

AP MACROECONOMICS SUMMER ASSIGNMENT

naked economics
UNDRESSING THE DISMAL SCIENCE



Charles Wheelan

FOREWORD BY BURTON G. MALKIEL

"Clear, concise, informative, witty and, believe it or not, entertaining." —Chicago Tribune

Welcome to AP Macroeconomics! You are an economist now so start thinking like one. Economics is the study of how we, as humans, choose to allocate our limited resources in order to deal with our unlimited wants. So without further delay, let's start making decisions.

Choices, Choices, Choices

Your summer assignment starts with a choice, or an opportunity cost if you will. "Opportunity cost" is the next best alternative that is given up to get something else. When you select one of the following options, you will pay an opportunity cost. Whether you realize it or not, you will be weighing the cost and benefits of each option. In economics, and in life, if you only think in the short-term you will find yourself behind in the long term.

Choice A: Read the book and dedicate the time and effort necessary to do the assignment well.

Choice B: Skim the book and do the minimum to complete the assignment in the hope that I will not grade it carefully.

Choice C: Choose not to read the book and not complete the assignment assuming that maybe I am bluffing about giving you a zero.

Let me explain the possible outcomes so that you can make a rational choice to do the assignment or not.

1. You will choose whether or not to do the assignment.

2. Your choice to read and write means you will give up the ability to do something else. I know you are thinking, "But I can multitask..." but think about how that usually works out for you.
3. You will likely do this assignment because your incentive is a possible 280 points and you know something out of 280 is better than 0 out of 280. So, using that logic, 95% of you will do this assignment. Though it may be done begrudgingly and/or poorly, you will still do it because of the incentives.
4. Now the 5% of you that will not do the assignment, you don't get the incentive and now you have to face a negative consequence in the future. A zero out on the first grade of the first 3 weeks; parents yelling, me thinking that you are a slacker, etc. The thing is, **unlike an economist, you actually know what happens in the future when you make this choice** so the question is, **"Why would you choose that option, already knowing the future consequence?"**

Now that you know the incentives and consequences of your decisions, you have a choice to make. It is my hope that you will select **Choice A**. If so, then continue reading the assignment and its particulars on the following pages. If you go with **Choice C**, then good luck! You will have your work cut out for you in the fall!

NAKED ECONOMICS: UNDRRESSING THE DISMAL SCIENCE

(Fully revised and updated edition)

By Charles Wheelan

ISBN: 978-0-393-33764-8

Directions:

1. Read *Naked Economics: Undressing the Dismal Science* (Fully revised and updated edition) by Charles Wheelan.
2. Write an analysis of each chapter focusing on questions identified in this assignment for each chapter. You should follow these parameters:
 - a. Each chapter analysis should be kept separate from the others. You should use the chapter and theme as a heading for your analysis.
 - b. Use the questions as a guide to form a well-constructed analysis of each chapter. You will need to give your personal thoughts as well.
 - c. Avoid using direct quotes from the text; interpret the concept in your own words.
 - d. You may use in-text citations (using only page number) to make references to specific information from this book.

- e. Format
 - i. Each page must be single-spaced in 12-point font - using either Arial or Times New Roman Font
 - ii. 1" margins all the way around the paper
 - iii. Each page must contain your full name and course name
 - iv. You must place the chapter title at the top of the first page of each chapter analysis
 - v. Limit each analysis to **1 page or less**. Your objective is to be brief but also descriptive.
- 3. Each analysis is worth 20 points and will be graded based upon the following grading criteria:
 - a. Identification & Explanation (10 points) - Did you accurately identify and elaborate on the significant points of the chapter?
 - b. Personal Reaction (10 points) - What are your personal thoughts about the themes and topics addressed per chapter?
- 4. Submitting your assignment to turnitin.com
 - a. Go to turnitin.com
 - b. Click: Create Account. Create a New Account: Click "Student"
 - c. Enter the Class ID: 12720196
 - d. Enter the Class Password: diamondbacks
 - e. Fill out the remainder of the information. Use an email address for which you are familiar and a password you can remember. The password needs to have a number and a letter in it. This is the information you need to log in. If you do not have an email address, you can make one up, but you will need to remember it! I DO NOT have lists of passwords!

Note: If you already registered in the past with TURNITIN, you need only to click on the tab that states, "enroll in a class" and then enter the Class ID and class Password above.

Step Two: Once you login, you will be in your "portfolio". The class should appear. The assignment will also be present (Naked Economics Summer Assignment). Click the SUBMIT button next to that assignment to submit your work.

Step Three: You now need to have your assignment in electronic form. You have two choice.

1. You may attach your document (like you would to an e-mail). If attached as a document, you must have a file ending on the name of your file (ex. .doc or .docx or .rtf). Attaching as a document is preferred as you will keep all of your formatting
2. Open the document and copy/paste the text into TURNITIN.

****Check your originality report. If it is 15% or less, you are good to go. If it is greater than 15%, you should make changes and resubmit before the due date. The originality report is NOT instantaneous so you should plan on submitting early.**

QUESTIONS /ANALYSIS FOR CHAPTER 1 ARE DUE ON OR BEFORE AUGUST 22, 2016 AT 11:59 PM.

Chapter 1: The Power of Markets

- What are the two basic assumptions economists make about individuals and firms?
- What examples does the author give to back up his statement that "maximizing utility is not synonymous with acting selfishly"?
- What is the role and significance of prices in the market economy?
- What are the advantages and disadvantages of a market economy?

Chapter 2: Incentives Matter - Due August 28, 2016

- Explain how each of the following relates to efficient outcomes in a market economy: Adverse selection, "perverse incentives", principle-agent problem, and the prisoner's dilemma.
- How does the author back up his assertion that government benefits create perverse incentives?

Chapter 3: Government and the Economy - Due September 4, 2016

- Explain externality in your own words.
- What roles does government play in a market economy?

Chapter 4: Government and the Economy II - Due September 11, 2016

- What are the reasons why government should take a limited role in a market economy?

Chapter 5: Economics of Information - Due September 18, 2016

- 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 -Due September 25, 2016

- 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 - Due October 2, 2016

- 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 - **Due October 9, 2016**

- 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 - **Due October 16, 2016**

- 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 - **Due October 23, 2016**

- What is the primary role of the Federal Reserve?
- What is the significance of the Federal Reserve's role?
- What is deflection? Why is deflation worse than inflation?

Chapter 11: International Economics - **Due October 30, 2016**

- Early in the chapter, Wheelan states "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 - **Due November 6, 2016**

- 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 Economies - **Due November 13, 2016**

- Based on your reading, what do you believe are the two biggest preventing poor countries from becoming rich?

Epilogue: Life in 2050 - **Due November 20, 2016**

- What are three economic questions you have about life in 2050?