

A.P. ECONOMICS
Introductory Notes & Summer Reading 2014

Welcome to A.P. Economics. In the upcoming year you are going to take a challenging & rewarding course that will teach you to think like an economist. We will tackle economic issues that face society today from larger issues such as the deficit to smaller decisions made by individuals & businesses. There is a great deal of material to cover so that you will be prepared for the A.P. examinations next May. With this in mind there will be a summer assignment which will enable the class to hit the ground running in late August.

The most important issue is to have students look at issues as an economist would, or as previously mentioned, to think like an economist. In order to facilitate this process, you will be required to read *Naked Economics: Undressing the Dismal Science* by Charles Wheelan. This book introduces economics in an easy to read and entertaining manner without getting bogged down in details or formulas. Having said that, it is not a simplistic accounting of the dismal science. As Wheelan himself notes in the introduction, "This book is not economics for dummies; it is economics for smart people who have never studied economics." (pg. xxv)

Assignment:

- You must acquire the book on your own. You may use a library or purchase the book, *Naked Economics*. The book is available at bookstores or online.

Naked Economics: Undressing the Dismal Science
(2010 edition, W.W. Norton)

***** You must purchase the 2nd or 2010 edition – it is been updated to include the 2008 Great Recession.**

- Read the book & answer the attached questions. Your responses must be typed and are due on the first day of classes, **Wednesday August 28th**.
- **There will be a QUIZ during the first class.**

If you have any questions, please feel free to contact me at the school e-mail – r.emmett@hwschools.net – I will only be checking the periodically but I will be checking. Furthermore, I am in the process of creating a website for the class and this may be accessed through the school website.

Have a great summer & I look forward to seeing you in late August.

Naked Economics Summer Reading Questions:

Chapter 1: The Power of Markets

- What are the two basic assumptions that economists make about individuals and firms?
- What is the role and significance of prices in the market economy?
- What's so great about a market economy anyway?

Chapter 2: Incentives Matter

- Explain how each of the following relates to efficient outcomes in a market economy: Adverse selection, "perverse incentives", principal-agent problem, and the prisoner's dilemma.

Chapter 3: Government and the Economy

- In your own words, explain what an externality is.
- Besides addressing externalities, what other important and beneficial roles does government play in our market economy?

Chapter 4: Government and the Economy II

- What are the main reasons why government should only take a limited role in a market economy?

Chapter 5: Economics of Information

- Wheelan explains that basic economic models assume that all parties have "perfect information." How does "informational asymmetry" undermine our market economy?

Chapter 6: Productivity and Human Capital

- After reading Wheelan's argument, do you agree that Bill Gates should be so much richer than you?
- Evaluate the following statement from p. 113: "We should not care about the gap between rich and poor as long as everybody is living better."

Chapter 7: Financial Markets

- Explain how get-rich-quick schemes violate the most basic principles of economics.
- What advice about investing in the stock market did you find most interesting and/or useful?

Chapter 8: The Power of Organized Interests

- Why have mohair farmers earned a subsidy from the federal government for decades?

Chapter 9: Keeping Score

- Why is a nation's GDP a good measure of its economic well-being and progress?
- Why is a nation's GDP a poor measure of its economic well-being and progress?

Chapter 10: The Federal Reserve

- What is the primary role of the Federal Reserve?
- What is the significance of this role?
- What is deflation, and why is it worse than inflation?

Chapter 11: International Economics

- Describe the economic theory of Purchasing Power Parity, and why it often does not hold true.
- Explain the “dysfunctional economic relationship” between the United States and China. What are the significant risks for each side?

Chapter 12: Trade and Globalization

- What is the “good news about Asian sweatshops”?

Chapter 13: Development Economics

- After reading this chapter, what do you believe are the two greatest obstacles preventing poor countries from becoming rich?

Epilogue: Life in 2050

- What economic question do you have about life in 2050? About today’s economy? About life in general?