Hello, and welcome to AP Economics! I’m happy to have you in the class, and am truly looking forward to the year ahead. The challenges of looking at the world in economic terms can be challenging for most, but if you work hard and do what is asked ahead of you, I believe it will be rewarding in the long run.

For most of you, the economic lens will be new and unfamiliar. In order to help you prepare for the coming year, I have selected the following book for summer reading.


Make sure you get the 2010 edition, with the white cover and ISBN# 978-0393337648. This book is available through most online retailers, or can be special ordered from your neighborhood bookstore.

On the first day of class, you will submit type-written responses to the following questions. Your answers do not need to be extensive, but should answer the questions completely and thoughtfully.

**Chapter 1: The Power of Markets**
- What are the two basic assumptions that economists make about individuals and firms?
- What is the role and significance of prices in the market economy?
- What’s so great about a market economy anyway?

**Chapter 2: Incentives Matter**
- Explain how each of the following relates to efficient outcomes in a market economy:
  - Adverse selection
  - “Perverse incentives”
  - Principal-agent problem
  - The prisoner’s dilemma

**Chapter 3: Government and the Economy**
- In your own words, explain what an externality is.
- Besides addressing externalities, what other important and beneficial roles does government play in our market economy?

**Chapter 4: Government and the Economy II**
- What are the main reasons why government should only take a limited role in a market economy?
Chapter 5: Economics of Information
● Wheelan explains that basic economic models assume that all parties have “perfect information.” How does “informational asymmetry” undermine our market economy?

Chapter 6: Productivity and Human Capital
● After reading Wheelan’s argument, do you agree that Bill Gates should be so much richer than you?
● Evaluate the following statement from p. 143: “We should not care about the gap between rich and poor as long as everybody is living better.”

Chapter 7: Financial Markets
● Explain how get-rich-quick schemes violate the most basic principles of economics.
● What advice about investing in the stock market did you find most interesting and/or useful?

Chapter 8: The Power of Organized Interests
● Why have mohair farmers earned a subsidy from the federal government for decades?

Chapter 9: Keeping Score
● Why is a nation’s GDP a good measure of its economic well-being and progress? • Why is a nation’s GDP a poor measure of its economic well-being and progress?

Chapter 10: The Federal Reserve
● What is the primary role of the Federal Reserve?
● What is the significance of this role?
● What is deflation, and why is it worse than inflation?

Chapter 11: International Economics
● Describe the economic theory of Purchasing Power Parity, and why it often does not hold true.
● Explain the “dysfunctional economic relationship” between the United States and China. What are the significant risks for each side?

Chapter 12: Trade and Globalization
● Describe the major concepts of comparative advantage and specialization and how it sets up trade between countries. Also describe what trade barriers are and its effect on international trade.

Chapter 13: Development Economics
● After reading this chapter, what do you believe are the two greatest obstacles preventing poor countries from becoming rich?

Epilogue: Life in 2050
● What economic question do you have about life in 2050? About today’s economy? About life in general?

MUST BE TYPED WITH NAMES ON A TITLE PAGE