



**AP MICROECONOMICS UNIT II ADAM SMITH AND THE MARKET SYSTEM**

OUTLINE	UNIT OBJECTIVES	READINGS FROM KRUGMAN	GRAPHS
<p>I. ECONOMIC SYSTEMS</p> <p>A. TRADITIONAL/BARTER</p> <p>B. CAPITALISM</p> <p>II. ADAM SMITH AND CAPITALISM</p> <p>A. SELF-INTEREST</p> <p>B. PRIVATE PROPERTY</p> <p>C. FREEDOM OF CHOICE</p> <p>D. MARKETS</p> <p>E. NO GOVERNMENT</p> <p>III. TRADE</p> <p>A. TRADE AND SPECIALIZATION</p> <p>B. COMPARATIVE; ABSOLUTE ADVANTAGE</p> <p>IV. DEMAND</p> <p>A. LAW OF DEMAND</p> <p>1. INVERSE: DMU</p> <p>B. NPD = CHANGE IN D</p> <p>1. TASTES</p> <p>2. INCOME</p> <p>3. MORE OR LESS BUYERS</p> <p>4. EXPECTATIONS</p> <p>5. RELATED GOODS' PRICES</p> <p><b>CHANGE IN D <math>\uparrow</math> = P <math>\uparrow</math> Q <math>\uparrow</math></b></p> <p><b>CHANGE IN D <math>\downarrow</math> = P <math>\downarrow</math> Q <math>\downarrow</math></b></p> <p>2. SUPPLY</p> <p>A. LAW OF SUPPLY</p> <p>1. DIRECT: DMR, TOTAL REVENUE</p> <p>B. NPD = CHANGE IN S</p> <p>1. GOVERNMENT</p> <p>2. OTHER PROFIT OPPORTUNITIES</p> <p>3. NUMBER OF SUPPLIERS</p> <p>4. INVESTMENT IN TECHNOLOGY</p> <p>5. COST OF RESOURCE</p> <p>6. EXPECTATIONS</p> <p><b>CHANGE IN S <math>\uparrow</math> = P <math>\downarrow</math> Q <math>\uparrow</math></b></p> <p><b>CHANGE IN S <math>\downarrow</math> = P <math>\uparrow</math> Q <math>\downarrow</math></b></p> <p>3. EQUILIBRIUM</p> <p>A. SHORTAGE and SURPLUS</p> <p>B. EQUILIBRIUM and EFFICIENCY</p>	<p>1. Describe the three methods of economic organization?.</p> <p>2. Define barter.</p> <p>3. Identify the characteristics of capitalism.</p> <p>4. Define Comparative and Absolute Advantage</p> <p>5. Explain how both parties to a trade gain.</p> <p>6. Explain Comparative Advantage in terms of Opportunity Cost</p> <p>7. When given necessary data, determine which nation has the Comparative Advantage, calculate the trading ratio, and explain the gains to each nation from Specialization and Trade</p> <p>8. Describe the behavior of buyers and sellers in a competitive market</p> <p>10. Explain the determinants of Demand</p> <p>11. Explain the determinants of Supply</p> <p>12. Define Diminishing Marginal Utility</p> <p>13. Differentiate "changes in demand" and "changes in quantity demanded"</p> <p>14. Differentiate between a "change in supply" and a "change in quantity supplied"</p> <p>15. Draw a graph from Supply and Demand schedules</p> <p>16. Define Equilibrium</p> <p>17. Determine what Equilibrium price and quantity will be given the Demand and Supply data for a good</p> <p>18. Analyze factors and situations that cause Supply and Demand curves to shift</p> <p>19. Explain shifts in the Supply and Demand curves based on changes in Supply and Demand</p>	<p>Module 4, pp. 23 - 29 The Free Market</p> <p>Module 5, pp. 47 - 56 Understanding Markets: Demand</p> <p>Module 6, pp. 59 - 69 Understanding Markets: Supply</p> <p>Module 7, pp. 71 - 76 Understanding Markets: Supply</p> <p><b>SUPPLEMENTAL SOURCES</b></p> <p><i>The New Kings of Capitalism</i> Paul Krugman</p> <p><b>MEDIA</b></p> <p><a href="#">Economics USA #16</a></p> <p>M*A*S*H Trading Places</p> <p><b>EXERCISE</b></p> <p><b>COFFEE SHOP</b></p>	<p>The graph plots Price on the vertical axis and Quantity on the horizontal axis. A downward-sloping Demand curve and an upward-sloping Supply curve intersect at the equilibrium point, where the equilibrium price is marked on the vertical axis and the equilibrium quantity (where <math>Q_s = Q_d</math>) is marked on the horizontal axis. A horizontal dashed line labeled 'FLOOR' is drawn above the equilibrium price, creating a triangular area between the floor and the supply curve labeled 'Surplus'. A horizontal dashed line labeled 'CEILING' is drawn below the equilibrium price, creating a triangular area between the ceiling and the demand curve labeled 'Shortage'. The horizontal axis is numbered from 0 to 13.</p>