cost* of spending the \$3,000 now? What is the opportunity cost of keeping it in the bank? **(Include both a calculation and a verbal explanation in your answer.)**
4. According to the textbook, "higher productivity implies a higher standard of living."
  - a. In your own words, explain what this phrase means.
  - b. The minimum wage is the minimum amount per hour an employer must pay an employee. The current minimum wage in California is now \$10.50 per hour. Suppose it is raised to \$15.00 per hour, as some have proposed. Certainly, those receiving this new higher wage will have more money and presumably be able to live better, but...
    - i. Economists say that in the long run an increase in the minimum wage does not improve a society's "standard of living." Briefly explain why they say that.
    - ii. Instead of assuming that you are the worker who gets the raise to \$15.00 per hour, assume that you are the business owner who has to pay her workers the new higher wage. How would this affect your business? What actions might you take to deal with these new higher costs?
5. Analyze the following statement in terms of *equality* and *efficiency*: "Everyone in a society should have shelter and enough food to live on." What would a person favoring a policy of *equality* say? What would a person favoring *efficiency* say?
6. What is *inflation*, and what causes it? Give an example of inflation in something you routinely buy? Explain how an attempt by the federal government to lower inflation could cause unemployment to increase in the short-run.
7. An *externality* is the impact of one person's (or group's or company's) actions on the well-being of bystanders. Federal, state, and/or local governments must sometimes get involved to control externalities. For example, "second-hand smoke" from cigarette smokers causes health problems for non-smokers who are close by. We now have laws restricting smoking in public places.
  - a. Give two more examples of government(s) taking action to deal with harmful externalities. Explain what trade-off society must make if we implement each of these government actions.
  - b. Are all externalities harmful? If not, name one externality that might be helpful to society.

Chapter Two: Thinking Like an Economist

- In the course, we will use many models of the economy. The first is a non-mathematical model called the *circular-flow diagram*. (See pp. 22-24 in the textbook.) Draw this diagram and mark on it where each of the following events should fit: (**NOTE**: Each event must be entered **twice**, once on the clockwise inner line and once on the counterclockwise outer line.)
  - Gwen buys a \$20 wallet.
  - Max earns \$9 per hour working at an art supply store.
  - General Motors pays Pamela \$6,000 a month to work in its Detroit auto-assembly plant.
  - Mr. Blunt receives a check for \$5,000 from Apple as a share of the profits on his \$100,000 investment in the company.
- The second model is the *Production Possibilities Frontier model*. (See explanation on pp. 24-26.) The curved line on Figure 1 below shows the combinations of clothing and food the nation of Flotsam can produce if the country is using all its resources efficiently. Redraw this graph and answer the questions below.

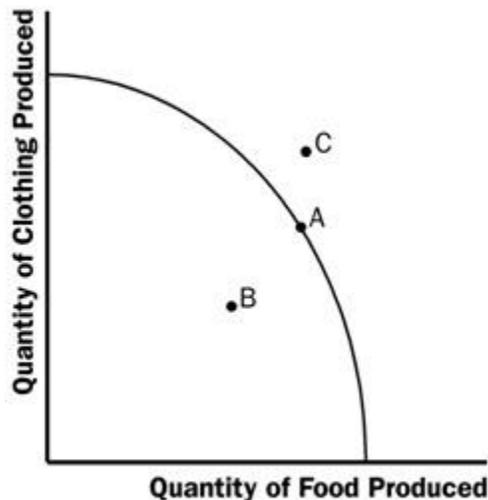


Figure 1

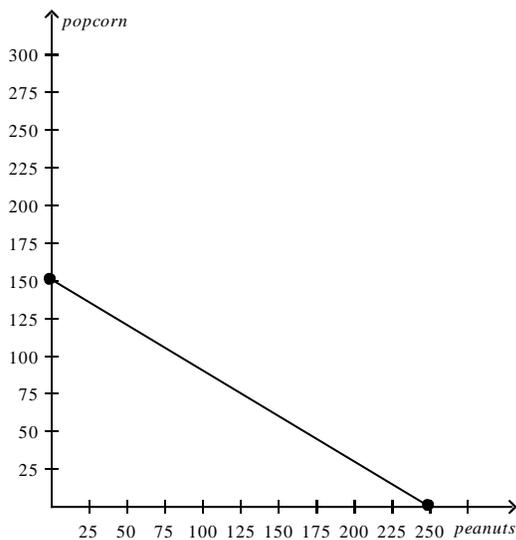
- Assume that point A represents Flotsam's current production of food and clothing. Mark a new point labeled D on your graph showing Flotsam's production if they decide to make half as much food and more clothing.
- In terms of production, point B is "possible but not efficient." Why is this phrase true? Name one factor that might cause Flotsam to produce at point B.
- Point C represents a level of production that is impossible for Flotsam to achieve. After reviewing this idea in your textbook, explain why this is true.
- If we assume that Flotsam does not trade with other countries, why would it most likely choose to produce the combination of food and clothing represented by point A?

[Questions continued on back.]

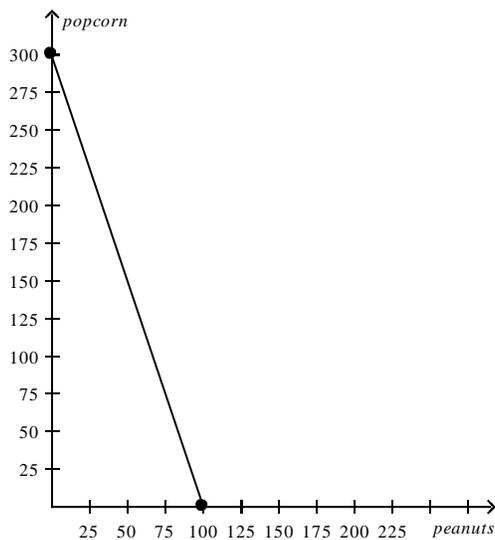
Chapter Three: Interdependence and the Gains from Trade

3. Sheila is able to read 40 pages of science in an hour of studying. She can also read 100 pages of history in an hour. She spends 10 hours a day studying.
  - a. Draw Sheila’s production possibilities frontier for reading science and history.
  - b. What is Sheila’s opportunity cost of reading 200 pages of history? (Show calculations.)
4. Explain the difference between *absolute advantage* and *comparative advantage*. Which is more important in determining patterns of international trade, absolute advantage or comparative advantage? Explain your answer.
5. Diane and Trudi are stuck on an island in the Pacific Ocean. They have only two sources of food, fish and coconuts. In an hour Diane can gather 10 coconuts or catch 1 fish. In an hour Trudi can gather 30 coconuts or catch 2 fish. (a) What is Diane’s opportunity cost of catching one fish? (b) What is Trudi’s? (c) Who has an absolute advantage in catching fish? (d) Who has a comparative advantage in catching fish?
6. Assume there are two countries, Alpha and Omega, which produce the world’s entire supply of peanuts and popcorn. Their production possibilities frontiers are shown below.

**Alpha’s Production Possibilities Frontier**



**Omega’s Production Possibilities Frontier**



- a. Assume that each country decides to use half of its resources in the production of each good. Show this point on each graph and label both points as point A.
- b. If these countries choose not to trade, what would be amount of the world’s total peanut and popcorn production?
- c. Now suppose that each country decides to specialize in the good in which each has a comparative advantage. If each country decides to trade 100 units of popcorn for 100 units of peanuts, show on each of the graphs what combination of popcorn and peanuts Alpha and Omega would have. Label the added point on each graph as point B. Is this trade a good deal for both Alpha and Omega? Why or why not?

7. Porky grows flowers and makes surfboards. Spud also grows flowers and makes surfboards, but in an 8-hour day Porky can produce more of each good than Spud. In this case, trade would—. (Select and explain your answer.)
- benefit both Spud and Porky
  - benefit Spud but not Porky
  - benefit Porky but not Spud
  - benefit neither Porky nor Spud
8. Juan and Sandra are two woodworkers who both make tables and chairs. In one month, Juan can make 5 tables or 25 chairs. In one month, Sandra can make 6 tables or 18 chairs. Given this information, the opportunity cost of 1 chair is—. (Show your calculations and explain your selected answer.)
- 1/5 table for Juan and 1/3 table for Sandra
  - 1/5 table for Juan and 3 tables for Sandra
  - 5 tables for Juan and 1/3 table for Sandra
  - 5 tables for Juan and 3 tables for Sandra
9. The country of Belarus has a comparative advantage in the production of linen, but Russia has an absolute advantage in the production of linen. If these two countries decide to trade—. (Explain your answer.)
- Belarus should export linen to Russia.
  - Russia should export linen to Belarus
  - trading linen would provide no clear advantage to either country
  - Without additional information about opportunity costs, this question cannot be answered.
10. “A nation’s production possibilities frontier is also its consumption possibilities frontier.” Is this statement true? Explain why or why not.