Dear Student,

Welcome to AP Economics! The course that you have chosen may be one of the most challenging, yet rewarding courses that you have taken so far in your school career. To assist you in getting started on the “right foot”, all students taking AP Economics will need to complete a summer assignment. Your assignment is due the first day of school!!! No exceptions. Students who fail to complete the assignment will be removed from the class. During the first week of class, students will take an exam that covers the material from the summer assignment. All assignments (including the test during the first week of school) will be counted as grades during your first six-weeks. Your assignment is as follows:

Summer Reading: Students will need to read chapter one from the Economics: Principles, Problems and Policies textbook. It is also highly recommended that you read the chapter one appendix. This appendix has useful information regarding basic algebra skills used during economics. Some of the questions in your assignment are based on the algebra discussed in the appendix. Please email Mrs. Cordova at cordovah@needvilleisd.com or go by room A104 before the end of school to get a textbook.

Summer Assignments (Daily Grades): After reading chapter one and the appendix from the textbook, students will need to complete the multiple choice questions, chapter one open ended questions, and the last word exercise #1.

Should you encounter any problems or have any questions, you can contact me by email at cordovah@needvilleisd.com. Please know that I will not check my email daily (usually at least once a week, except for the when I am on vacation) but will return your e-mails as soon as I can. Have a wonderful summer!!!

Sincerely,

Heather Cordova

Heather Cordova
AP Economics Teacher
Multiple Choice Questions: Chapter 1 & Chapter 1 Appendix

Identify the letter of the choice that best completes the statement or answers the question. (4 points each)

_____ 1. When entering a building, Sam diverts his path to go through an open door rather than make the physical effort to open the closed door that is directly in his path. This is an example of:
   a) irrational behavior. b) a lazy person. c) marginal benefit-marginal cost analysis. d) programmed learning.

_____ 2. There is "too little of a good thing" when its marginal:
   a) benefit exceeds its marginal cost. b) cost exceeds its marginal benefit. c) cost equals its marginal benefit. d) benefit is still positive.

_____ 3. You should decide to go to a movie:
   a) if the marginal benefit of the movie exceeds its marginal cost. c) if your income will allow you to buy a ticket. d) because movies are inherently good products.

_____ 4. A well-tested economic theory is often called:
   a) a hypothesis. b) a prototype. c) a principle. d) an anomaly.

_____ 5. The scientific method is:
   a) not applicable to economics, because economics deals with human beings. b) also known as the economic perspective. c) analysis that moves from broad generalizations called laws to theories and then to hypotheses. d) used by economists and other social scientists, as well as by physical scientists and life scientists.

_____ 6. The term "ceteris paribus" means:
   a) that if event A precedes event B, A has caused B. c) other things equal. d) prosperity inevitably follows recession.

_____ 7. If there is a tradeoff between goals A and B:
   a) greater fulfillment of A means lesser fulfillment of B. c) causation exists between the two goals. d) greater fulfillment of A means greater fulfillment of B.

_____ 8. Macroeconomics approaches the study of economics from the viewpoint of:
   a) the entire economy. b) governmental units. c) the operation of specific product and resource markets. d) individual firms.

_____ 9. Which of the following statements pertains to macroeconomics?
   a) Because the minimum wage was raised, Mrs. Olsen decided to enter the labor force. b) A decline in the price of soybeans caused farmer Wanek to plant more land in wheat. c) The national productivity rate grew by 2.7 percent last year. d) The Pumpkin Center State Bank increased its interest rate on consumer loans by 1 percent.

_____ 10. Which of the following is a macroeconomic statement?
   a) The gross profits of all U.S. businesses were $182 billion last year. c) General Motors' profits increased in 2000. b) The price of beef declined by 3 percent last year. d) The productivity of steelworkers increased by 1 percent in 2000.

_____ 11. A normative statement is one which:
   a) is based on the law of averages. c) pertains only to macroeconomics. b) pertains only to microeconomics. d) is based on value judgments.

_____ 12. Normative statements are concerned with:
   a) facts and theories. b) what ought to be. c) what is. d) rational choice involving costs and benefits.

_____ 13. The "fallacy of composition" states that:
   a) generalizations relevant to microeconomics never pertain to macroeconomics. b) expectations give rise to self-fulfilling prophesies. c) generalizations pertaining to individuals always pertain to the group. d) quantifiable economic goals are always incompatible with one another.
Use the following to answer question 14:

Refer to the above diagram. Which line(s) show(s) a positive relationship between $x$ and $y$?

a) $A$ only  b) both $A$ and $D$  c) $A$, $B$, and $D$  d) both $C$ and $E$

If two variables are inversely related, then as the value of one variable:

a) increases, the value of the other may either increase or decrease.

b) decreases, the value of the other decreases.

c) increases, the value of the other decreases.

If price ($P$) and quantity ($Q$) are directly related, this means that:

a) a change in $Q$ will alter $P$, but a change in $P$ will not alter $Q$.

b) if $P$ increases, $Q$ will decrease.

c) if $P$ increases, $Q$ will also increase.

d) an increase in $P$ will cause $Q$ to change, but the direction in which $Q$ changes cannot be predicted.

Assume that if the interest rate that businesses must pay to borrow funds were 20 percent, it would be unprofitable for businesses to invest in new machinery and equipment so that investment would be zero. But if the interest rate were 16 percent, businesses will find it profitable to invest $10 billion. If the interest rate were 12 percent, $20 billion would be invested. Assume that total investment continues to increase by $10 billion for each successive 4 percentage point decline in the interest rate. Refer to the above graph. Which of the following is the correct graphical presentation of the indicated relationship?

a) line 4  b) line 3  c) line 2  d) line 1
18. Refer to the above diagram. The slope of the line:
   a) is $-\frac{1}{4}$  b) is $+\frac{1}{4}$  c) is .40  d) cannot be determined from the information given.

19. Refer to the above diagram. The equation that shows the relationship between $Y$ and $X$ is:
   a) $Y = 50 + \frac{1}{4}X$  b) $X = \frac{1}{4}Y$  c) $Y = .4X$  d) $Y = \frac{1}{4}X - 50$.

20. Refer to the above graph. Which of the following statements is correct?
    a) Quantity demanded and quantity supplied are independent of price.  c) Price and quantity supplied are directly related.
    b) Price and quantity demanded are directly related.  d) Price and quantity supplied are inversely related.

21. Refer to the above graph. Using $Qs$ for quantity supplied and $P$ for price, which of the following equations correctly states the supply of this product?
    a) $P = 4 + .2Qs$  b) $P = 60/Qs$  c) $P = 10Qs - 2P$  d) $P = 2 + .2Qs$. 
Use the following to answer question 22:

Answer the next question(s) on the basis of the following five data sets wherein it is assumed that the variable shown on the left is the independent variable and the one on the right is the dependent variable. Assume in graphing these data that the independent variable is shown on the horizontal axis and the dependent variable on the vertical axis.

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_____ 22. Refer to the above data sets. Which of the data sets would graph as an upsloping line?
   a)  1 only    b)  1, 2, and 3 only    c)  4 and 5 only    d)  1, 2, and 5 only

_____ 23. If the equation y = 5 + 6x was graphed, the:
   a)  slope would be -5.   b)  slope would be +5.   c)  slope would be +6.   d)  vertical intercept would be +6.

Use the following to answer question 24:

_____ 24. Refer to the above diagram. The slope of curve ZZ at point A is:
   a)  +2.   b)  +2\frac{1}{2}.   c)  -2\frac{1}{2}.   d)  +4.

_____ 25. The slope of a line parallel to the vertical axis is:
   a)  zero.   b)  one.   c)  infinite.   d)  one-half.
Chapter 1 Open Ended Questions

#1 Use the economic perspective to explain why someone who is normally a light eater at a standard restaurant may become somewhat of a glutton at a buffet-style restaurant which charges a single price for all you can eat.

#2 Explain in detail the interrelationships between economic facts, theory, and policy. Critically evaluate this statement:

“The trouble with economic theory is that it is not practical. It is detached from the real world.”

#3 Indicate whether each of the following statements applies to microeconomics or macroeconomics:

a. The unemployment rate in the United States was 4.2% in January 2001.
b. The Alpo dog food plant in Bowser, Iowa, laid off 15 workers last month.
c. An unexpected freeze in central Florida reduced the citrus crop and caused the price of oranges to rise.
d. U.S. output, adjusted for inflation, grew by 5% in 2000.
e. Last week Wells Fargo Bank lowered its interest rate on business loans by 0.5%.
f. The consumer price index rose by 33.4% in 2000.

#4 Identify each of the following as either a positive or a normative statement:

a. The high temperature today was 89 degrees.
b. It was too hot today.
c. Other things being equal, higher interest rates reduce the total amount of borrowing.
d. Interest rates are too high.

#5 Explain and give an illustration of (a) the fallacy of composition; and (b) the “after this, therefore because of this” fallacy. Why are cause-and-effect relationships difficult to isolate in the social sciences?
Foundations Unit I AP Microeconomics

Last Word Exercise 1


I. Define the three aspects of Economic Perspective:

   Scarcity and choice

   Rational Behavior

   Marginalism: Costs and Benefits

II. Use the Economic Perspective to explain the behavior of the workers (rather than the buyers) observed at the fast-food restaurant.

   Why are these workers there, rather than say, cruising around in their cars with their friends?

   Why do they work so diligently?

   Why do so many of them quit these jobs when they have graduated from high school?