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UNIT 1 SYNOPSIS

To understand economics, students need to understand that because most resources are scarce, individuals and societies must make choices. When making rational choices, people do so “on the margin,” considering the additional costs and benefits of their decisions. The foundational economic ideas addressed in this unit form the basis for more advanced analysis of consumer and producer behavior that will be developed throughout the course.

This unit focuses on providing students with a thorough understanding of basic economic concepts. They need this understanding to be able to apply these concepts in subsequent units as the content increases in difficulty. Many students have not had significant exposure to the study of economics in previous coursework, which means that thinking like an economist (e.g., evaluating decisions based on constraints and trade-offs and thinking on the margin) may not come naturally. Students can begin to develop this skill set early on by using simulations and examples relevant to their lives. For example, if students engage in a simulation in which they consume additional units of a good and record the utility of consuming each additional unit, they will be better able to understand marginal decision making and the concept of diminishing marginal utility. By experiencing these concepts, students will be better equipped to describe them in their own words and apply them in later contexts.

Questions that require students to analyze quantitative data and perform calculations to demonstrate their mastery of consumer theory are a frequent challenge area on the AP Exam. While many students grasp the concept of consumer optimization, they are unable to apply that understanding using numbers. To prepare students for the exam, spend time first grounding students conceptually in the principles and logic behind consumer theory and then reinforce this learning by providing opportunities for students to practice using numerical examples. Students should understand the importance of showing their work when doing any calculations in the course. Graphical models are first introduced in this unit. Graphing is an important skill in this course that will be tested in the free-response section of the AP Exam. It's helpful to model how to set up their graphs in this unit and throughout the course, stressing the importance of properly labeling axes and curves, and providing opportunities for students to practice setting up graphs themselves and interpreting situations represented graphically.

CONTENT STANDARDS

Below are the standards **taught** and **assessed** in this unit.

Topic, Enduring Understanding, Learning Objectives (<i>Students will be able to...</i>)
1.1 Scarcity <ul style="list-style-type: none">• MKT-1: Most resources are scarce, and in most cases the use of resources involves constraints and trade-offs.<ul style="list-style-type: none">○ MKT-1.A: <i>Define resources and the causes of their scarcity.</i>
1.2 Resource Allocation and Economic Systems <ul style="list-style-type: none">• MKT-1: Most resources are scarce, and in most cases the use of resources involves constraints and trade-offs.<ul style="list-style-type: none">○ MKT-1.B: <i>Define how resource allocation is influenced by the economic system adopted by society.</i>
1.3 Production Possibilities Curve <ul style="list-style-type: none">• MKT-1: Most resources are scarce, and in most cases the use of resources involves constraints and trade-offs.<ul style="list-style-type: none">○ MKT-1.C: <i>a. Define (using graphs as appropriate) the production possibilities curve (PPC) and related terms. B. Explain (using graphs as appropriate) how the production possibilities curve (PPC) illustrates opportunity costs, trade-offs, inefficiency, efficiency, and economic growth or contraction under various conditions. C. Calculate (using data from PPCs or tables as appropriate) opportunity cost.</i>
1.4 Comparative Advantage and Trade <ul style="list-style-type: none">• MKT-2: <i>The consequences of scarcity can be mitigated through specialization in production and by exchange.</i><ul style="list-style-type: none">○ MKT-2.A: <i>a. Define absolute and comparative advantage. B. Determine (using data from PPCs or tables as appropriate) absolute and comparative advantage.</i>○ MKT-2.B: <i>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.</i>
1.5 Cost-Benefit Analysis <ul style="list-style-type: none">• CBA-1: <i>Rational economic decisions require the evaluation of costs and benefits.</i><ul style="list-style-type: none">○ CBA-1.A: <i>a. Define opportunity cost. B. Explain the opportunity costs associated with choices. C. Calculate the opportunity costs associated with choices.</i>○ CBA-1.B: <i>a. Explain a decision by comparing total benefits and total costs (using a table or graph when appropriate). B. Calculate total benefits and total costs (using a table or graph where appropriate).</i>
1.6 Marginal Analysis and Consumer Choice <ul style="list-style-type: none">• CBA-2: <i>To determine the optimal level at which to pursue an activity whose total benefits exceed total cost, rational economic agents compare marginal benefits and marginal costs.</i><ul style="list-style-type: none">○ CBA-2.A: <i>a. Define the key assumptions of consumer choice theory. B. Explain (using a table or graph as appropriate) how a rational consumer's decision making involves the use of marginal benefits and marginal costs. C. Calculate (using a table or a graph when appropriate) how a rational consumer's decision making involves the use of marginal benefits and marginal costs.</i>○ CBA-2.B: <i>a. Define marginal analysis and related terms. B. Explain a decision using marginal analysis (using a table or graph when appropriate).</i>

STANDARDS CLARIFICATION

Standards Guidance for Instructional Managers

STANDARDS CLARIFICATION

Cycle	Essential Questions	Priority Standards	What do students need to know?	How will students practice this content?
Production Possibilities Curves	How do economists illustrate scarcity and opportunity cost?	Explain how the production possibilities curve (PPC) illustrates opportunity costs, trade-offs, inefficiency, efficiency, and economic growth or contraction under various conditions (MKT-1.C) .	<p>The PPC can be used to illustrate the concepts of scarcity, opportunity cost, efficiency, underutilized resources, and economic growth (MKT-1.C.2).</p> <p>The shape of the PPC depends on whether opportunity costs are constant, increasing, or decreasing (MKT-1.C.3).</p> <p>The PPC can shift due to changes in factors of production as well as changes in productivity/technology (MKT-1.C.4).</p> <p>Economic growth results in an outward shift of the PPC (MKT-1.C.5).</p>	<p>Students will practice by:</p> <ol style="list-style-type: none"> 1. Drawing Production Possibility Curves 2. Calculating opportunity cost and per unit opportunity cost. 3. Shifting Production Possibility Curves based on scenarios.
Comparative Advantage and Trade	How do countries specialize in production and engage in trade with other countries?	Explain how specialization according to comparative advantage with appropriate terms of trade can lead to gains from trade (MKT-2.B) .	<p>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-2.A.1).</p> <p>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-2.A.2).</p>	<p>Students will practice by:</p> <ul style="list-style-type: none"> • Determine absolute and comparative advantage from PPCs and tables. • Calculate per unit opportunity cost from PPCs and tables. • Determine how countries will trade with each other
Cost Benefit Analysis and Consumer Choice	How do consumers decide what to purchase?	Explain a decision by comparing total benefits and total costs using a table or a graph (CBA-1.B) .	<p>Rational agents consider opportunity costs, whether implicit or explicit, when calculating the total economic costs of any decision (CBA-1.A.1).</p> <p>Total benefits form the metric “utility” for consumers and total revenue for firms (CBA-1.A.2).</p> <p>Total net benefits, the difference between total benefits and total costs are maximized at the optimal choice (CBA-1.B.1).</p>	<p>Students will practice by:</p> <ul style="list-style-type: none"> • Determining ideal combinations of goods based on marginal utility and cost.