

Basic Economic Concepts



Developing Understanding

BIG IDEA 2

Markets **MKT**

- Why do people and countries trade with one another?
- What determines the market price for a good or service?

BIG IDEA 3

Macroeconomic Models **MOD**

- Why is there no such thing as a free lunch?

To understand economics, students must first understand that because most resources are scarce, individuals and societies must make choices. Examining how and why these choices are made will help students begin to understand the principles of supply and demand along with the importance of specialization and exchange.

In addition to introducing these basic economic concepts, this unit introduces foundational models that set the stage for more advanced economic analysis in subsequent units.

Building Course Skills

1.A 1.C 4.A 4.C


This unit focuses on giving students a thorough understanding of basic economic concepts so that they can appropriately apply these concepts with increasing sophistication in subsequent units. Application of economic principles and models will be an important skill throughout the course. Many students have not had significant exposure to the study of economics in previous coursework, so employing the tools of an economist may not come naturally. With that in mind, it's important to give students many opportunities, starting early in the course, to describe economic concepts and apply their understanding of those concepts graphically and numerically. It helps for students to see from the beginning of the course how graphs can be used as tools for making sense of economic situations and predicting and explaining economic outcomes; even if a graph is not asked for on the exam, drawing one may help students answer a given question or explain a situation.

Preparing for the AP Exam


Many students lose points on the free-response section of the AP Exam for failing to properly label all the elements of a graph and demonstrate the effects of changes on graphs. When introducing students to graphing in this unit, first model how to set up graphs, emphasizing the importance of properly labeling axes, curves, and equilibrium points. Give students opportunities to practice setting up graphs and demonstrating the effects of changes on their graphs. It is important to continue to emphasize and appropriately model these skills throughout the course.

Another challenging concept for students is differentiating between movement along a curve and shifts of a curve. In the context of learning about the basic model of supply and demand in this unit, consider spending time helping students distinguish between the effects of a price change and changes in the determinants of supply and demand. This will help students apply this understanding in other market models that come later in the course.

UNIT AT A GLANCE

Enduring Understanding	Topic	Suggested Skills	Class Periods
			~8–10 CLASS PERIODS
MOD-1	1.1 Scarcity	1.A Describe economic concepts, principles, or models.	
	1.2 Opportunity Cost and the Production Possibilities Curve (PPC)	4.A Draw an accurately labeled graph or visual to represent an economic model or market.	
MKT-1	1.3 Comparative Advantage and Gains from Trade	1.C Identify an economic concept, principle, or model using quantitative data or calculations.	
MKT-2	1.4 Demand	4.A Draw an accurately labeled graph or visual to represent an economic model or market.	
	1.5 Supply	4.A Draw an accurately labeled graph or visual to represent an economic model or market.	
	1.6 Market Equilibrium, Disequilibrium, and Changes in Equilibrium	4.C Demonstrate the effect of a change in an economic situation on an accurately labeled graph or visual.	
 Go to AP Classroom to assign the Personal Progress Check for Unit 1. Review the results in class to identify and address any student misunderstandings.			

SUGGESTED SKILL

 *Principles and Models*

1.A

Describe economic concepts, principles, or models.



AVAILABLE RESOURCE

- External Resource > [Davidson Next AP Macroeconomics Course—Introduction and Basic Concepts](#)

TOPIC 1.1

Scarcity

Required Course Content

ENDURING UNDERSTANDING

MOD-1

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

LEARNING OBJECTIVE

MOD-1.A

Define scarcity and economic resources.

ESSENTIAL KNOWLEDGE

MOD-1.A.1

Individuals and societies are forced to make choices because most resources are scarce.

TOPIC 1.2

Opportunity Cost and the Production Possibilities Curve (PPC)

Required Course Content

ENDURING UNDERSTANDING

MOD-1

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

LEARNING OBJECTIVE

MOD-1.B

- Define (using graphs as appropriate) the PPC and related terms.
- Explain (using graphs as appropriate) how the PPC illustrates opportunity costs, tradeoffs, inefficiency, efficiency, and economic growth or contraction under various conditions.
- Calculate (using data from PPCs or tables as appropriate) opportunity cost.

ESSENTIAL KNOWLEDGE

MOD-1.B.1

The PPC is a model used to show the tradeoffs associated with allocating resources.

MOD-1.B.2

The PPC can be used to illustrate the concepts of scarcity, opportunity cost, efficiency, underutilized resources, and economic growth or contraction.

MOD-1.B.3

The shape of the PPC depends on whether opportunity costs are constant, increasing, or decreasing.

MOD-1.B.4

The PPC can shift because of changes in factors of production as well as changes in productivity/technology.

MOD-1.B.5

Economic growth results in an outward shift of the PPC.

SUGGESTED SKILL

 *Graphing and Visuals*

4.A


Draw an accurately labeled graph or visual to represent an economic model or market.



AVAILABLE RESOURCE

- External Resource > [Davidson Next AP Macroeconomics Course—Introduction and Basic Concepts](#)

SUGGESTED SKILL

 *Principles and Models*

1.C

Identify an economic concept, principle, or model using quantitative data or calculations.



AVAILABLE RESOURCES

- External Resource > [Davidson Next AP Macroeconomics Course—Comparative Advantage & Trade](#)
- Classroom Resources > [International Economics and the AP Macroeconomics Course](#)

TOPIC 1.3

Comparative Advantage and Gains from Trade

Required Course Content

ENDURING UNDERSTANDING

MKT-1

Production and consumption increase by engaging in trade.

LEARNING OBJECTIVE

MKT-1.A

- a. Define absolute advantage and comparative advantage.
- b. Determine (using data from PPCs or tables as appropriate) absolute and comparative advantage.

MKT-1.B

- a. Explain (using data from PPCs or tables as appropriate) how specialization according to comparative advantage with appropriate terms of trade can lead to gains from trade.
- b. Calculate (using data from PPCs or tables as appropriate) mutually beneficial terms of trade.

ESSENTIAL KNOWLEDGE

MKT-1.A.1

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.

MKT-1.A.2

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.

MKT-1.B.1

Production specialization according to comparative advantage results in exchange opportunities that lead to consumption opportunities beyond the PPC.

MKT-1.B.2

Comparative advantage and opportunity costs determine the terms of trade for exchange under which mutually beneficial trade can occur.

TOPIC 1.4

Demand

SUGGESTED SKILL

 *Graphing and Visuals*

4.A

Draw an accurately labeled graph or visual to represent an economic model or market.

**AVAILABLE RESOURCES**

- External Resource > [Davidson Next AP Macroeconomics Course—Supply & Demand](#)
- Classroom Resources > [Markets – Lesson: A Comparison of Graphs from Microeconomics and Macroeconomics](#)

Required Course Content

ENDURING UNDERSTANDING

MKT-2

In a competitive market, demand for and supply of a good or service determine the equilibrium price.

LEARNING OBJECTIVE

MKT-2.A

- Define (using graphs as appropriate) the law of demand.
- Explain (using graphs as appropriate) the relationship between the price of a good or service and the quantity demanded.

MKT-2.B

Explain (using graphs as appropriate) the determinants of demand.

ESSENTIAL KNOWLEDGE

MKT-2.A.1

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

MKT-2.B.1

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

SUGGESTED SKILL

 *Graphing and Visuals*

4.A

Draw an accurately labeled graph or visual to represent an economic model or market.



AVAILABLE RESOURCES

- External Resource > [Davidson Next AP Macroeconomics Course—Supply & Demand](#)
- Classroom Resources > [Markets – Lesson: A Comparison of Graphs from Microeconomics and Macroeconomics](#)

TOPIC 1.5

Supply

Required Course Content

ENDURING UNDERSTANDING

MKT-2

In a competitive market, demand for and supply of a good or service determine the equilibrium price.

LEARNING OBJECTIVE

MKT-2.C

- a. Define (using graphs as appropriate) the law of supply.
- b. Explain (using graphs as appropriate) the relationship between the price of a good or service and the quantity supplied.

MKT-2.D

Explain (using graphs as appropriate) the determinants of supply.

ESSENTIAL KNOWLEDGE

MKT-2.C.1

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

MKT-2.D.1

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

TOPIC 1.6

Market Equilibrium, Disequilibrium, and Changes in Equilibrium

Required Course Content

ENDURING UNDERSTANDING

MKT-2

In a competitive market, demand for and supply of a good or service determine the equilibrium price.

LEARNING OBJECTIVE

MKT-2.E

Define (using graphs as appropriate) market equilibrium.

MKT-2.F

- Define a surplus and shortage.
- Explain (using graphs as appropriate) how prices adjust to restore equilibrium in markets that are experiencing imbalances.
- Calculate (using graphs as appropriate) the surplus or shortage in the market experience an imbalance.

MKT-2.G

Explain (using graphs as appropriate) how changes in demand and supply affect equilibrium price and equilibrium quantity.

ESSENTIAL KNOWLEDGE

MKT-2.E.1

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

MKT-2.F.1

Whenever markets experience imbalances—creating disequilibrium prices, surpluses, and shortages—market forces drive prices toward equilibrium.

MKT-2.G.1

Changes in the determinants of supply and/or demand result in a new equilibrium price and quantity.

SUGGESTED SKILL

 *Graphing and Visuals*

4.C

Demonstrate the effect of a change in an economic situation on an accurately labeled graph or visual.

**AVAILABLE RESOURCES**

- External Resource > [Davidson Next AP Macroeconomics Course—Supply & Demand](#)
- Classroom Resources > [Markets – Lesson: A Comparison of Graphs from Microeconomics and Macroeconomics](#)