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Robin first taught the principles of economics course in 1970 and has taught it (alongside intermediate macroeconomics and international trade and finance) most years since then. She developed many of the ideas found in this text while conducting tutorials with her students at the University of Western Ontario.

Michael Parkin studied economics in England and began his university teaching career immediately after graduating with a B.A. from the University of Leicester. He learned the subject on the job at the University of Essex, England’s most exciting new university of the 1960s, and at the age of 30 became one of the youngest full professors. He is a past president of the Canadian Economics Association and has served on the editorial boards of the *American Economic Review* and the *Journal of Monetary Economics*. His research on macroeconomics, monetary economics, and international economics has resulted in more than 160 publications in journals and edited volumes, including the *American Economic Review*, the *Journal of Political Economy*, the *Review of Economic Studies*, the *Journal of Monetary Economics*, and the *Journal of Money, Credit, and Banking*. He is author of the best-selling textbook, *Economics* (Addison-Wesley), now in its Eleventh Edition.

Robin and Michael are a wife-and-husband team. Their most notable joint research created the Bade-Parkin Index of central bank independence and spawned a vast amount of research on that topic. They don’t claim credit for the independence of the new European Central Bank, but its constitution and the movement toward greater independence of central banks around the world were aided by their pioneering work. Their joint textbooks include *Macroeconomics* (Prentice-Hall), *Modern Macroeconomics* (Pearson Education Canada), and *Economics: Canada in the Global Environment*, the Canadian adaptation of Parkin, *Economics* (Addison-Wesley). They are dedicated to the challenge of explaining economics ever more clearly to a growing body of students.

Music, the theater, art, walking on the beach, and five grandchildren provides their relaxation and fun.
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Students know that throughout their lives they will make economic decisions and be influenced by economic forces. They want to understand the economic principles that can help them navigate these forces and guide their decisions. *Foundations of Economics, AP® Edition* is our attempt to satisfy this want.

The response to our earlier editions from hundreds of colleagues across the United States and throughout the world tells us that most of you agree with our view that the principles course must do four things well. It must

- Motivate with compelling issues and questions
- Focus on core ideas
- Steer a path between an overload of detail and too much left unsaid
- Encourage and aid learning by doing

The Foundations icon with its four blocks (on the cover and throughout the book) symbolizes this four-point approach that has guided all our choices in writing this text and creating its comprehensive teaching and learning supplements.

**WHAT’S NEW IN THE SEVENTH EDITION**

Two big stories dominate this Seventh Edition revision: A careful fine-tuning of the heavily revised and successful Sixth Edition content, and a massive investment in enhanced electronic features to bring the text to life and provide an exciting interactive experience for the student on all platforms and devices.

**Fine-Tuning the Content**

The content of this revision is driven by the drama of the extraordinary period of economic history in which we are living and its rich display of events and forces through which students can be motivated to discover the economic way of thinking. Persistent unemployment and slow growth; headwinds from Europe’s unresolved debt crisis; ongoing tensions arising from offshore outsourcing; a slowing pace of China’s expansion; enhanced concern about climate change; falling U.S. energy imports as fracking boosts domestic production; relentless pressure on the federal budget from the demands of an aging population and a sometimes dysfunctional Congress; the dilemma posed by slow recovery and rising government debt; the question of when and how fast to exit an era of extreme
monetary stimulus; and a fluctuating dollar are just a few of these interest-
arousing events. All of them feature at the appropriate points in our new edition.

Every chapter contains many small changes, all designed to enhance clarity
and currency, and the text and examples are all thoroughly updated to reflect
the most recently available data and events. We have also made a few carefully
selected larger changes that we describe below.

Enhanced eText and New Interactive Electronic Features

The new enhanced Pearson eText extends the functionality of the current eText to
integrate it with MyEconLab’s Study Plan, now powered by Knewton Adaptive
Learning, and with MyEconLab’s Gradebook. The new eText also takes full ad-
vantage of available technologies to bring the student an enriched set of tools
that aid comprehension and bring those moments of discovery that stick in the
memory. These tools are

- A “Big Picture” video that motivates and summarizes each chapter and pro-
  vides an outline answer to the chapter’s motivating question.
- A series of “Snapshot” videos that illustrate and explain the key ideas in each
  section of a chapter. The Snapshots also contain animations and explanations
  of each figure, which can be played separately.
- A series of “Solutions” videos that walk the student through the solutions to
  the Practice Problems and In the News exercises in each Checkpoint.
- “Study Plan” links that provide opportunities for more practice with prob-
  lems similar to those in the text that give targeted feedback to guide the stu-
  dent in answering the exercises.
- “Key Terms Quiz” links that provide opportunities for students to check
  their knowledge of the definitions and uses of the key terms.
- Automatic real-time updating from the St. Louis Federal Reserve data base,
  FRED, of all time-series figures.

Notable Content Changes

Because the previous edition revision was so extensive and well-received, we have
limited our interventions and changes in this Seventh Edition to addressing the
small number of issues raised by our reviewers and users, to ensuring that we are
thoroughly up-to-date, and to focusing on the new electronic tools that we’ve just
described. Nonetheless, some changes that we now summarize are worth noting.

We have reorganized the section in Chapter 1 on “The Economic Way of
Thinking” to provide a clearer sequencing of the key ideas.

In Chapter 2, The U.S. and Global Economies, we use the new example of the
complex production of the Dreamliner to motivate and illustrate what, how, and
for whom in the U.S. and global economies. A new Eye on the Past looks at the
dramatic changes in manufacturing in the U.S. economy through the example of
the domestic production of shoes. Also a new photo essay highlights global dif-
fferences in how goods and services are produced and the section on government
has been compressed and simplified.

In Chapter 3, The Economic Problem, we illustrate economic growth and the
expansion of production possibilities with the dramatic example of hydraulic
fracturing—fracking—in the United States and its effects on the production and
opportunity cost of energy.

Chapter 4, Demand and Supply, has a new motivating issue: “Why does
tuition keep rising?” Not only is the question a deeply personal one for students
but it is also a good example of how the demand-supply model enables us to isolate increasing demand as the source of a rising price. Events in the increasingly important market for solar panels provide a contrasting example of the effects of an increase in supply. We have revised the section on changes in both demand and supply to better explain the unambiguous and ambiguous cases and leave the student to pull all possible cases together.

In Chapter 10, Externalities, we have reorganized our discussion of ideas for achieving efficiency in the face of external costs. We now explain these ideas in four categories: establish property rights, mandate clean technology, tax pollution, and cap-and-trade pollution permits. The discussion of mandates is new.

In Chapter 11, Public Goods and Common Resources, we have sharpened our explanation of the concept of sustainability and distinguish between unsustainability and inefficiency.

In Chapter 15, we motivate the working of competitive markets with the example of the vanishing record stores.

In Chapter 18, Oligopoly, we have updated our description of how the HHI is used to evaluate the effects of proposed mergers.

In Chapter 25, Economic Growth, we have simplified the explanation of the contributions to productivity growth of capital accumulation and technological change to the fluctuating pace of productivity growth.

Topical policy issues pervade the macro chapters. These include the persistence of high unemployment in the United States, Eurozone’s extreme unemployment problem, and the falling U.S. labor force participation rate in Chapter 22; the ever-widening Lucas wedge, now greater than $400,000 per person, and the persistence of U.S./E.U. productivity differences in Chapter 24; QE3 and the explosion of monetary base, the rise in bank reserves, and the collapse of the money multiplier in Chapter 27; the decrease in the demand for M1 in Chapter 28; the persistent recessionary gap in Chapter 29; the persistent federal budget deficit and rising debt to GDP ratio, and the ongoing structural deficit in Chapter 32; and the ongoing near-zero federal funds rate, an update of the contrast between monetary policy today and during the Great Depression, and nominal GDP targeting in Chapter 33.

THE FOUNDATIONS VISION

Focus on Core Concepts

Each chapter of Foundations of Economics, AP® Edition concentrates on a manageable number of main ideas (most commonly three or four) and reinforces each idea several times throughout the chapter. This patient, confidence-building approach guides students through unfamiliar terrain and helps them to focus their efforts on the most important tools and concepts of our discipline.

Many Learning Tools for Many Learning Styles

Foundations of Economics, AP® Edition’s integrated print and electronic package builds on the basic fact that students have a variety of learning styles. Students have powerful tools at their fingertips: With links from eText, they can get an immediate sense of the content of a chapter by playing the Big Picture video; learn the key ideas by playing the Snapshot videos, and get a quick walkthrough of the Checkpoint Practice Problems and In the News exercises with the Solutions videos.

In MyEconLab, students can complete all Checkpoint problems and In the News exercises online and get instant feedback, work with interactive graphs
and real-time data graphs, assess their skills by taking Practice Tests, receive a personalized Study Plan, and step-by-step help through the feature called “Help Me Solve This.”

**Diagrams That Tell the Whole Story**

We developed the style of our diagrams with extensive feedback from faculty focus-group participants and student reviewers. All of our figures make consistent use of color to show the direction of shifts and contain detailed, numbered captions designed to direct students’ attention step-by-step through the action.

Because beginning students of economics are often apprehensive about working with graphs, we have made a special effort to present material in as many as three ways—with graphs, words, and tables—in the same figure. In an innovation that seems necessary, but is to our knowledge unmatched, nearly all of the information supporting a figure appears on the same page as the figure itself. No more flipping pages back and forth!

**Real-World Connections That Bring Theory to Life**

Students learn best when they can see the purpose of what they are studying, apply it to illuminate the world around them, and use it in their lives.

*Eye On* boxes offer fresh new examples to help students see that economics is everywhere. Current and recent events appear in *Eye on the U.S. Economy* boxes; we place current U.S. economic events in global and historical perspectives in our *Eye on the Global Economy* and *Eye on the Past* boxes; and we show how students can use economics in day-to-day decisions in *Eye on Your Life* boxes.

The *Eye On* boxes that build off of the chapter-opening question help students see the economics behind key issues facing our world and highlight a major aspect of the chapter’s story.

**ORGANIZATION**

We have organized the sequence of material and chapters in what we think is the most natural order in which to cover the material. But we recognize that there are alternative views on the best order. We have kept this fact and the need for flexibility firmly in mind throughout the text. Many alternative sequences work, and the Flexibility Charts on pp. xxxvii–xxxviii explains the alternative pathways through the chapters. In using the flexibility information, keep in mind that the best sequence is the one in which we present the material. And even chapters that the flexibility charts identify as strictly optional are better covered than omitted.

**MYECONLAB**

MyEconLab has been designed and refined with a single purpose in mind: to create those moments of understanding that transform the difficult into the clear and obvious. With comprehensive homework, quiz, test, activity, and tutorial options, teachers can manage all their assessment needs in one program.

- All of the Checkpoint and Chapter Checkpoint Problems and Applications are assignable and automatically graded in MyEconLab.
- Extra problems and applications, including algorithmic, draw-graph, and numerical exercises are available for student practice or teacher assignment.
- Problems and applications that use real-time data continuously update.
Test Item File questions are available for assignment as homework.
Custom Exercise Builder gives teachers the flexibility of creating their own problems for assignment.
Gradebook records each student’s performance and time spent on the Tests and Study Plan and generates reports by student or by chapter.

New for the Seventh Edition is an enhanced Pearson eText that extends the functionality of the current eText with its embedded and auto-graded MyEconLab assessment that feeds directly into MyEconLab’s Study Plan, now powered by Knewton Adaptive Learning. The enhanced eText includes video, animations, and problem-solving tools designed for student success.

The enhanced Pearson eText is available within the online class materials and offline when you download the Pearson eText app. It also allows teachers and students to highlight, bookmark, and take notes.

Features of the Enhanced eText

Big Picture Videos  Big Picture videos, tied to the Chapter Checklist, set the stage for the main concept that will be introduced throughout the chapter. Students can use these videos to prepare for today’s lecture or to help them focus on main chapter ideas.

Snapshot Videos  Snapshot videos accompany every major section of each chapter and are designed to briefly present the major concepts and graphical tools covered within key sections. Using text, audio, and animation, Snapshot videos enable students with different learning styles to efficiently study and review key concepts of the chapter.

Animations  Every textbook figure includes a step-by-step animation, with audio, to help students learn the intuition behind reading and interpreting graphs. These animations may be used for review, or as an instructional aid in the classroom. Figures labeled MyEconLab Real-Time Data update using the most recent data available from the Federal Reserve Bank of St. Louis’s FRED site.

Embedded MyEconLab Assessment  Every Checkpoint Practice Problem, every In the News problem, and every Study Plan Problem and Application in the enhanced eText can be worked by the student directly from the eText page on which it occurs. These problems are auto-graded and feed into the MyEconLab’s Study Plan, which is now powered by Knewton Adaptive Learning and where students receive recommendations based upon their performance.

Key Terms Quiz  The Key Terms Quiz, accessible from each Checkpoint, allows students to check their understanding of key chapter concepts before moving onto the next
The Interactive Glossary that supports the enhanced eText provides the key term definition, an example, and related terms.

Solutions Videos Every Checkpoint Practice problem and In the News Problem is supported by a solutions video that provides a step-by-step review of the problem and its solution, including graphical analysis. Text, audio, and animation ensure that a student understands how to set-up and solve each of the problems.

- **MyEconLab also includes:**

**Economics in the News** Economics in the News is a turn-key solution to bringing daily news into the classroom. Updated daily during the academic year, we upload two relevant articles (one micro, one macro) and provide questions that may be assigned for homework or for classroom discussion.

**Current News** Each week during the academic year, we upload multi-part microeconomic and macroeconomic exercises, with links to relevant articles, into the MyEconLab assignment manager. These enable teachers to bring current issues and events into the class with easy to assign and auto-graded exercises.

**Real-Time Data Analysis Exercises (FRED)** Easy to assign and automatically graded, Real-Time Data Analysis exercises communicate directly with the Federal Reserve Bank of St. Louis’s FRED site, so every time FRED posts new data, students see new data. As a result, Real-Time Data Analysis exercises offer a no-fuss solution for teachers who want to make the most recent data a central part of their macro class. End-of-chapter exercises accompanied by the Real-Time Data Analysis icon ( ) include Real-Time Data versions in MyEconLab. Select in-text figures, labeled Real-time data, update in the eText using FRED data.

**Experiments in MyEconLab** Experiments are a fun and engaging way to promote active learning and mastery of important economic concepts. Pearson’s Experiments program is flexible and easy for teachers to assign and students to use.

- Single-player experiments, available to assign, allow students to play against virtual players from anywhere at anytime so long as they have an internet connection.
- Multiplayer experiments allow teachers to assign and manage a real-time experiment with their class.
- Pre and post-questions for each experiment are available for assignment in MyEconLab.
- Experiments are auto-graded using algorithms that objectively evaluate a student’s economic gain and performance during the experiment.

For a complete list of available experiments, visit [www.myeconlab.com](http://www.myeconlab.com).

**AACSB and Learning Outcomes** All end-of-chapter and Test Item File questions are tagged in two ways: to AACSB standards and to discipline-specific Learning Outcomes. These two separate tagging systems allow professors to
build assessments around desired departmental and class outcomes and track results in MyEconLab’s gradebook.

MyEconLab and Adaptive Learning

Adaptive Study Plan  MyEconLab’s Study Plan is now powered by a sophisticated adaptive learning engine that tailors learning material to meet the unique needs of each student. MyEconLab’s new Adaptive Learning Study Plan monitors students’ performance on homework, quizzes, and tests and continuously makes recommendations based on that performance.

If a student is struggling with a concept such as supply and demand, or having trouble calculating a price elasticity of demand, the Study Plan provides customized remediation activities—a pathway based on personal proficiencies, number of attempts, or difficulty of questions—to get the student back on track. Students will also receive recommendations for additional practice in the form of rich multi-media learning aids such as videos, an interactive eText, Help Me Solve This tutorials, and graphing tools.

The Study Plan can extrapolate a student’s future trouble spots and provide learning material and practice to avoid pitfalls. In addition, students who are showing a high degree of success with the assessment material are offered a chance to work on future topics based on the teacher’s class coverage preferences. This personalized and adaptive feedback and support ensures that students are optimizing their current and future class work and mastering the concepts, rather than just memorizing and guessing answers.


Dynamic Study Modules  Dynamic Study Modules, which focus on key topic areas and are available from within MyEconLab, are an additional way for students to obtain tailored help. These modules work by continuously assessing student performance and activity on discrete topics and provide personalized content in real time to reinforce concepts that target each student’s particular strengths and weaknesses.

Each Dynamic Study Module, accessed by computer, smartphone, or tablet, promotes fast learning and long-term retention. Because MyEconLab and Dynamic Study Modules help students stay on track and achieve a higher level of subject-matter mastery, more class time is available for interaction, discussion, collaboration, and exploring applications to current news and events.

Upon textbook purchase, students and teachers are granted access to MyEconLab with Pearson eText. High school teachers can obtain preview or adoption access for MyEconLab in one of the following ways:

Preview Access

• Teachers can request preview access by visiting PearsonSchool.com/access_request. Select Initial Access then using Option 2, select your discipline and title from the drop-down menu and complete the online form. Preview Access information will be sent to the teacher via e-mail.

Adoption Access

• With the purchase of a textbook program that offers a media resource, a Pearson Adoption Access Card, with student and teachers codes and a complete Instructor’s Manual, will be delivered with your textbook purchase. (ISBN 0-13-354087-1)
OR
• Visit PearsonSchool.com/access_request. Select Initial Access then using Option 3, select your discipline and title from the drop-down menu and complete the online form. Access information will be sent to the teacher via e-mail. Students, ask your teacher for access.

SUPPORT MATERIALS FOR INSTRUCTORS AND STUDENTS

*Foundations of Economics, AP® Edition* is accompanied by the most comprehensive set of teaching and learning tools ever assembled. Each component of our package is organized by Checkpoint topic for a tight, seamless integration with both the textbook and the other components. In addition to authoring the MyEconLab and PowerPoint content, we have helped in the reviewing and revising of the Study Guide, Solutions Manual, Instructor’s Manual, and Test Item Files to ensure that every element of the package achieves the consistency that students and teachers need.

■ For the Teacher

Most of the teacher supplements and resources for this text are also available electronically to qualified adopters on the Instructor Resource Center (IRC). Upon adoption or to preview, please go to www.pearsonschool.com/access_request and select Instructor Resource Center. You will be required to complete a brief one-time registration subject to verification of educator status. Upon verification, access information and instructions will be sent to you via e-mail. Once logged into the IRC, enter 978-0-13-381270-1 in the “Search our Catalog” box to locate resources.

■ PowerPoint Resources

We have created the PowerPoint resources based on our 20 years of experience using this tool in our own classrooms. We have created five sets of PowerPoint presentations for educators.

They are:
• Lecture notes with full-color, animated figures, and tables from the textbook
• Figures and tables from the textbook, animated with step-by-step walkthrough for teachers to use in their own personal slides
• Eye On features
• Checkpoint Practice Problems and solutions
• Alternative micro lecture notes with full-color, animated figures and tables that use examples different from those in the textbook

A student version of the lecture notes is also available on MyEconLab.

■ Instructor’s Manual

The Instructor’s Manual, written by Luke Armstrong and reviewed by Mark Rush, contains chapter outlines and road maps, additional exercises with solutions, a comprehensive Chapter Lecture resource, and a virtual encyclopedia of suggestions on how to enrich class presentation and use class time efficiently. Both the micro and macro portions have been updated to reflect changes in the main text.
as well as infused with a fresh and intuitive approach to teaching this class. The Instructor’s Manual is available for download in Word and PDF formats.

■ **Solutions Manual**

The Solutions Manual, written by Mark Rush and checked for accuracy by Jeannie Gillmore, contains the solutions to all Checkpoint Practice Problems, In the News exercises, and Chapter Checkpoint Problems and Applications. The Solutions Manual is available for download in Word and PDF formats.

■ **Three Test Item Files and TestGen**

More than 12,000 multiple-choice, numerical, fill-in-the-blank, short answer, essay, and integrative questions make up the three Test Item Files that support *Foundations of Economics, AP® Edition*. Mark Rush reviewed and edited questions from six dedicated principles instructors to form one of the most comprehensive testing systems on the market. Our microeconomics authors are Gregory E. Givens (University of Alabama); Lee Hoke (University of Tampa); Homer Guevara, Jr. (Northwest Vista College); and Carol Dole (Jacksonville University). Our macroeconomics questions were written by Gregory Givens, Buffie Schmidt (Augusta State University), and Rolando Sanchez (Northwest Vista College). The entire set of questions is available for download in Word, PDF, and TestGen formats.

All three Test Item Files are available in test generator software (TestGen with QuizMaster). TestGen’s graphical interface enables teachers to view, edit, and add questions; transfer questions to tests; and print different forms of tests. Teachers also have the option to reformat tests with varying fonts and styles, margins, and headers and footers, as in any word-processing document. Search and sort features let the teacher quickly locate questions and arrange them in a preferred order. QuizMaster, working with your school’s computer network, automatically grades the exams, stores the results on disk, and allows the teacher to view and print a variety of reports.

■ **Instructor’s Resource DVD**

The IR-DVD contains the Instructor’s Manual, Solutions Manual, and Test Item Files in Word and PDF formats. It also contains the Computerized Test Item Files (with a TestGen program installer) and PowerPoint resources. It is compatible with both Windows and Macintosh operating systems.

For your convenience, all instructor resources are also available online via our centralized supplements Web site, the Instructor Resource Center (www .pearsonhighered.com/irc). For access or more information, contact your local Pearson representative or request access online at the Instructor Resource Center.

■ **For the Student**

**Test Prep Workbook for AP®**

Created specifically for *Foundations of Economics, AP® Edition*, this comprehensive guide is linked directly to the textbook to help students reinforce important connections between what they learn in class and the AP Exam. This workbook is available for purchase and includes:

- An overview of the AP program and the specific AP test covered by this guide, test taking tips, and strategies to prepare students for peak performance on the AP Exam.
• Correlation between key AP exam topics and the corresponding chapter and section of *Foundations of Economics, AP® Edition.
• Hundreds of practice study questions written by experienced AP educators.

### How to Succeed in Your Economics Class for AP

Any AP class demands a significant commitment of time, and one of your biggest challenges will be to allocate your time efficiently. By applying some analysis to this challenge, you will already be thinking like an economist!

Here are some key strategies for success in this class.

**Keep up with the class material on a weekly basis.** Skim the appropriate chapter in the textbook before it is covered in class to get a general understanding of the basic concepts and issues. After class, work through the problems in the appropriate chapter of *The Test Prep Workbook for AP*. The key to success is repeated practice with your new economic tools.

**Make the Checklist-Checkpoint structure work for you.** To learn economics you have to do economics. The Checklist-Checkpoint system provides you with a structure for doing just that. To make it work for you, start by familiarizing yourself with the Checklist at the opening to each chapter: it tells you where you’ll be heading. As you progress through the chapter, you’ll see that each major section corresponds to one of the Checklist items. After studying each section, be sure to work the Checkpoint! That’s the time to reinforce what you’ve just read—while it’s still fresh in your mind. Don’t jump to the next section until you feel you’ve mastered the Checkpoint of the section at hand. Then, when you reach the end of the chapter, review the Chapter Checklist. It corresponds seamlessly to the Checklist and the key points in the sections. This system is the glue that holds it all together. Used consistently and thoughtfully, it will help you attain success in mastering economics.

**Tailor your learning style to the many study tools available.** Do you work best interactively in an online environment? Are you a visual learner? Do you like to break tasks down into smaller, bite-sized pieces? Whatever your learning style, there is something for you in this fully integrated learning system. If you like to be in charge of your own learning, you’ll find the MyEconLab is a powerful tool; you’ll be able to complete Checkpoints and exercises online, work graphs, take Practice Tests, receive a customized Study Plan, and step through guided solutions—all at your own pace. If you’re a visual learner, the graphs will be key to your understanding—color is used consistently to convey specific actions, numbered captions walk you step by step through key figures, and accompanying data tables show you the main plotting points. If you like patient explanation of concepts, *The Test Prep Workbook for AP* will amplify the material in the text for you and allow you to work additional problems.

**Look for economics in the world around you.** To give you some inspiration in this direction, read the *Eye On* features that will show you how the theory connects with the everyday world around you.

The AP course description outline that follows on the subsequent pages provides the major topics included on the AP exam. Look closely at these topics and note how the textbook follows the sequence of ideas to be mastered.
Understanding the AP Economics Examinations

The AP Economics Examinations make use of a variety of question types and graphical analyses to assess the skill level of AP students. The AP examinations reflect the types of assessment that occur at the college level.

The AP Economics Examinations take two hours and 10 minutes to complete. In both the multiple-choice and free-response sections of the exams, AP students can expect to work with graphs, charts, and tables. Each examination consists of a 70-minute, multiple-choice section and a 60-minute free-response section that may require graphical analysis. The free-response section begins with a mandatory 10-minute reading period that can be used to read each of the questions, sketch graphs, make notes, and plan answers in the green insert. AP students then have 50 minutes to write the answers in the booklet.

Section I: Multiple-Choice Questions

The multiple-choice section of each exam contains 60 questions, with 70 minutes allotted for Section I. The multiple-choice section accounts for 2/3 of the AP student’s examination grade. Each question has five choices and only one choice is judged correct. The questions are straightforward, and many require analysis and interpretation. Some will require analysis of a graph, chart, or table.

The AP Economics Examinations contain these distinct question types:

- Definition or identification questions
- Graph or table questions
- Analysis or cause and effect questions
- Multiple-choice questions

Hints on Grading  The multiple-choice section of each exam is worth 2/3 of the AP student’s score. The questions are machine scored and determined by crediting one point for a correct answer. No points are gained or lost for incorrect or unanswered questions. If you can eliminate two or more of the five choices, you should make an educated guess.

Section II: Free-Response Questions

The free-response section begins with a mandatory 10-minute reading period, during which AP students are encouraged to read the questions, sketch graphs, make notes, and plan answers in the green insert. AP students then have 50 minutes to write their answers in the booklet.

The free-response questions in Section II of each exam will require AP students to analyze a given economic situation and use economic principles to explain answers. Using explanatory diagrams that clarify the analysis and clearly explain the reasoning results in the greatest number of points. Sometimes a graph is given as part of the question and the AP student’s task is to derive the answer from the graph data. Generally, the longer free-response questions require you to interrelate several content areas, while the two shorter free-response questions focus on a specific topic in a given content area.

Hints on Grading  This section of the exam is 1/3 of the score. The raw score for Section II is composed of the scores from the three questions and then apportioned according to value assigned to each (larger question—50% of score and two smaller questions—25% of score).
# AP ECONOMICS CORRELATION CHARTS

This chart correlates the Advanced Placement Microeconomics topics as outlined by The College Board with the corresponding chapters and section numbers in *Foundations of Economics, AP® Edition*. Use this chart to help you quickly find a topic you want to study or review.

## AP Microeconomic Topics

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- **Efficiency and perfect competition**: Chapter 6, 15.3, 16.3

## 3. Monopoly
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- **Profit maximization**: Chapter 16, 16.2
- **Inefficiency of monopoly**: Chapter 16, 16.3
- **Price discrimination**: Chapter 16, 16.4
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- **Game theory and strategic behavior**: Chapter 18, 18.3
- **Dominant strategy**: Chapter 18, 18.3
- **Nash equilibrium**: Chapter 18, 18.3

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- **Profit maximization**: Chapter 17, 17.2
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  - **Sources and measures of income inequality**: Chapter 20, 20.1, 20.2
This chart correlates the Advanced Placement Macroeconomics topics as outlined by The College Board with the corresponding chapters and section numbers in *Foundations of Economics, AP® Edition*. Use this chart to help you quickly find a topic you want to study or review.

### AP Macroeconomic Topics

#### I. Basic Economic Concepts
- Scarcity, choice, and opportunity costs
- Production possibilities curve
- Comparative advantage, specialization, and exchange
- Demand, supply, and market equilibrium
- Macroeconomic issues: business cycle, unemployment, inflation, and growth

#### II. Measurement of Economic Performance
- National income accounts
  - Circular flow
  - Gross domestic product
  - Components of gross domestic product
  - Real versus nominal gross domestic product
- Inflation measurement and adjustment
  - Price indices
  - Nominal and real values
  - Costs of inflation
- Unemployment
  - Definition and measurement
  - Types of unemployment
  - Natural rate of unemployment

#### III. National Income and Price Determination
- Aggregate demand
  - Determinants of aggregate demand
  - Multiplier and crowding-out effects
- Aggregate supply
  - Short-run and long-run analyses
  - Sticky versus flexible wages and prices
  - Determinants of aggregate supply
- Macroeconomic equilibrium
  - Real output and price level
  - Short and long run
  - Actual versus full-employment output
  - Business cycle and economic fluctuations

#### IV. Financial Sector
- Money, banking, and financial markets
  - Definition of financial assets: money, stocks, bonds
  - Time value of money (present and future value)
  - Measures of money supply
  - Banks and creation of money

### Textbook Chapters and Checkpoints

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Upon publication, this text was correlated to the College Board’s Macroeconomics and Microeconomics Course Description dated Fall 2012. We continually monitor the College Board’s AP Course Description for updates to exam topics. For the most current AP Exam Topic correlation for this textbook, visit PearsonSchool.com/AdvancedCorrelations.
Foundations of Economics: Flexibility Chart

**Micro Flexibility**

- **Chapter 1**: Getting Started
- **Chapter 2**: The U.S. and Global Economies
- **Chapter 3**: The Economic Problem
- **Chapter 4**: Demand and Supply
- **Chapter 5**: Elasticity
- **Chapter 6**: Efficiency and Equity
- **Chapter 7**: Government Actions in Markets
- **Chapter 8**: Taxes
- **Chapter 9**: Global Markets in Action
- **Chapter 10**: Externalities
- **Chapter 11**: Public Goods and Common Resources
- **Chapter 12**: Markets with Private Information
- **Chapter 13**: Consumer Choice and Demand
- **Chapter 14**: Production and Costs
- **Chapter 15**: Perfect Competition
- **Chapter 16**: Monopoly
- **Chapter 17**: Monopolistic Competition
- **Chapter 18**: Oligopoly
- **Chapter 19**: Markets for Factors of Production
- **Chapter 20**: Inequality and Poverty

Start here ... ... then jump to any of these ... ... and jump to any of these after doing the prerequisites indicated