

OVERVIEW OF THE AP ECONOMICS COURSE

Economics is much more than a school subject. Economics involves a whole new way of thinking. You will gain insights into the reasoning of consumers and the rationale for decision-makers in firms and governments. Once you understand the principles of economics, you will almost certainly view decision-making, the economy, and the relationships among people, firms, governments, and countries differently.

Economics and the Real World

Economics is about decision making in everyday life. You probably already know a good number of economic principles as a result of your life experiences. If there is a shortage of concert tickets and the official ticket sites sell out, what will happen to the price you have to pay a seller on eBay? If the economy enters a recession and demand falls for a firm's products, will the firm be more likely to hire or lay off workers? The wonderful thing about studying economics is that the question "When will I ever use this?" is unlikely to arise. Economics is about our lives. Consider this subject Life 101.

As you learn the various laws, principles, and models of economic behavior, at some point it will probably strike you that the world doesn't work exactly as the models suggest. For example, if you are deciding whether to buy a glass of orange juice or a cup of coffee, it is unlikely that you will whip out a pencil and paper to analyze the numerical value of the satisfaction you would receive from each of the drinks, calculate that satisfaction received per dollar spent for each of the drinks, and then make your selection based on that result. But you'll *act* as though you did just that. You will learn numeric and graphic representations of economic principles to help you understand why people make the economic decisions they do, but most people make their decisions without such formal analysis. In these situations, think about the smiley face symbol. ☺ We all recognize it as a face, but have you ever met someone whose face really looked exactly like a smiley face? A frightening proposition, indeed! In the same way, you will learn the "behind-the-scenes" rationales for economic decision making, understanding that, while the models may not *exactly* match real-world behaviors, they provide our best understanding of economic relationships, principles, and policies.

The Advanced Placement Program

The Advanced Placement (AP) program was created by the College Board, which also developed the SAT exam. The AP economics course descriptions and exams are written by the AP Economics Development Committee, which consists of college economics professors and high school teachers with experience teaching the AP economics course. This committee has studied the economics course descriptions from hundreds of university professors to determine which concepts to include in the AP economics course descriptions and the focus of the AP economics exams. The College Board requires audits of high school courses with the AP designation to ensure that the high school curriculum meets standards equivalent to the college economics course. From time to time, the College Board asks college students to take the AP exam, so that the College Board may compare scores and ensure that the score distribution for high school test-takers is appropriate.

So...What IS Economics?

Microeconomics and macroeconomics are generally two one-semester courses that explore different aspects of our economy. Because the resources we need to produce the products we want are scarce, we have to make decisions about how to satisfy our unlimited wants with those

limited, scarce resources. While microeconomics focuses on the small picture of decision making by individuals and firms, macroeconomics studies the big picture of national economies, governments, monetary systems, and international trade.

Microeconomics

According to the College Board, the microeconomics course (and by extension, the AP microeconomics exam) consists of the following areas of study, with the approximate percentage of course content involved in each area:

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| 1. Basic economic concepts | (8–14%) |
| 2. Product markets | (55–70%) |
| A. Supply and demand | (15–20%) |
| B. Consumer choice theory | (5–10%) |
| C. The production function and costs | (10–15%) |
| D. Profit maximization and market structures | (25–35%) |
| 3. Factor markets | (10–18%) |
| 4. Market failure and the role of government | (12–18%) |

Macroeconomics

According to the College Board, the macroeconomics course (and by extension, the AP macroeconomics exam) consists of the following areas of study, with the approximate percentage of course content involved in each area:

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| 1. Basic economic concepts | (8–12%) |
| 2. Measuring economic performance | (12–16%) |
| 3. National equilibrium (aggregate supply and demand) | (10–15%) |
| 4. Money, banking, and finance | (15–20%) |
| 5. Inflation, unemployment, and economic stabilization policies | (20–30%) |
| 6. Growth and productivity | (5–10%) |
| 7. International trade and finance | (10–15%) |

Micro or Macro or Both?

You may be preparing for only one of the AP economics exams or both. This book contains the information necessary to prepare for both exams. Further, many economic principles are shared by both disciplines. The basic economic concepts of scarcity, tradeoffs, comparative advantage, voluntary exchange, and supply and demand are found in a variety of concepts in both courses. Changes in interest rates can affect the decision making of the individual firm in microeconomics, and those same changes can be seen in macroeconomics as firms across the nation respond to those interest rate changes. So if you are a student of only one of the AP economics courses, the other half of the economic picture isn't a foreign entity; it's the larger or smaller picture of how our portion of the world economy works. The table of contents, as well as the chapter introductions, identifies the content's relevancy to the AP microeconomics exam, the AP macroeconomics exam, or both.

The AP Economics Exam Prep Guide

In the chapter reviews that follow, you'll find boxes that draw your attention to special issues related to each chapter. The **Taking the EEK! Out of Economics** boxes focus on connections between concepts, confusing concepts, common mistakes made by economics students, and potential solutions and "tricks of the trade" to keep things straight. The **Bear in Mind** boxes highlight the material most likely to appear on the exams and the way in which that material might appear. Keep in mind that such suggestions are based on the items that have appeared on

previous AP economics exams and provide no guarantee about the specific kinds of questions that will appear on future exams.

In the same way, sample multiple-choice and free-response questions are provided at the end of each chapter review to test your understanding of the material in that chapter. The questions are designed to reflect the level of difficulty of actual AP economics exam questions, as well as the types of concepts tested on previous exams. Again, such questions are no guarantee of what types of questions you might encounter on your AP economics exam but will help prepare you for the material you will see on your exam.

OVERVIEW OF THE AP ECONOMICS EXAMS

The Structure of the Exam

Each of the AP economics exams – microeconomics and macroeconomics – is a two-hour and ten-minute exam. The College Board schedules these exams on the same day in May, with one exam in the morning and one in the afternoon. The multiple-choice section accounts for two-thirds of the score, and a free-response section provides the other one-third of the score.

The Multiple-Choice Section

The first portion of the exam consists of sixty multiple-choice questions, which are to be answered within seventy minutes. The multiple-choice questions can include a wide range of information, including definitions and applications of principles, calculations, interpretations of graphs, explanations of the causes or results of an economic action, and choosing an appropriate economic policy to deal with an economic event.

Multiple-Choice Test Tips

Each question has five potential answers. Each correct answer is worth one point, while one-fourth point is subtracted for each incorrect answer to penalize guessing. Questions left blank earn no points. So if you answered forty-five questions correctly, erred on eight questions, and left seven questions blank, your score for the multiple-choice section would be forty-three points. Because the College Board must distinguish among students earning the highest scores, it is likely that you will encounter high-level questions that you cannot answer with complete certainty. If you can eliminate at least one or two of the potential answers, it may be worth it to guess at the correct answer. But if you cannot eliminate any of the potential answers, you are better off to leave the question blank and move on.

It is important to watch your pace, as you have just over one minute to answer each question. Some questions can be answered very quickly, while others will require more complicated analysis, so keep moving.

Be careful, too, not to overanalyze questions. In many cases, a correct answer may appear too simple or straightforward, but beware of second-guessing your answers. Many times on multiple-choice tests, students initially select the correct answer only to return to the question and change the answer. Unless you realize you have misread the question or have missed a better answer among the choices, trust your first decision.

Forbidden Test Items

Calculators are *not* allowed in the AP economics exams. While you will likely be asked to perform calculations for some questions, the math is relatively simple if you understand the principles involved and remember how to set up the equations. In addition, colored pencils and markers are no longer allowed for drawing graphs; all free-response writing must be in blue or black pen.

The Free-Response Section

The second portion of the exam consists of three free-response questions, with half of the score given for the first written response and the other half divided between the other two written responses. The sixty minutes of free-response time begins with a mandatory ten-minute reading period, during which you may begin outlining your answers and sketching graphs. You will then have the remaining fifty minutes to write your answers. The College Board suggests that you spend approximately twenty-five minutes writing the long response and divide the other 25 minutes between the shorter responses. The long response generally involves interconnections among several different concepts central to the course, while the shorter responses generally focus on one specific concept or a pair of related concepts.

Free-Response Writing Tips

AP economics responses are quite different from the formal essays written for some other AP subjects, which require thesis statements and a five-paragraph developmental structure. AP economics free-response questions generally consist of a series of questions and sub-questions which can be answered in several sentences. Responses should *directly* answer the questions asked.

Keep in mind the economic concept of efficiency and apply that to your free-response writing. Be complete but be efficient about it. Directly answer the question asked, and explain why that answer is correct. Don't write as though you've swallowed a dictionary, reaching for complex language and unnecessary difficulty. Some of the best answers use the appropriate terms and the clearest language to explain the situation, causes and effects, and reasoning. The readers want to see a clear analysis and your reasoning.

Over the years, free-response readers have consistently noted that students have problems linking the concepts and explaining why a change in one factor will lead to changes in other factors. For example, if a hurricane wipes out the Florida orange crop, how will the price of apple juice be affected? The price of apple juice will increase. The link is that the lower supply of oranges will increase the cost of producing orange juice, which is a substitute product for apple juice. When consumers see the higher price of orange juice, many will reduce the quantity of orange juice consumed and increase their demand for apple juice, pushing up the price of apple juice. It is important to make those kinds of links clear to demonstrate to the reader that you understand causes and effects.

It is very important to understand what the question is asking you to do. One big clue is to look for the verbs: “define,” “identify,” “explain,” “label,” or “using a graph, show.” Try to envision what the rubric (answer key) will look like. What are the readers looking for from each part of the question? Then answer each part of the question in the order it was asked. If you refer to a graph in your writing (“As you can see in Graph A”), title that graph clearly (“Graph A”) so readers can quickly identify the appropriate graph.

Many of the free-response questions also require you to draw one or more graphs. As the exam directions indicate, it is *very* important that you correctly label your graphs. Your axis labels should be clear (for example, “Price and Quantity,” or “Price Level and Real Output”). Every curve should be appropriately labeled. If you want to indicate the shift of a curve, be sure to draw arrows between the curves to show the direction of movement, and label the second curve differently (for example, D1 and D2). Draw equilibrium points where appropriate and indicate those equilibrium prices or quantities on the axes of your graph. Remember that the readers want to award you points for every correct portion of your response, so make their job as easy as possible.

Once you have finished your free-response questions, it is essential that you carefully read your answers again. Have you specifically answered each part of each question? Have you made links to explain why that answer is correct? Have you labeled all axes and curves on each graph, illustrating equilibrium points and showing the directions of shifts in curves? Very often, easy points are lost because of a moment of carelessness in missing a sub-question or drawing an arrow facing the wrong direction. Give yourself credit for your hard work!

And one last note about the actual writing of the free response: for those of you who are “handwriting-challenged” – and you know who you are – take a moment to consider that your reader will be taking a week out of his or her summer vacation to read thousands of free-response answers to the very same question, over and over for eight hours a day. Do you really want to challenge that reader with handwriting that requires use of a magnifying glass? Or a chicken-scratch interpreter? It is in your best interest to make it as easy as possible for the reader to understand what you have to say. If your printing is awful, try cursive. If your cursive is a wreck, try printing. If both are bad, try printing in all capital letters. Making your writing easy to read ensures you the best possible chance that your reader will be able to accurately find your correct answers to grant you the score you deserve.

It is important to note that because the rubrics are so precise, multiple points can be awarded throughout each free response. For example, using the earlier example of the hurricane wiping out the orange crop, if you responded that the apple juice prices would increase but erroneously gave the reason that the hurricane had also wiped out the apple trees, you might receive one point for identifying that the apple juice price increased but not receive the second point for correct reasoning.

It is also important to note that when an answer involves a chain of events, the readers recognize that one error at the beginning of the chain might cause all of the following answers to be wrong, even though your logic is correct. For example, the free-response question could list economic data that indicates the economy is in a recession and then ask you to identify the economic problem and fiscal policy needed to stabilize the economy. A correct answer would be to identify the recession and explain that the government should lower taxes and raise government spending to increase the aggregate demand in the economy. But if you made the mistake of seeing the problem as inflation and therefore reversed your policy answers to raise taxes and lower government spending, your entire answer could be wiped out. In order to more fairly recognize good economic reasoning, sometimes rubrics will be set in such a way that if the initial response is wrong but the rest of the answers flow correctly based on that initial answer, you will lose the point for the initial answer but still receive credit for the rest of your answers. On the free-response questions, there is no penalty for guessing, so it is always in your best interest to make an attempt to answer.

The Free-Response Reading

In June of each year, high school AP economics teachers and college economics instructors gather to score the exams. The chief reader, who directs the reading, is assisted by question leaders, who direct the reading of each free-response question, and table leaders, who lead each table of readers who are focused on a single free-response question. Before the reading begins, the chief reader, the question leaders, and the table leaders, all experienced readers, create the rubric for each free-response question. They determine the correct answers and then consider the many ways a student could express a correct answer, reading several of the student submissions to help develop the most accurate rubric. When other readers arrive, they are taught how to apply the rubric, and they practice grading to identify concerns until all readers of a particular question are comfortable with the rubric. Throughout the reading, table leaders spot check the scores assessed by each reader- in an effort to ensure that all responses will be scored in the same way, regardless of which reader actually scores the response.

Determining the AP Exam Score

The multiple-choice section is scored electronically, while readers grade the free-response sections. The College Board then applies a weighting formula and combines the raw multiple-choice and free-response scores to create a composite score. Finally, a conversion factor is used to award the student one of five final scores:

- *5 – Extremely well qualified*
- *4 – Well qualified*
- *3 – Qualified*
- *2 – Possibly qualified*
- *1 – No recommendation*

AP Scores and College Credit

Because the AP microeconomics and macroeconomics courses are intended to represent the two one-semester college courses, the two AP exams are scored independently. You may opt to take either exam or to take both exams. A passing score on either exam can provide college credit for institutions that accept AP credit, but colleges and universities differ markedly in requirements and credits offered. Some schools accept a score of 3 for credit, while other schools require a 4 or a 5 in order to receive credit. It is highly recommended that you explore the websites or contact the admissions offices of the colleges or universities you are considering to find out what scores are required for credit at each institution.