2012 AP Macroeconomics Summer Assignment:

*New Ideas From Dead Economists: An Introduction to Modern Economic Thought*

by Todd Buchholz

Due Date: Wednesday, September 5th, 2012

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**Directions:**

1) Read chapters 1, 2, 4, 6, 7, 9 and 10 in *New Ideas From Dead Economists: An Introduction to Modern Economic Thought* (Revised Edition) by Todd Buchholz. Be sure to keep this book in very good condition because you will not only need the book as a summer assignment but you will also need it throughout the next school year.

2) Write a Chapter analysis of each Chapter focusing on the economic themes & associated questions identified in this assignment for each chapter. You should follow the following parameters:
   a) Each Chapter analysis should be kept separate from the others. You should also identify the chapter & theme as a heading for your analysis.
   b) You will need to respond to several questions associated within the economic theme(s) given for each chapter. Your analysis starts here with well-constructed responses to each question. BE sure to respond to all questions and any other directions with the questions per chapter. You will give your personal thoughts, as well.
   c) Avoid direct quotes from the text; rather interpret the concept in your own words. You may use in-text citations (using only a page number) to make references to specific information from this book.
      - Each page must be single-spaced in 12 point font – using either Arial or Times New Roman Font.
      - 1” margins all the way around the paper.
      - Each page must contain your:
         - Your full name
         - Course name
         - Chapter Title at the top of the first page of each chapter analysis.
   d) Limit each analysis to 3 pages or less. Your objective: be brief but also be descriptive!

3) Each analysis will be worth 50 points toward your 1st Marking Period grade and will be graded based upon the following criteria:

**Grading Criteria:**

a) **Breakdown** – Did you address and break down the significant points of each theme discussed? 10 points

b) **Depth** - Did the student’s elaboration about the major ideas / concepts discussed in each chapter stress that theme’s significance / importance? 20 points

c) **Accuracy** – How relevant is the discussion of each theme per chapter? Did you address all the questions? 15 points

d) **Personal Reaction** -- What are your personal thoughts about the themes & topics addressed per chapter? 5 points

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50 Points
4) Please feel free to contact me if you have any questions about the summer assignment or if you need any other assistance. I will be checking my e-mail regularly over the summer, so do not hesitate in contacting me. BE SURE to get started on your summer assignment EARLY & pace yourself throughout the summer. If you wait until the last minute to start this assignment, you will not only be hurting yourself but you will also be sending me a very poor first impression! When September 5th rolls around, there should be no excuses for this assignment not being completed!

Chapter 1 – Introduction: The Plight of the Economist

- Economics and the Real World: Why is the strongest link between economics & the real world --- politics?
- The Language of Economics: Why do politicians often misunderstand their economic advisors & why did Lord Keynes insist the master economist must fulfill a set of attributes more extraordinary than those needed for knighthood or even sainthood?
- History of Economics: How did economics change over time into the modern version of economics that we know today? Why did it change?

Chapter 2 --- The Second Coming of Adam Smith

- Smith’s Book on Ethical Behavior: Explain what Smith’s view of human nature was according to this book. Then, explain how success from that book led Smith to write another book, “in order to pass away the time.”
- The Invisible Hand: Who is “our self-interested neighbor, John?” How does this example help to explain Smith’s idea of the invisible hand…aka – “the Free Market?”
- Labor Organization and Compensation: How did Adam Smith use the example of a pin factory to teach us what increases the wealth of nations? Explain fully.
- Absolute Advantage: How did Adam Smith explain how free trade also brings wealth to manufacturers, suppliers, towns, & cities? Explain the example of French wine.
- Smith View on Government’s Role in the Economy: How did Smith try to avoid public policy obstacles, both domestically & internationally, in implementing his ideas? To say it another way, what did Smith believe was governments’ true role despite influences from special interest & legislators?

Chapter 4 --- David Ricardo and the Cry for Free Trade

- Comparative Advantage: How does the author (Buchholz) use the example of “Gilligan’s Island” to explain David Ricardo’s idea of Comparative Advantage?
- Protectionism: How does the author (Buchholz) use the example of “President Abraham Lincoln’s trade paradox” to explain the battle against protectionism?
- Ricardo’s View on Recessions: How did David Ricardo use Say’s Law to disagree with other economists of his time, such as Robert Thomas Malthus, about economic depressions? Also, how did Ricardo’s economic method differ from Malthus’ economic methods?

Chapter 6 --- The Angry Oracle Called Karl Marx

- Marx’s 5 “Laws” or “Tendencies” that point to an economic implosion of Capitalism: Explain how Karl Marx predicted Capitalism would crumble due to 5 different causes.
- Buchholz’s 4 Ways Marx can be assessed: Explain how the author (Buchholz) assesses Karl Marx’s economic analysis and conclusions by addressing 4 important points.
Chapter 7 --- Alfred Marshall and the Marginalist Mind

• Marshall’s View of Economic Behavior: Explain how Alfred Marshall viewed economic behavior through both a marginalist method and a gradualist creed.

• Economic Time: How can the development of a new product called “Yuppie Yogurt” help to understand Marshall’s system in both the short and long runs? Explain.

• Marginal Utility: How does the author use an economic example of “Yuppie Debbie” to explain the “Law of diminishing marginal utility” and the “Law of Demand”? “Also, explain how Marshall developed a similar framework for suppliers and the “Law of Supply.”

• Law of Supply and Demand: How / Why does Marshall compare the intersection of both the supply curve and the demand curve to the “blades of a scissors?” Explain.

• Elasticity: How does the author use famous quotes from James Bond movies to distinguish between “demand elasticity” and “demand inelasticity?”

• Nominal Interest Rates vs. Real Interest Rates: Briefly explain the difference between the two in Macroeconomics.

Chapter 9 --- Maynard Keynes: Bon Vivant as Savior

• Keynes’ Association with the Treaty of Versailles: How was Maynard Keynes associated with the Treaty of Versailles? What was his reaction to it? Explain.

• Keynesian Assault on Classical Economics: Why did a drastic change in the economic atmosphere of the time lead Keynes to use the word, “nincompoops,” to describe the classical economists & their followers? Explain.

• The Multiplier Effect: How did Keynes focus on the demand side of the economy to help economies recover from a recession or depression? Explain Keynes’ “Multiplier Effect.”

• Keynesian View on the Government’s Role in the Economy: Explain how Keynes concluded that the government can often act as a third party when suppliers (or the private sector) and consumers (or households) are unable to find a way out of poor economic times. How is the multiplier enacted here?

Chapter 10 --- Milton Friedman and the Monetarist Battle Against Keynes

• Money Supply: Admitting that the economy does need both an accelerator and a brake, how do monetarists view who is making decisions for the economy and how they control the money supply? Explain.

• Monetarist View on the Government’s Role in the Economy: According to Milton Friedman & the Monetarists, how should the Federal Reserve manipulate the money supply? Be sure to explain your answer by referencing how “the Fed” should either use the accelerator or the brake or a combination of both.

• Velocity: What is velocity? Explain. Also, why do monetarists, like Friedman, believe that velocity should be stable? Are there ever situations where the Fed’s accelerator or brake pedal should be used to speed or slow velocity? Explain.

• Monetarists View on Inflation and Recession: Why did Friedman and the Monetarists believe that monetary misuse accompanied every severe recession every significant inflation over the past century? Explain.

• The Question of Aggregate Supply: Why have a new generation of economists turned to the federal government to induce firms (or the supply-side) to lift productivity? Explain.