

AP Microeconomics

Ms. Bellucco



Welcome to your first lesson in Advanced Placement Microeconomics (if you took AP Macro last year, please see below). By choosing to take this class in the fall you are committing to reading the following book: *Naked Economics: Undressing the Dismal Science*, Charles Wheeland, W.W. Norton, **2019 Edition**. Copies of the book can be obtained from local libraries. It can also be ordered from Amazon.com or Barnesandnoble.com. *I also have copies available if you need one, so reach out by email (many students have done this in the past)*. For the first day of school, you must complete the assignment listed below.

Answer all parts of each question in full sentences. Your writing should be grammatically correct and your answers must be in your own words. The assignment must be completed and turned in on google classroom (class code wipyzx). Answers should be single spaced and you must double space between questions. Use Times New Roman 12 as your font. If you have questions about the assignment over the summer or about the book, email me at hbellucco@mppanthers.org.

If you took AP Macroeconomics last year, welcome back! For your assignment, select six principles from *Naked Economics* and find and analyze (in a full, well written paragraph for each principle) a news article that exemplifies each principle.

Chapter 1: The Power of Markets

1. What are the two basic assumptions that economists make about individuals?
2. What is the role and significance of price on a market economy?
3. What is meant by the phrase "Who feeds Paris?"
4. How have drug dealers innovated to keep their business going?

Chapter 2: Incentives Matter

1. In your own words, what is an incentive?
2. What is adverse selection?
3. What is the principal-agent problem (hint- it does not involve Mr. Capuano at all)?

4. Why can stock options fairly be called “management heroin?”
5. What is the prisoner’s dilemma?
6. What are perverse incentives?
7. What do you think we should we do to save the black rhinos and why?

Chapter 3 Government and the Economy

1. What is an externality?
2. In addition to addressing externalities, what other important and beneficial roles does the government play in a market economy?
3. Using the reasoning in the book, what externality has been created because a person uses e-cigarettes? Who benefits? Who bears the costs?
4. Why is it good that governments give drug companies exclusive patents to produce drugs for 20 years?
5. What is the idea of a “nudge” in economics?

Chapter 4: Government and the Economy II

1. What arguments can you make that the government should only play a limited role in the market?
2. What is In-Q-It? Do you think it is a good idea? Why or why not?
3. You can stop reading this chapter after In-Q-It.

Chapter 5: Economics of Information

1. We assume in economics that parties have perfect information. How does the idea of “informational asymmetry” undermine our market economy?
2. Why does “branding” cause you to be more likely to buy a hamburger from McDonald’s than from Chuck’s Big Burger?

Chapter 6: Productivity and Human Capital

1. What is human capital?
2. Using the information and points made in the book, evaluate the following statement “We should not care about the gap between rich and poor as long as everybody is living better?”

Chapter 7: Financial Markets

1. Explain how get rich quick schemes go against the most basic principles of economics?
2. Why is the idea of spreading risk important?
3. What advice about investing in the stock market did you find the most interesting or useful?

Chapter 8: The Power of Organized Interests

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

Chapter 9: Keeping Score

1. What is GDP?
2. Why is GDP a good measure of a nation's economic well-being and progress?
3. Why is GDP a poor measure of a nation's economic well-being and progress?

Chapter 10: The Federal Reserve

1. What is the primary role of the Federal Reserve?
2. What is the significance of this role?
3. What is deflation, and why is it worse than inflation?

Chapter 11: Trade and Globalization

1. What is the "good news about Asian sweatshops?"

Chapter 12: Development Economics

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

Epilogue: Life in 2050

1. What economic questions do you have about life in 2050? What economic questions do you have about life today?