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💸Unit 1
Basic Economic Concepts

- **scarce resources**=limited supply of resources and unlimited demand for them
- 4 factors of production: land (nat. resources), labor (physical effort, capital, and entrepreneurship
- **OC**=value of the next best alternative=expl+impl costs
- **efficiency**=producing many goods with few resources
- **free market econ**=private for-profit firms with prices determined by S&D vs **command econ**=public firms with little incentive for efficiency/profit and gov-set $
- **allocative eff**=pt society desires vs **productive eff**=pt costs are minimized (shown on PPC)
- **comp adv**=producing a good at a lower OC than others
- **absolute adv**=producing more of a good for same rsrcs
- **law of diminishing returns**=rsrcs↑, utility↓ (with time)

📈Unit 2
Economic Indicators & the Business Cycle

- the **circular flow diagram** represents the **factor (resource)** and **product** markets; it is based on **voluntary exchange**
- **GDP**=$ value of all **final** goods/services produced within a country's borders in 1 year; **GDP per capita**=GDP/population
- **expenditure/income approach**: GDP=C+I+G+Xn=W+i+r+p
- GDP≠illegal activities, unpaid work, transfer payments
- **labor force**=all people who are able and willing to work
- types unemployment: **cyclical**, **frictional**, **structural**
- **NRU**=no cyclical unemployment (~4-6% unemployment)
- **Inflation/deflation** (higher/lower price level) is measured using **CPI** (current market basket/base year market basket* 100) and **GDP deflator**; **market basket**-goods and services that is representative of the purchases of households
- **rGDP**=GDP adjusted for inflation; measure of econ growth
- **contractions=recessionary** gap; **expansion**=inflationary gap

💲Unit 3
National Income & Price Determination

- **aggregate demand**=all the goods/services that consumers/ firms/gov are willing and able to buy at various price levels; it is shifted by consumer, investment, and gov spending, and Xn.
- AD is downward sloping due to **wealth**, **interest rate**, and **exchange rate** effects
- **multiplier effect**=an initial change in spending→spending chain which is magnified in the economy
- MPC=**ΔC/ΔI**, MPS=**ΔS/ΔI**, **MPC+MPS=1**,
- **spending mult**=1/MPS, **Tax mult**=-MPC/MPS
- **short-run aggregate supply**=all goods/services that firms are willing and able to produce at various price levels; it is shifted by resource prices, actions of gov, and productivity
- econ growth is shown by **LRAS** (vertical to NRU)
- the markets adjust in the long-run, but in the short-run they are either in an **inflationary** or **recessionary** gap
- **fiscal policy**=changing **spending/taxes** to shift AD

💰Unit 4
Financial Sector

- **liquidity**=how fast an asset can be turned into cash
- **interest rate**=OC of holding money instead of investing
- nominal IR=real IR+inflation (Fisher equation)
- **fiat money**=exclusively used for currency vs **commodity money**=monetary and nonmonetary uses
- money has 3 functions: **medium of exchange, unit of account,** and **store of value**, **M1+M2=money supply**
- **M0/MB** money=money in circulation/bank reserves
- **M1** (cash, coins,checking deposits, traveler's checks), **M2** (M1, saving deposits, funds, bonds, securities)
- banks have a **required reserve ratio** set by the Fed
- **money multiplier=1/rr**; calculates Δ in money supply
- the **money market** describes the demand for money based on the nIR (**Δ** bcs PL, rGDP, transaction costs)
- **monetary policy** is used to adjust the money market by buying/selling bonds, adjusting the required reserve ratio, the discount rate, or the fed funds rate; most effective is buying/selling bonds
- **loanable funds market**=interaction of borrowers and savers in the economy

⚖️Unit 5
Long-Run Consequences of Stabilization Policies

- fiscal and monetary policies are used to bring the economy back to **full employment** (=natural rate of unemployment)
- if the econ self-corrects, the **SRAS** will shift in the long-run
- **Phillips curve**=relationship b/n inflation and unemployment
- **stagflation**=high inflation and unemployment
- the **long-run Phillips curve** is vertical, equal to NRU; proves no trade-off b/n inflation and unemployment in the long-run
- shifts in AD move **along** the SRPC, shifts in SRAS **shift** the SRPC in opposite direction, changes in NR **shift** the LRPC
- **quantity theory of money**: M*V=P*Y (inflation is proportional to the growth rate of the money supply)
- **gov surplus**=tax revenues>gov spending, **deficit**=opposite
- budget deficits get added on to the **government debt**
- **crowding out effect**: borrowing by gov→Dlf↑ → rIR↑ →business spending is **crowded out** (leftward shift in AD)
- **econ growth** is measured in growth rate of rGDP/time
- **labor productivity**=defined by physical and human capital
- **demand-side econ growth**=focuses on stimulating consumer spending and gov intervention vs **supply-side econ growth**=focuses on increasing production

🏗️ Unit 6
Open Economy – International Trade & Finance

- 2 balance of payments accounts: **current** and **capital**
- **current acc**=Xn+Xi+Xt; **negative** if more local currency is sent abroad than foreign currency is received; **positive** if opposite
- **capital acc**=financial+real investments; **surplus balance** if more capital investments within the country than abroad (acc - **positive**), if opposite: **surplus deficit** (acc - **negative**)
- if the money for the transaction is flowing out of the country - **negative**, if into the country - **positive**
- **exchange rate**=price at which one intl country can be exchanged for another; shifted by consumer tastes, relative income, relative inflation, and speculation
- **appreciation**=value of a country's currency increases relative to a foreign currency vs **depreciation**=opposite
- rIR↑→**capital investment↓** (more costly to borrow)
- **revenue tariffs**=taxes imposed on goods that were **not** produced domestically vs **protective tariffs**=tariffs on goods that are produced domestically
- appreciation→demand for exports↓→demand for imports↑ →**net exports↓**
- depercition→demand for exports↑→demand for imports↓ →**net exports↑**

Exam Tips: when unsure about a relationship, **graph** it out! // know your **graphs** well, you will find them in MCQs and use them in FRQs in any case // be sure to practice the **mathematical** aspects of the exam (comparative advantage, CPI, deflators, multipliers, balance sheets) // practice **extensively** the harder question types, such as balance sheets and effects of fiscal and monetary policies // many of the questions test your knowledge about the **relationships** between factors and graphs, practice them well before the exam // don't let your deeper knowledge about certain industries affect your rationale, the AP readers look for **straightforward answers** corresponding to **basic** macroeconomic theory