

Dunbar's Big Review Sheet – AP Macroeconomics Exam

Content Area [Hubbard Textbook pages] (percentage coverage on AP Macroeconomics Exam)

I. Basic Economic Concepts (8-12%)

- A. Scarcity [4, 38], choice [5], and opportunity costs [8, 39, 247]
- B. Production possibilities curve [38]
- C. Absolute advantage [46, 248] Comparative advantage [47, 247], specialization [44], and exchange/mutually advantageous trade [10, 44, 47, 249]
- D. Demand [70, 74], supply [77-78], and market equilibrium [79-80]
- E. Macroeconomic issues: business cycle [634, 696], unemployment [660, 668], inflation [634, 674], and economic growth [634, 697, 730]

II. Measurement of Economic Performance (12-16%)

- A. National income accounts [648-649]
 - 1. Circular flow of income and products (that contain four sectors: households, businesses, government, and international) [51, 637]
 - 2. Gross domestic product [244-245, 635]
 - 3. Components of gross domestic product [638-640]
 - 4. Real versus nominal gross domestic product [645-647]
- B. Inflation measurement and adjustment [674]
 - 1. Price indices: CPI, PPI (and problems associated with each measure) [674-678]
 - 2. GDP deflator [648]
 - 3. Nominal and real values [680-681]
 - 4. Convert dollar values in the past to dollar values in the present [678]
 - 5. Costs of inflation [682-684]
- C. Unemployment [660]
 - 1. Definition, causes, costs, and measurement [660-663]
 - 2. Criticisms associated with the measurement of the unemployment rate [663]
 - 3. Types of unemployment [668-669]
 - 4. Natural rate of unemployment and factors that affect it [669]

III. National Income and Price Determination (10-15%)

- A. Aggregate demand [812, 818]
 - 1. Determinants of aggregate demand [814-815, 818]
 - 2. Multiplier (spending multiplier) [791-797] and crowding-out effects [710, 944-946]
- B. Aggregate supply [819, 823]
 - 1. Short-run and long-run analyses [819-821], supply shock [822]
 - 2. Sticky-price and sticky-wage models versus flexible wages and prices [820-821]
 - 3. Determinants of aggregate supply [821-823]
- C. Macroeconomic equilibrium [824]
 - 1. Real output and price level [824]
 - 2. Short and long run [824]
 - 3. Actual versus full-employment output [669, 821-822]
 - 4. Impact of economic fluctuations on the economy's output and price level [824-827]

IV. Financial Sector (15-20%)

- A. Money, banking, and financial markets [852]
 - 1. Definition of financial assets: money [852], stocks [215], bonds [215]
 - 2. Time value of money (present and future value) [853, 233]
 - 3. Measures of money supply: M1 [856] M2 [858]

4. Banks and creation of money, multiple-deposit expansion, money creation using T-accounts, and the use of the money multiplier [860]
 5. Money demand and its determinants [890-891]
 6. Money market, how equilibrium in the money market determines the equilibrium interest rate [890-891]
 7. Loanable funds market in determining the real interest rate [707]
- B. Central bank and control of the money supply [868]
1. Tools of central bank policy, fractional reserve banking, and the Federal Reserve System [870-872]
 2. Quantity theory of money [872-874]
 3. Effect of monetary policy on real output growth and inflation [871]
 4. Real versus nominal interest rates [680-682]

V. Inflation, Unemployment, and Stabilization Policies (20-30%)

- A. Fiscal [815, 930] and monetary [815, 871, 888] policies
1. Demand-side effects [815, 935-938]
 2. Supply-side effects [910-911, 941-942]
 3. Policy mix [931-934, 938]
 4. Government deficits and debt [951-952]
- B. Inflation and unemployment [888-889, 912-913]
1. Types of inflation [674, 716]
 - a) Demand-pull inflation: caused by an increase in aggregate demand
 - b) Cost-push inflation: caused by a significant increase in the price of an input with economy-wide importance
 2. The Phillips curve [974-976]: short run [979-981] versus long run [981-982]
 3. Role of expectations including inflationary expectations [984-985]

VI. Economic Growth and Productivity (5-10%)

- A. Investment in human capital [735]
- B. Investment in physical capital [735]
- C. Research and development, and technological progress [735]
- D. Growth policy [754-756]

VII. Open Economy: International Trade and Finance (10-15%)

- A. Balance of payments accounts [1006]
1. Balance of trade [1006]
 2. Current account [1006]
 3. Capital account [1009]
- B. Foreign exchange market [1010-1013]
1. Demand for and supply of foreign exchange [1014-1016]
 2. Exchange rate determination [1017]
 3. Currency appreciation and depreciation and their effect on a country's net exports [1014]
- C. Net exports and capital flows [1007, 1018]
1. How they affect financial and goods markets [1008-1009]
- D. International exchange rates/exchange rate systems [1036]
- E. Effects of trade restrictions [1040]