

# **AP Macroeconomics**

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# 1 Unit 01

## 1.1 Unit 1

### 1.1.1 August 18, 2021

#### Mr. Clifford's Introduction Video

- Scarcity is the idea that there are limited resources.
- Example: Thursday night flight for \$275, \$300, \$325 dollar flight. The most expensive flight was actually the cheapest because of opportunity cost: she could work at the restaurant for the next few days.
- Why don't we produce all the phones in our country?
- Unseen costs: because of costs in the United States, phones are much cheaper because China manufacturing is significantly cheaper in the United States. Economists often oppose tariffs for this reason.

#### 1 **Definition** (Economics 1)

The study of how people interact with each other and with their natural surroundings in producing their livelihoods, and how this changes over time.

#### 2 **Definition** (Economics 2)

Economics is about how individuals, businesses, governments, and nations make choices about how to allocate limited resources when faced with unlimited wants and needs.

In essence, economics solves the problem of scarcity - which occurs when there are limited quantities of things.

#### 3 **Definition** (Resources)

Anything that can be used to produce something else.

#### The Factors of Production

- Labor: the time and effort that people devote to producing goods and services.
  - Human capital: the knowledge and skill base of workers in society from education, trainings, and experience. Investing in human capital can increase your productive capacities as an economy. McDonald's and many companies will pay for associated colleges.
- Capital: Items used to produce goods and services: machines, tools, buildings. NOT: money, stocks.
- Land: Nature that we use to produce goods and services: water, animals, minerals
- Entrepreneurship: resource that decides how to organize the land, labor, and capital of production; makes decisions and bears risks.

#### 4 **Remark**

Technology falls under capital, since it is able to produce goods and services. In the future, this may fall under its own category because they are able to produce larger things.

### How does scarcity impact human behavior?

People must make choices about how to use scarce resources.

#### 5 **Definition (Tradeoffs)**

All alternatives that are considered when making a choice.

#### 6 **Definition (Opportunity Cost)**

The value of the next best alternative when making a decision.

Example: by watching a movie at home instead of going out with friends, you are trading the benefits of added stress of going outdoors.

How do individuals make the best decisions?

- Benefits: the added satisfaction and benefit when a good is purchased.
- Costs: The added costs (and opportunity costs) when a good is purchased.

### Should a city host the olympics?

- How are the land, labor, capital, and entrepreneurship used if you host the olympics.
  - Venues cost \$ 7.6 billion. Bids are usually an optimistic estimate.
  - One year postponement meant that there were many costs added.
  - New costs are added incurred around 2.5 billion dollars to the games' budget.
  - COVID also is taking away ability to recoup that money. ; There will be no income from visitors because of COVID.
  - Around 2 billion dollars lost in economic benefits.
  - Corporate sponsors contribute billions of dollars and the IOC committed around 600 million. The overall cost of the pandemic is much higher than the olympics.
  - Japan has spent over 800 billion dollars on stimulus packages.
- What's something interesting you heard?
  - First game to be postponed.
  - Most expensive summer game ever.
  - Cost over 20 billion by the end.
- What are the trade-offs of hosting?
  - You often lose money.
  - There would be no spectators this year because of COVID-19.