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### UNIT 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.

## ENDURING UNDERSTANDINGS AND CONTENT STANDARDS

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

Topic, Enduring Understanding, Learning Objectives (Students will be able to...)
<b>2.1 Demand</b> <ul style="list-style-type: none"><li>• <b>MKT-3: Individuals and firms respond to incentives and face constraints.</b><ul style="list-style-type: none"><li>○ <b>MKT-3.A:</b> <i>a. Define (using graphs as appropriate) key terms and factors related to consumer decision making and the law of demand. b. Explain (using graphs as appropriate) the relationship between price and quantity demanded and how buyers respond to incentives and constraints.</i></li><li>○ <b>MKT-3.B:</b> <i>Explain (using graphs as appropriate) buyers' responses to changes in incentives and constraints.</i></li></ul></li></ul>
<b>2.2 Supply</b> <ul style="list-style-type: none"><li>• <b>MKT-3: Individuals and firms respond to incentives and face constraints.</b><ul style="list-style-type: none"><li>○ <b>MKT-3.C:</b> <i>a. Define (using graphs as appropriate) the law of supply. b. Explain (using graphs as appropriate) the relationship between price and quantity supplied.</i></li><li>○ <b>MKT-3.D:</b> <i>Explain (using graphs as appropriate) producers' (sellers') responses to changes in incentives and technology.</i></li></ul></li></ul>
<b>2.3 Price Elasticity of Demand</b> <ul style="list-style-type: none"><li>• <b>MKT-3: Individuals and firms respond to incentives and face constraints.</b><ul style="list-style-type: none"><li>○ <b>MKT-3.E:</b> <i>a. Define measures of elasticity. b. Explain (using graphs where appropriate) measures of elasticity and the impact of a given price change on total revenue or total expenditure. c. Calculate (using data from a graph or a table as appropriate) measures of elasticity.</i></li></ul></li></ul>
<b>2.4 Price Elasticity of Supply</b> <ul style="list-style-type: none"><li>• <b>MKT-3: Individuals and firms respond to incentives and face constraints.</b><ul style="list-style-type: none"><li>○ <b>MKT-3.E:</b> <i>a. Define measures of elasticity. b. Explain (using graphs where appropriate) measures of elasticity and the impact of a given price change on total revenue or total expenditure. c. Calculate (using data from a graph or a table as appropriate) measures of elasticity.</i></li></ul></li></ul>
<b>2.5 Other Elasticity</b> <ul style="list-style-type: none"><li>• <b>MKT-3: Individuals and firms respond to incentives and face constraints.</b><ul style="list-style-type: none"><li>○ <b>MKT-3.E:</b> <i>a. Define measures of elasticity. b. Explain (using graphs where appropriate) measures of elasticity and the impact of a given price change on total revenue or total expenditure. c. Calculate (using data from a graph or a table as appropriate) measures of elasticity.</i></li></ul></li></ul>
<b>2.6 Market Equilibrium and Consumer and Producer Surplus</b> <ul style="list-style-type: none"><li>• <b>MKT-4: Although equilibria are stable, an economy can move from one equilibrium to another if market conditions change.</b><ul style="list-style-type: none"><li>○ <b>MKT-4.A:</b> <i>Define (using graphs as appropriate) market equilibrium, consumer surplus, and producer surplus. b. Explain (using graphs as appropriate) how equilibrium price, quantity, consumer surplus, and producer surplus for a good or service are determined. c. Calculate (using data from a graph or table as appropriate) areas of consumer surplus and producer surplus at equilibrium.</i></li></ul></li></ul>
<b>2.7 Market Disequilibrium and Changes in Equilibrium</b> <ul style="list-style-type: none"><li>• <b>MKT-4: Although equilibria are stable, an economy can move from one equilibrium to another if market conditions change.</b><ul style="list-style-type: none"><li>○ <b>MKT-4.B:</b> <i>a. Define a surplus and shortage. b. Explain (using graphs where appropriate) how changes in underlying conditions and shocks to a competitive market can alter price, quantity, consumer surplus, and producer surplus. c. Calculate (using data from a graph or table as appropriate) changes in price, quantity, consumer surplus, and producer surplus in response to changes in market conditions or market disequilibrium.</i></li></ul></li></ul>

## 2.8 The Effects of Government Intervention in Markets

- **POL-1:** Government policies influence consumer and producer behavior market outcomes.
  - **POL-1.A:** *a. Define forms of government price and quantity intervention. b. Explain (using graphs where appropriate) how government policies alter consumer and producer behaviors that influence incentives and therefore affect outcomes. c. Calculate (using data from a graph or table where appropriate) changes in market outcomes resulting from government policies.*

## 2.9 International Trade and Public Policy

- **POL-1:** Government policies influence consumer and producer behavior market outcomes.
  - **POL-1.B:** *a. Define tariffs and quotas. b. Explain (using graphs where appropriate) how markets are affected by public policy related to international trade. c. Calculate (using data from a graph or table as appropriate) changes in market outcomes resulting from public policy related to international trade.*