



# Economics

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**ADVANCED PLACEMENT COURSE DESCRIPTION**  
MICROECONOMICS AND MACROECONICS

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**MICROECONOMICS**

**I. Basic economic concepts**

**A. Scarcity: the nature of economic systems**

Scarcity, choice, and economic growth are the topics of Chapter 2 and are discussed in relation to individuals and the economy as a whole (pp. 35-46).

**B. Opportunity costs and production possibilities**

Opportunity cost is clearly defined (pp. 35-36) and discussed within the context of individual interactions. Production possibilities are defined and discussed in terms of microeconomics (pp. 41-46) and with and without world trade (pp. 468-470).

**C. Specialization and comparative advantage**

Specialization and comparative advantage are defined and briefly discussed in Chapter 2 (p. 38). Specialization is also discussed in relation to economies of scale (p. 256) and in relation to rising opportunity costs (pp. 470-471). Comparative advantage is discussed in-depth in Chapter 17 (pp. 462-473).

**D. The functions of any economic system (what, how, and for whom to produce)**

All of Unit 1, Introduction to Economics and Its Foundations, deals with economic systems and how they are driven. Chapter 1 is the most general, discussing the different issues addressed by economics, and the various uses for its study. (pp. 5-21). Chapter 2 looks at scarcity, choice, and economic interaction (pp. 34-51); Chapter 3 scrutinizes supply and demand (pp. 54-84); Chapter 4 looks at elasticity (pp. 88-107); Chapter 5 looks at demand and consumer behavior (pp. 110-135); Chapter 6 discusses the supply curve and the behavior of firms (pp. 144-167); and Chapter 7 looks at the interaction of people in markets (pp. 170-194).

**II. The nature and functions of product markets**

**A. Supply and Demand**

*1. Price and quantity determination*

Supply and demand is defined and discussed in Chapter 3 (pp. 54-84); demand itself is further addressed in Chapter 5 (pp. 110-135); supply as it relates to business enterprise perspectives is discussed in Chapter 6 (pp. 144-167).

*2. Basic manipulation of supply and demand, including ceilings and floors*

The manipulation of supply and demand is covered in Chapter 3 (pp. 54-84). Government price controls that lead to price ceilings and floors are defined and discussed in relation to surpluses and related problems (pp. 79-84).

**B. Consumer demand**

*1. Consumer choice behind the demand curve*

Different aspects of consumer thinking are discussed in-depth from consumer preference (pp. 111-129), to market demand (pp. 129-131), to consumer surplus (pp. 131-133), and to problems inherent in present versus future consumption (pp. 133-135).

*2. Elasticity*

Elasticity is discussed in Chapter 4 (pp. 88-107), focusing on prices and pricing, taxes, supply, and labor supply. The elasticity of a monopolist's demand curve is discussed on pages 268-269, and product differentiation on pages 284-285.

**C. Firm production, costs, revenues**

*1. Marginal product and diminishing returns*

Diminishing returns as it relates to the marginal product of labor is defined on page 152, and continued on page 163 to better illustrate how diminishing returns relate to marginal costs. The concept is discussed in relation to economic growth on pages 618-619.

*2. Average and marginal costs and revenues*

Marginal cost is clearly defined and explained on pages 153-155, and average cost on pages 204-205. Average cost is discussed on pages 217-222, and average revenue is defined on page 269.

(C. Firm production, costs, revenues—continued)

**3. *Long-run costs and economies of scale***

The long run is defined and discussed on pages 217-222. Economies and diseconomies of scale, as well as constant returns to scale, are illustrated on pages 222-224.

**D. Product pricing and outputs, both in the individual firm and in the market**

**1. *Perfect competition***

The competitive equilibrium model, or perfect competition, is discussed in Chapter 7 (pp. 173-185), which focuses on the interactions of people in markets.

**2. *Imperfect competition***

**a. *Monopoly***

Chapter 10 is devoted to discussion of monopoly (pp. 262-287).

**b. *Oligopoly***

Oligopoly is discussed in Chapter 11 (pp. 290-291).

**c. *Monopolistic competition***

Monopolistic competition is defined and explained on pages 290-291. It is further illustrated and compared to monopoly and competition on pages 298-302.

**E. Efficiency and government policy toward imperfect competition**

Government policy toward imperfect competition is discussed in Chapter 16 (pp. 436-452), which focuses on competition policy and regulation.

**III. Factor Markets**

**A. Derived factor demand**

Derived demand is explained in Chapter 12 in the context of labor markets (pp. 320 and 322-323). Derived demand for capital is briefly discussed in conjunction with an explication of demand and supply of physical capital (p. 346).

**B. Determination of wages and other factor prices**

The discussion of the determination of wages begins in Chapter 12 (pp. 316-341), based in basic terminology and concepts and proceeding to the issue of gender bias. The iron law of wages is defined and discussed on page 621. Real wages are discussed on page 578, and minimum wage on page 581.

**IV. Efficiency, equity, and the role of government**

**A. Market failures**

*1. Externalities*

Externalities are explained in Chapter 15, Public Goods and Externalities (pp. 412-425).

*2. Public Goods*

Public goods are defined and discussed in Chapter 15 (pp. 406-411).

**B. Distribution of income**

The distribution of income in the U.S. is discussed on pages 394-400. Topics such as Lorenz curves, taxes and transfers, and efficiency are discussed on pages 185-186.

**MACROECONOMICS**

**I. Basic economic concepts**

**A. Scarcity: the nature of economic systems**

Macroeconomics is previewed in Chapter 19 (p. 508) and is discussed in an historical context. General ups and downs of the economy are discussed along with relevant vocabulary, e.g., recession, peak, recovery, and others. Scarcity, choice, and economic growth are covered throughout Chapter 2 and are discussed in relation to individuals and/or international trade (pp. 35-38), and the economy as a whole (pp. 40-46).

**B. Opportunity costs and production possibilities**

Opportunity cost is clearly defined (pp. 35-36) and discussed within the context of individual interactions. Production possibilities are defined and discussed in terms of microeconomics (pp. 41-46) and with and without world trade (pp. 468-470). Comparative advantages between economies underscore the approach on a global model.

**C. Specialization and comparative advantage**

Specialization and comparative advantage are defined and briefly discussed in Chapter 2 (p. 38). Specialization is also discussed in relation to economies of scale (p. 256) and in relation to rising opportunity costs, e.g., when it is incomplete (pp. 470-471). Comparative advantage is discussed in-depth in Chapter 17 (pp. 462-473).

**D. The functions of any economic system (what, how, and for whom to produce)**

All of Unit 1, Introduction to Economics and Its Foundations, deals with economic systems and how they are driven. Chapter 1 is the most general, discussing the different issues addressed by economics, and the various uses for its study (pp. 5-21). Chapter 2 looks at scarcity, choice, and economic interaction (pp. 34-51); Chapter 3 scrutinizes supply and demand (pp. 54-84); Chapter 4 looks at elasticity (pp. 88-107); Chapter 5 looks at demand and consumer behavior (pp. 110-135); Chapter 6 discusses the supply curve and the behavior of firms (pp. 172-199); and Chapter 7 looks at the interaction of people in markets (pp. 170-194).

**E. Demand, supply, price determination**

Supply and demand are defined and discussed in Chapter 3 (pp. 54-84). Demand itself is further addressed in Chapter 5 (pp. 110-135). Supply as it

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relates to business enterprise perspectives is discussed in Chapter 6 (pp. 144-167).

### **II. Measurement of economic performance**

#### **A. Gross National product, gross domestic product, and national income concepts**

The gross domestic product (GDP) is first discussed in Chapter 1 (p. 6) and is mentioned throughout Units 4, 5, and 6 (pp. 508-765). Chapter 20 fully explains GDP, defining it on page 533 and distinguishing real from nominal on page 547. National income is defined on page 541, and personal income on page 54.

#### **B. Inflation and price indices**

Chapter 24 (pp. 644-666) deals with the monetary system and inflation. Chapter 27 (pp. 726-745) focuses on price adjustment, and illustrates how inflation and price indices can be manipulated.

#### **C. Unemployment**

Inflation and unemployment are discussed on pages 564-585, culminating with a contention that inflation and unemployment must always be greater than zero (pp. 663-665).

**III. National income and price determination**

**A. Aggregate supply**

*1. Classical analysis*

Chapter 32 (pp. 842-851 ) addresses different theoretical perspectives, including classical views of Adam Smith, Malthus, Hume, and others (p. 844). In addition, the neoclassical growth school and new classical school are discussed on pages 846-848.

*2. Keynesian analysis*

A discussion of John Maynard Keynes and the Keynesian revolution indicates that it was a change in macroeconomic thinking, shaped by the Great Depression and leading to a greater consideration of demand-side policies. Keynes's views are the foundation for the theoretical discussion in Chapter 32, Macroeconomic Debates (pp. 842-854).

**B. Aggregate demand without money**

*1. Circular flow*

Circular flow is defined and explained early in the text (pp. 13-14) as a situation in which the buying and selling of goods and services takes place in the product market. In addition, the inputs to production of GDP are supplied by households, either as workers or owners. Buying and selling take place in the labor and capital markets.

*2. Components of aggregate demand*

Aggregate, or total (amount of) demand is the total demand for goods and services by consumers, businesses, government, and foreigners. It is discussed in regard to economic fluctuations on pages 525-526, in regard to changes in output on pages 673-679, and more fully on pages 728-739.

(B. Aggregate demand without money—continued)

**3. *Multiplier***

The presentation of the multiplier is complete and complex. In Chapter 26 (pp. 698-723), the students learn that the multiplier is the ratio of the change in real GDP to the shift in the aggregate expenditure line.

**4. *Fiscal policy***

Fiscal policy, presented as the government's plan for spending, for taxes, and for borrowing, is highlighted in Chapter 29, Fiscal Policy and the Budget Deficit (pp. 770-795).

**C. Money and Banking**

**1. *Definition of money and its creation***

A Monetary History of the United States by Milton Friedman and Anna Schwartz is discussed on page 525. The monetary system is the topic of Chapters 24 (pp. 644-666) and 30 (pages 798-817). The first part of Chapter 26 deals with basic definitions (pp. 645-647).

**2. *Tools of central bank policy***

Central banks and policy are the subjects of Chapter 30 (pp. 798-817) with the basics covered on pages 803-810.

**D. Monetary policy and aggregate demand**

Monetary policy and demand are discussed on pages 811-812.

**E. Fiscal—monetary mix**

**1. *Interaction of fiscal and monetary policies***

Chapters 29 (pp. 772-795) and 30 (pp. 798-817) address the interactions of fiscal and monetary policies.

**2. *Monetarist—Keynesian controversy***

Chapter 32 (pp. 842-854) clearly explains the history of economic theory with an emphasis on macroeconomic debates.

(E. Fiscal—monetary mix—continued)

**3. *Deficits***

Chapter 29 deals directly with fiscal policy and the budget deficit (pp. 772-795).

**F. Trade-offs between inflation and unemployment**

**1. *Long run versus short run***

The long and short run are contrasted in regard to the work of Friedman and Phelps, and the Phillips curve, on pages 663-664.

**2. *Supply shocks***

Supply or price shocks are clearly defined on pages 760-761 as a change in the price of a key commodity, such as oil, usually because of a shortage, that causes a shift in the price adjustment line.

**3. *Role of expectations***

The role of expectations is discussed in regard to demand on pages 58-59, and supply on page 64. It is discussed in regard to interest rates and the budget deficit on pages 789-791.

**IV. International economics and growth**

**A. Balance of payments, international finance, exchange rates**

The balance of payments and exchange rates is examined in Chapter 31 (pp. 820-838) and Chapter 33 (pp. 867-869).

**B. Economic growth**

Chapters 33 and 34 (pp. 856-889) conclude the book with views on economic growth and emerging market economies.