AP Microeconomics Course Outline

The aim of an AP course in Microeconomics is to give a thorough understanding of the principles of economics that apply to the functions of individual decision makers, both consumers and producers, within the larger economic system. Primary focus is on the nature and functions of product markets and inclusive of the study of factor markets and government role in creating greater efficiency as well as equity in the economy.

The following topics quoted below will be covered in the course:

Basic Economic Concepts

Study of microeconomics gives students to learn that in any economy, the presence of limited resources with unlimited wants results in the need to make choices. An effective AP course, hence starts by introducing the concepts of opportunity costs and trade-offs and show these concepts by using the production possibilities curve or other analytical examples. Then cover consideration of how different types of economies determine which goods and services to produce, how to produce them, and to whom to distribute them. It is also crucial that students understand why and how specialization and exchange increase the total output of goods and services. Students need to be able to differentiate between absolute and comparative advantage, to identify comparative advantage from differences in output levels and opportunity costs, and to determine the basis under which mutually advantageous trade can take place between countries. Particular examples from actual economic situations can be used to illustrate and reinforce the principles involved. The importance of property rights, the role of incentives in the functioning of free markets and the principle of marginal analysis should be taught.

The Nature and Functions of Product Markets

Study of the nature and functions of product markets falls into 4 broad areas: Supply and demand models, consumer choice, production and costs and theory of the firm.

A planned AP course gives a clear analysis of the determinants of supply as well as demand and the ways in which changes in these determinants affect equilibrium price and output. The course helps students make the crucial distinction between movements along the curves and shifts in the curves. The course also focuses on the impact of government policies such as price floors and ceilings, excise taxes, tariffs, and quotas on the free market price and quantity exchanged. Consumer surplus and producer surplus should also be introduced, Students need to comprehend and apply the concepts of price, cross-price, income elasticities of demand, and the price elasticity of supply.

The 2^{nd} covers the theory of consumer choice. Students should learn an understanding of the core postulates underlying consumer choice: Utility, the law of diminishing marginal utility, and utility-maximizing conditions, and their application in consumer decision-making and in explaining the law of demand. By examining the demand side of the product market, students learn how incomes, prices, and tastes affect consumer purchases. Here it is crucial that students understand how to derive an individual's demand curve, relation between individual and market demand curves and how the income and substitution effects determine the shape of the demand curve.

The 3^{rd} area covers production and cost analysis both in the short run as well as long run. It begins with an introduction of the short-run production function, describing the relationship between the quantity of inputs and the quantity of output. Within the context of the production function, students should learn average and marginal products i.e.. . AP and MP as well as the law of diminishing marginal returns. Students learn the connectivity between productivity and costs, and evaluate the relationships among the short-run costs: Total, average, and marginal. With the concept of cost minimization, the following section includes a discussion of long-run costs and an examination of economies and diseconomies of scale and returns to scale.

The 4^{th} area covers the behavior of firms in various types of market structures. The section begins with the definition of profits and making the distinction between accounting and economic profits and finding the profit-maximizing rule, using marginal analysis. In covering perfect competition, the course aims on determining short-run and long-run equilibrium, both for the profit-maximizing individual firm and for the industry, and on the equilibrium relationships among price, marginal and average revenues, marginal and average costs, and profits. Students should learn the adjustment process to long-run equilibrium.

In considering the market behavior of a monopolist, students identify the sources of monopoly power and understand the relationship between the monopolist's demand curve and its marginal revenue curve. Students learn how the monopoly's total revenue changes along its demand curve as price varies. Having learned the behavior of monopolies and perfect competition, students should compare a monopolist's price, level of output, and profit with those of a firm operating in a perfectly competitive market. By paying particular attention to the concept of allocative efficiency, students learn how and why competitive firms achieve an efficient allocation of resources, whereas monopolists do not. The concept of deadweight loss is a good device to show the efficiency loss due to monopoly. Model of price discrimination gives another dimension of monopoly behavior that students need to learn.

In case of oligopoly market structure, the course focuses on the interdependency of firms and their tendency to collude or to form a cartel. With a simple payoff matrix, the basic game-theory model should be used increase a student's understanding of the interdependent behavior of firms in an oligopolistic market and identification of dominant strategies.

Atlast, the course considers the market structure of monopolistic competition and highlights the vital features of product differentiation and the role of advertising in the behavior of firms. The course then examines firm behavior in the short run as well as in the long run and the presence of excess capacity and its implication for efficiency.

Factor Markets

Students also apply the concepts of supply and demand to markets for factors such as labour, capital, and land in the following section. Students will analyse the concept of derived demand, understand how a factor's marginal product i.e.. . MP and the marginal revenue i.e.. . MR of the product affect the demand for the factor, and consider the power of factor prices in the distribution of scarce resources. When the markets for various different factors are considered separately, attention should be given to the labour market, particularly labour supply and wage and employment determination. Although the course may focuses on perfectly competitive labour markets, the effect of deviations from perfect competition, such as minimum wages, unions, monopsonies, and product market monopolies, can also be considered. For the factors of land and capital, students might examine the concept of economic rent and the relationship of the interest rate to the supply and demand for investment funds. By studying the determination of factor prices, students learn an understanding of how the market finds the distribution of income and in market, the sources of income inequality.

Market Failure and the Role of Government

It is crucial for students to learn the arguments for and against government intervention in a competitive market. Students evaluate the conditions for economic efficiency, using the marginal social benefit and marginal social cost principle, and the ways in which externalities, public goods, and the market distribution of income create market failures even in perfectly competitive economies. Also, students are expected to study the effectiveness of government policies such as subsidies, taxes, quantity controls, and public provision of goods and services, which are designed to correct market failures and achieve economic efficiency. It is also crucial to emphasize that monopolies can cause market failures when they use their market power to indulge in behavior that restrains competition and also to evaluate the government's attempt to solve such problems by using antitrust policy and regulations. Although there is not a generally accepted standard for judging the equity of an economy's income distribution, a well-designed course will incorporate key measures of income distribution like Lorenz curve and Gini coefficient and evaluate the impact of government tax policies and transfer programs, on distribution of income and economic efficiency.