

# Ap economics assignment flashcard



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Undressing the Dismal Science Chapter 1: The Power of Markets -The two basic assumptions that economists make about individuals and firms are that individuals act to make themselves as well off as possible, and that firms attempt to maximize profits. -The role and significance of prices in the market economy has to do with supply and demand.

If there are the same amount of buyers as products, the price will settle.

If there are more buyers than products, the price of the product will rise. And, if there are more products than buyers, the price of the product will decrease. This occurs until the supply of the product matches the demand of the product. -The thing that is so great about the market economy is that “the market economy is a powerful force for making our lives better” (Whelan 20).

It creates competition among different businesses, which results in newer, cheaper, and better products.

Chapter 2: Incentives Matter -Adverse selection relates to efficient outcomes in the market economy because undesired results occur when buyers and sellers have access to different information because the “bad” products are more likely to be selected. “Perverse incentives” relates to the market economy because it is an incentive that has an unintended and undesirable result which is contrary to the interests of the incentive makers.

The principal-agent relates to the market economy because the problem has to do with the struggle of leading one party (the agent) into acting in the best interests of another (the principal) rather than in his or her own

interests. Lastly, the prisoner's lemma relates to the market economy and its efficient outcomes because it shows why two individuals might not cooperate, even if it appears that it is in their best interests to do so, and it is applicable in numerous situations, one being the way renewable resources are exploited.

Chapter 3: Government and the Economy -Externalities is the cost or benefit that results from an activity and that affects an uninvolved party.

-Other important roles the government plays in our market economy include making markets possible in the first place, setting rules, defining ND protecting property rights, lowering the cost of doing business in the private sector by providing uniform rules and regulations, enforcing antitrust laws, providing a wide array of public goods, and redistributing wealth.

Chapter 4: Government and the Economy II -Government should only take a limited role in the market economy because if the government controlled too many important sectors of the economy, then the benefits that competition can bring to those businesses are lost. Also, " when the government controls some element of the economy, scarce resources are allocated by autocrats or restaurants or politicians rather than by the market" (Whelan 85).

Additionally, government regulations are pervasive, and the benefits of such regulations can often be outweighed by their costs.

Chapter 5: Economics of Information -Informational asymmetry undermines our market economy through potential issues Ap Economics Assignment By businesslike " informational asymmetry' that has to do with insurance companies using the deductible as a tool for forcing costumers to sort

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themselves. Chapter 6: Productivity and Human Capital After reading Wheeler's argument, I do agree that Bill Gates should be so rich because, as Whelan explained, Agate's human capital would result in him ending up as rich as he is even if he was deprived of his current wealth. Wheeler's quote means that we should not be worrying about the difference between what the poor are getting and what the rich are getting, but we should be worrying about how much the poor are getting separate from any comparisons. Chapter 7: Financial Markets -The get-rich-quick schemes violate the most basic principles of economics because he rules for investing successfully denote a slow, steady accumulation of wealth with setbacks along the way rather than a quick windfall (Whelan 149). The advice about investing in the stock market that I found most interesting was that the longer you hold your investments, the greater the probability is of them working. Chapter 8: The Power of Organized Interests -Mohair farmers have earned a subsidy from the federal government for decades because the mohair farmers can get large payments from the government without sprayers ever really noticing because the farmers who get the subsidy care a lot about it, while the rest of us taxpayers (paying mere pennies extra in taxes) do not really care.

And, " any politician with a preference for Job security can calculate that a vote for the mohair subsidy will earn the strong support of the mohair farmers while costing nothing among other voters" (Whelan 177). Chapter 9: Keeping Score -The nation's GAP is a good measure of its economic well being and progress because it represents the total value of all goods and services produced in an economy, and hat a country produces and what it

consumes are nearly identical. The nation's GAP is a poor measure of its economic well-being and progress because GAP does not account any economic activity that is not paid for, and does not account for environmental degradation: "the usual methods of calculating GAP make destroying the environment look good for the economy" (Whelan 197).

Chapter 10: The Federal Reserve -The primary role of the Federal Reserve is to control the money supply and the credit tap for the economy. The significance of this role is that the Federal Reserve can use monetary policy to counteract economic downturns and prevent them in the first place, and it can inject money into the financial system after sudden shocks.

The Federal Reserve can also raise interest rates. -Deflation is steadily falling prices. It is worse than inflation because falling prices causes consumers to postpone purchases while asset prices are also falling, so consumers feel poorer and are less likely to spend. And, when consumers spend less the economy grows less.

Firms respond by cutting prices further and the cycle repeats.

Chapter 11: Trade and Globalization The "good news about Asian sweatshops" is that the trade and globalization that are created from them allow "developing nations to obtain goods that might otherwise be denied them including food, medicine, and more advanced manufactured goods" (Whelan 270). Chapter 12: Developing Economics and geographical issues are the two greatest obstacles preventing poor countries from becoming rich. I feel this way because a country needs effective government

institutions to grow and prosper, and if a country is at a geographical disadvantage, it is unalterable.

Epilogue: Life in 2050 -The economic questions I have about life in 2050 are “ What new issues will arise involving informational asymmetry? ” and “ Will there be a newer, better way of depicting a nation’s economic well being than GAP that accounts for all aspects of the economy? ”.

The economic questions I have about today’s economy and life are “ Will it be possible for America to settle it’s debts? ” and “ Does Human Capital have as much to do with being rich as everybody thinks it does, and is there a factor of luck (inheritance, etc. ) that is more important? ”.