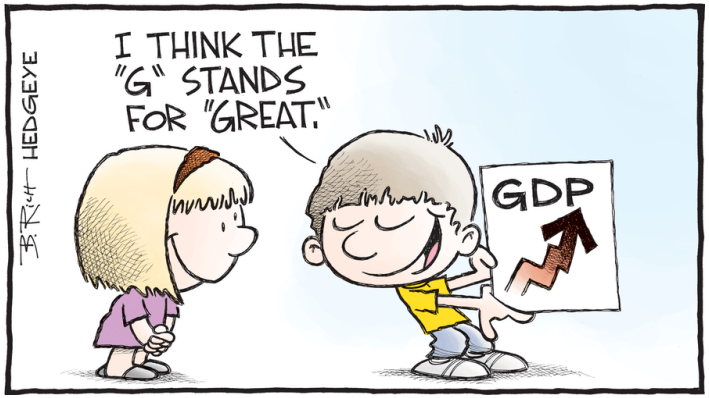
AP Economics Summer Reading Assignment

Welcome to AP Economics! This course is about the branch of economics that studies the behavior and performance of the economy as a whole. It focuses on the aggregate changes in the economy, such as unemployment, growth rate, gross domestic product, and inflation.



This summer, I'm asking you to read *Naked Economics: Undressing the Dismal Science* (Fully Revised and Updated Edition) by Charles Wheelan. As you read, you will complete the assignment below as well as take notes on the topics I've outlined at the end of this document. You are likely to have a quiz on the reading as early as the first day of class.

Naked Economics: Undressing the Dismal Science (Fully Revised and Updated Edition)
by Charles Wheelan
ISBN: 9780393337648

Directions:

1. Read *Naked Economics* by Charles Wheelan.

2. For each chapter, write an analysis focusing on questions for each chapter that appear below. Follow these parameters:
   A) Each chapter gets its own analysis. For each analysis, use the chapter and chapter title as the heading.
   B) Use the questions to guide the construction of each analysis. Your own thoughts must be given, too.

C) Avoid using direct quotes from the text; interpret the concept in your own words.
D) You may use in-text citations (using only a page number) to reference specific information in the book.
E) Format:

- Single-spaced pages, 12-point Times New Roman font.
- 1" margins all the way around the paper.
- Each page must contain your full name and course name.
- You must place the chapter number and title at the top of the first page of each chapter analysis.
- Limit each analysis to one (1) page or less. Your objective is to be concise but descriptive!

3. Each analysis will be graded based upon the following criteria:

- Identification & Explanation – Did you correctly answer the questions and identify and elaborate on the key points of the chapter?
- Own Reaction – What are your personal ideas about the points made and themes and topics addressed in the chapter?

4. Submitting your assignment: This assignment must be posted to Highlander Nation before the first day of class.

Chapter 1: The Power of Markets
• What two basic assumptions do economists make about individuals and firms?
• What example does the author give to support his claim that "maximizing utility is not synonymous with acting selfishly"?
• What is the role and importance of prices in the market economy?
• What are the advantages and disadvantages of a market economy?

Chapter 2: Incentives Matter
• Explain how each of the following relates to efficient outcomes in a market economy: adverse selection, "perverse incentives", principal-agent problem, and the prisoner's dilemma.
• How does the author support his claim that government benefits create perverse incentives?

Chapter 3: Government and the Economy
• Explain externality in your own words.
• What roles does government play in a market economy?

Chapter 4: Government and the Economy II
• What are the reasons why government should take a limited role in a market economy?

Chapter 5: Economics of Information
• How does the author use the example of the HOPE scholarships to explain the problem of asymmetry of information?
• What does the author mean by "perfect information"?

Chapter 6: Productivity and Human Capital
• Do you agree that Bill Gates should be richer than you? Explain.
• What is "income inequality"?
• Why do economists argue that we should not care about "income inequality"?

Chapter 7: Financial Markets
• How do get-rich-quick schemes violate the basic principles of economics?
• Do you agree with the author's rules for investment advice? Explain.

Chapter 8: The Power of Organized Interests
• Why have mohair farmers earned a subsidy from the federal government?
• What does the author mean by "in politics, the tail can wag the dog"?
• What is the economic impact of the statement in the question above?

Chapter 9: Keeping Score
• Why is a nation's GDP a good measure of its economic well-being and progress?
• Why is a nation's GDP a poor measure of its economic well-being and progress?

Chapter 10: The Federal Reserve
• What is the primary role of the Federal Reserve?
• What is the significance of the Federal Reserve's role?
• What is deflation? Why is deflation worse than inflation?

Chapter 11: International Economics
• Wheelan says, "currencies are no different than any other good." How are exchange rates determined?
• What is purchasing power parity, and why is it an accurate measure of a nation's standard of living?

Chapter 12: Trade and Globalization

• What is the "good news about Asian sweatshops"?
• How can free trade and the concept of specialization make all nations better off?

Chapter 13: Development Economics
• Based on your reading, what do you believe are the two biggest obstacles preventing poor countries from becoming rich?

Epilogue: Life in 2050
• What are three economic questions you have about life in 2050?

Important Other Stuff:

1. If you have questions over the summer, email me before the day of class at grimesc@frederickgunn.org. I will respond as quickly as possible, but please remember that summer is a vacation for me, too, so don't expect an immediate response.

2. This assignment will be the first major grade of the semester.

3. Take a look at the attached ***Handy Dandy Guide to Economics*** at the end of this paper and try to apply those thoughts in your paper as much as possible. We will use this a lot throughout the semester and you should get used to it now.

Main Topics

Throughout your reading of Naked Economics you will cover the following topics. Take notes about what each means. It's likely you could have a quiz on your reading as early as the first day of class.

Chapter 1 - The Power of Markets
Market allocation
Assume rational utility-maximizers
Opportunity costs
Profit max
Prices allocate resources
Barriers to entry
Market price, pricing decision & price discrimination
Lessons of markets

Chapter 2 - Incentives Matter
Wrong incentives lead to undesirable outcomes
Principal-agent problem
Prisoner's dilemma
Creative destruction
Tax and govt program disincentives

Chapter 3 - Government and the Economy
Externalities

Government solutions to externalities
Government makes market economy possible – rights, laws regulations
Public goods
Redistribution

Chapter 4 - Government & the Economy II
Government inefficiency
Government allocation vs. private allocation
Effects of regulation
Effects of taxation
Summary

Chapter 5 - Economics of information
Adverse selection
Firm screening
Branding provides information
Branding versus commodities
Signaling mechanisms

Chapter 6 - Productivity and Human Capital
Human capital
Job creation
Effects of human capital on standard of living
Productivity
Income inequality

Chapter 7 - Financial Markets
Purposes of financial instruments
Efficient markets & index funds
Investment guidelines

Chapter 8 - The power of Organized Interests
Interest groups & politicians' incentives
Some regulations benefit business
Tyranny of the status quo

Chapter 11 - Trade and Globalization
Benefits of trade
Comparative advantage & specialization
Losers from trade
Protectionism
Trade raises real income
Trade benefits for poor countries
Cultural homogenization
Sweatshops

Handy Dandy Guide to Economics

1. People choose to do the things they think are best for them.
    a. We live in a world where we can't have everything we want.

b. Resources, goods, services, time, and money are scarce, so we have to make choices.

2. Choices have costs.
    a. When we choose something, we give up the opportunity to have something else. It is the inevitable nature of choice.
    b. It is as important to examine what we forgo as it is to think about what we will get if we choose one alternative over another.

3. People respond in predictable ways.
    a. Rational people seek positive rewards.
    b. They also seek to avoid negative consequences.

4. People create economic systems that influence choices and incentives.
    a. A society's economic system organizes the production, distribution, and consumption of goods and services.
    b. How people work together in the system is governed by both written and unwritten rules.
    c. When the rules change, incentives change; when incentives change, choices change.

5. Voluntary trade creates wealth.
    a. People tend not to enter into transactions that they believe will make them worse off rather than better off.
    b. People can produce more in less time by concentrating on what they do best. Specialization based on comparative advantage combined with voluntary trade means there will be more total output.

6. The consequences of choices lie in the future.
    a. We cannot change the past but we can influence the future.
    b. Every choice or decision we make is based on prediction of what the benefit and cost of our alternatives will be.
    c. The more information we have about alternatives the better our predictions should be.