Advanced Placement Economics

2024-2025 School Year Summer Assignment

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Economics is often seen as a challenging and strange subject when students first encounter it. While economics can be challenging, most of the primary lessons and important concepts can be seen all around you in your life. You know and understand more economics than you realize. It's really an intuitive subject that is not as complicated as it is typically presented.

To help us get started in the fall, you will read *Naked Economics* by Charles Wheelan (3rd Edition). The book is a good introduction to economics and should help you see that economics is actually very intuitive and has a massive impact on your life.

The following concepts/ topics are covered in the book (some chapters cover both micro and macro topics):

Microeconomics	Macroeconomics

● Ch 1-Role and power of Markets
● Ch 2- Economic Incentives
● Ch 3 -Role of Government in the Economy
   ○ Market Failures
   ○ Public goods
   ○ Externalities
● **Ch 5- Asymmetric Information (optional reading)**
● Ch 6- Productivity and Human Capital
	● Ch 4- Role of Government in the Economy
	   ○ Taxation
	   ○ Government spending
	   ○ Budget deficits
	● Ch 6- Productivity and Human Capital
	● Ch 7- Financial Markets and their Role in the Economy
	● **Ch 8- Politics and Economics (optional reading)**
	● Ch 9- Economic Indicators and Fiscal Policy
	● Ch 10- Federal Reserve and Monetary Policy
	● Ch 11- International Trade and Finance
	● Ch 12 and 13- Trade and the Global Economy

Assignment:

Economic Summer Journal:

As you read the book (or after you finish it) each student will create a journal with 5 entries about what you are learning and how it shows up in your life. **Each entry should describe the situation, a brief description of the economic concept from a chapter from Naked Economics, and a reflection on its relevance and impact.** Talk to your parents, siblings, friends, etc; they may have examples or insights to help you.

Note: <u>at least</u> one entry (you may do more) must be based on a current event. Choose a *reputable news source for your article* ***(the economist, wall street journal, bloomberg)*** Please cite the source in MLA style and briefly summarize the event. See sample below.

Each of your 5 entries will be assessed based on the following criteria for a total of 100 pts:

- Describe the economic concept in your own words (5pts)
    - Be sure you reference the chapter from Naked Economics where the concept comes up
- Identify and summarize a situation in your life, someone you know or a current event (cite) (5pts)
- Reflect on why the concept is important and its impact on your life and the economy as a whole (10pts)
- **You must do at least 2 chapters on Microeconomics topics and 2 chapters on Macroeconomic topics. The remaining journal you may choose either a Microeconomic or Macroeconomic chapter**

Sample Entry:

1. Regulating Peppa Pig (Ch 3- Externalities and Market Failures)

In chapter 3 of Naked Economics, Wheelan brings up the concept of market failures and externalities. Market failures occur when externalities are present. Externalities occur when the benefits or costs are not properly valued by producers and/ or consumers. My four year old daughter loves Peppa Pig. She has toys, books and enjoys watching the show. If she could, she would sit for hours on an iPad watching Peppa Pig. Soon after she first started watching the show, she would start talking in a British accent (which was cute) but I quickly became concerned with how upset she would get when Peppa time ended and the impact the long screen time would have on her. My wife and I decided that my daughter needed some more limits on her screen time. In this situation, I was acting like the government seeking to regulate my daughter's activity. She was choosing to consume too much Peppa Pig which was causing her to miss out on other important experiences and making her grumpy. In this case, my daughter was consuming too many Peppa Pig videos because she was not properly valuing the benefits (or costs) of her decision. She is four after all. This means there is an externality I had to correct as her parent because she was exposed to too much screen time. In this situation, I was acting as the government would to correct a negative externality. The government does this all the time when the market fails to properly value benefits or costs. This is why the government has tolls, cigarette taxes, or provides public education. Markets are often great at providing the goods and services we need, however, they occasionally break down when externalities exist and it is critical that the government steps in to correct them.

Current Event Sample Entry:

2. European Economies Improving after Euro Crisis (Ch9- GDP and Debt to GDP ratio)
   - Chrepa, Eleni, and Macarena Munoz Montijano. "Europe's Onetime Crisis Economies Are Now Outperformers." *Bloomberg.Com*, Bloomberg, 10 June 2024, www.bloomberg.com/news/features/2024-06-10/how-spain-greece-transformed-themselves-into-europe-s-economic-outperformers?srnd=economics-v2&leadSource=uverify+wall&embedded-checkout=true. Accessed 10 June 2024

In the early 2010s, Greece, Spain and Portugal's economies were all in the midst of recessions. Recently, they have started to improve and become some of the Eurozone's top performing economies. Annualized GDP growth in both Spain and Greece was higher than 2% whereas the eurozone as a whole only grew .8%. GDP or Gross Domestic Product is used to measure the economic health of a nation. It is the sum of all spending on final goods and services produced in a country during a year. It measures the size of an economy and roughly gives an idea of how much a nation's population can spend as well. While there are flaws in this measurement as Wheelen brings up in chapter 9, it does provide a simple number to begin any analysis of a nation's economic health. The article also brings up debt to GDP ratios of Spain, Portugal and Greece too. All of them are falling. Prior to the crisis, all these nations had really high debt to GDP ratios which shows that these nations had very large governments, says Wheelen. The higher these ratios, the larger the drag the debt places on the economy. When the debt to GDP ratio is above 100%, as it was for all these nations, it means they had to borrow to make up the gap in their finances. The US also has a very high debt to GDP ratio right now too which means the government is borrowing a lot. According to Wheelen this means that the government spending is "crowding out" private borrowing. This will slow down US GDP growth in the future. For me, this situation in the US will make it harder for me to borrow money to buy a new house or car if needed.

Email me if you have questions! pedersenb@wellesleyps.orgWe will be discussing your reflections during the 1st week of class. Have a great summer and I look forward to meeting you all in August!