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A complete

# STUDY GUIDE

for

AP

# MACROECONOMICS



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## **AP Macroeconomics Study Guide**

### **Section I: Multiple Choice**

60 Questions | 1 Hour 10 Minutes | 66.65% of Exam Score

Questions require the use of economics content knowledge and reasoning across the range of course topics and skills in skill categories 1, 2, and 3.

### **Section II: Free Response**

3 Questions | 1 Hour (includes a 10-minute reading period) | 33.35% of Exam Score

- 1 long free-response question (50% of section score).
- 2 short free-response questions (each worth 25% of section score).
- Students will be asked to:
  - Make assertions about economic concepts, principles, models, outcomes, and/or effects
  - Explain economic concepts, principles, models, outcomes, and/or effects
  - Perform numerical analysis
  - Create graphs or visual representations

### **Unit Review**

(material sourced mainly from [apcentral.collegeboard.org](https://apcentral.collegeboard.org))

### **Unit 1: Basic Economics Concepts (5-10% of the exam)**

#### **Basic Terms for Economics**

- Economics: the study of how limited resources are used to satisfy unlimited wants.
- Resources: we never have enough to satisfy all of our wants.
- Scarcity: the lack of a product or resource.
- Shortage: a short term lack of a product or resource.
- Necessities: goods which satisfy basic human needs.
- Luxuries: goods which consumers want, but are not needs
- Consumer Goods: products used for immediate consumption. For example: cars, food, toys.
- Producer Goods: products used to make consumer goods. For example: hammer and cranes.
- Three Factors of Production: Land (natural resources such as trees, water, or minerals), Labor (mental and physical labor such as autoworkers or scientists), and Capital (factories, machines, and money).
- Rational Self Interest: economists believe that people choose options that give them the greatest satisfaction. People use available information, weigh costs and benefits, and make a self-interested choice.

### **The Production Possibilities Curve:**

The production possibilities curve (PPC) model is used to demonstrate the full employment level of output and to illustrate changes in full employment.

- The PPC is a model used to show the tradeoffs associated with allocating resources.
- The PPC can be used to illustrate the concepts of scarcity, opportunity cost, efficiency, underutilized resources, and economic growth or contraction.
- The shape of the PPC depends on whether opportunity costs are constant, increasing, or decreasing.
- The PPC can shift because of changes in factors of production as well as changes in productivity/technology.
- Economic growth results in an outward shift of the PPC.

### **Comparative Advantage and Gains from Trade**

- Absolute advantage describes a situation in which an individual, business, or country can produce more of a good or service than any other producer with the same quantity of resources.
- Comparative advantage describes a situation in which an individual, business, or country can produce a good or service at a lower opportunity cost than another producer.
- Production specialization according to comparative advantage results in exchange opportunities that lead to consumption opportunities beyond the PPC.
- Comparative advantage and opportunity costs determine the terms of trade for exchange under which mutually beneficial trade can occur.

### **Demand**

The law of demand states there is an inverse relationship between price and quantity demanded, leading to a downward-sloping demand curve.

- Factors that influence consumer demand, such as changes in consumer income, cause the market demand curve to shift.

### **Supply**

The law of supply states there is a positive relationship between price and quantity supplied, leading to an upward-sloping supply curve.

- Factors that influence producer supply, such as changes in input prices, cause the market supply curve to shift.

### **Market Equilibrium, Disequilibrium, and Changes in Equilibrium**

Equilibrium is achieved at the price at which quantities demanded and supplied are equal.

- Whenever markets experience imbalances— creating disequilibrium prices, surpluses, and shortages—market forces drive prices toward equilibrium.
- Changes in the determinants of supply and/ or demand result in a new equilibrium price and quantity

## **Unit 2: Economic Indicators and the Business Cycle (12-17% of the exam)**

### **The Circular Flow and GDP**

GDP is a measure of final output of the economy.

- GDP as a total flow of income and expenditure can be represented by the circular flow diagram.
- There are three ways of measuring GDP: the expenditures approach, the income approach, and the value-added approach.

- GDP is a useful indicator of a nation's economic performance, but it has some limitations, such as failing to account for nonmarket transactions.

### **Unemployment**

The unemployment rate is the percentage of the labor force that is out of work.

- The labor force participation rate is another measure of the labor market activity in an economy. (The labor force participation rate is the percentage of the adult population that is in the labor force.)

Economists primarily focus on three types of unemployment: cyclical, frictional, and structural.

- The natural rate of unemployment is the unemployment rate that would exist when the economy produces full-employment real output. It is equal to the sum of frictional and structural unemployment.
- The deviation of the actual unemployment rate from the natural rate is cyclical unemployment.
- The natural rate of unemployment can gradually change over time because of such things as changes in labor force characteristics.

### **Price indices and inflation**

The consumer price index (CPI) measures the change in income a consumer would need in order to maintain the same standard of living over time under a new set of prices as under the original set of prices.

- The CPI measures the cost of a fixed basket of goods and services in a given year relative to the base year.

\*Exclusion: Calculating the producer price index (PPI) is beyond the scope of the course and AP Exam.

- The inflation rate is determined by calculating the percentage change in a price index, such as CPI or the GDP deflator.
- Real variables, such as real wages, are the nominal variables deflated by the price level.

### **Real v Nominal GDP**

Nominal GDP is a measure of how much is spent on output. Real GDP is a measure of how much is produced.

- Nominal GDP measures aggregate output using current prices.
- Real GDP measures aggregate output using constant prices, thus removing the effect of changes in the overall price level.
- One way of measuring real GDP is to weigh final goods and services by their prices in a base year.
- Because this can lead to overstatement of real GDP growth, statistical agencies actually use different methods.
- Nominal GDP can be converted to real GDP by using the GDP deflator.

### **Business Cycles**

Business cycles are fluctuations in aggregate output and employment because of changes in aggregate supply and/or aggregate demand.

- The phases of a business cycle are recession and expansion. The turning points of a business cycle are peak and trough.
- The difference between actual output and potential output is the output gap.
- Potential output is also called full-employment output. It is the level of GDP where unemployment is equal to the natural rate of unemployment.



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A little bit about who we are...

Nicholas LaPoma aka "Nick The Tutor" is the founder and owner of Curvebreakers, a tutoring company located in Garden City, NY. Established in 2015, Curvebreakers helps students nationwide succeed on standardized exams such as APs, SAT, ACT, SSAT, SHSAT, NYS Regents Exams, and the LSAT. Students in grades 3-12 also come to Curvebreakers for help with their school work to raise their GPAs and improve their overall study skills.

Public and private schools as well as non-profit institutions from all over the US have partnered with Curvebreakers to offer their students affordable and effective instruction.

In March 2020, Nick took to TikTok and other social media platforms to help students navigate testing during the pandemic, and is now a social media influencer who can be found on TikTok, YouTube, Instagram, and Twitch. Before becoming a business owner and tutor, Nick became a licensed attorney, graduating from one of the top law schools in New York City.

**lilcricket**

I was able to get a 780 on SAT math with your help!!



**Gracie**

"I got a 4 on AP Lit and a 5 on APUSH. I used your study guides on both. You saved my life! lol"



Awesome thank you so much can't wait to get started. thank you for all the help and support you give on social media it's appreciated by all us high schoolers



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