

AP Macroeconomics Cheat Sheet

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Unit 1: Basic Economic Concepts

- **Scarcity:** Limited resources vs. unlimited demand.
- **Four factors of production:** Land, labor, capital, entrepreneurship.
- **Opportunity cost:** Value of the next best alternative.
- **Efficiency:** Producing goods with fewer resources.
- **Economic systems:** Free market vs. command economies.
- **Production possibilities curve (PPC):** Allocative efficiency vs. productive efficiency.
- Comparative advantage vs. absolute advantage.
- Law of diminishing returns.
- Circular flow diagram.

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Unit 2: Economic Indicators & the Business Cycle

- **Gross Domestic Product (GDP):** Value of final goods/services within a country.
- **GDP calculations:** Expenditure and income approaches.
- **Types of unemployment:** Cyclical, frictional, structural.
- **Natural Rate of Unemployment (NRU):** 4-6% without cyclical unemployment.
- Inflation and deflation measurement: CPI, GDP deflator.
- **Real GDP:** GDP adjusted for inflation.
- **Phases of business cycles:** Recessions and expansions.

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Unit 3: National Income & Price Determination

- **Aggregate demand (AD):** All goods/services demanded by consumers, firms, and the government.
- **AD determinants:** Consumer, investment, and government spending.
- **Multiplier effect:** Chain reaction of increased spending.
- **Marginal Propensities:** MPC, MPS.
- Spending and tax multipliers.
- Short-run aggregate supply (SRAS): Factors affecting supply.
- **Fiscal policy:** Government's role in influencing AD.

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Unit 4: Financial Sector

- **Liquidity:** Asset convertibility into cash.
- Interest rates and opportunity costs.
- **Nominal interest rate** = Real interest rate + Inflation.
- **Types of money:** Fiat money, commodity money.
- **Functions of money:** Medium of exchange, unit of account, store of value.
- Money supply (M1, M2).
- Money multiplier.
- **Federal Reserve's monetary policy tools:** Bonds, reserve ratios, discount rates.

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Unit 5: Long-Run Consequences of Stabilization Policies

- Self-correction of the economy in the long-run.
- **Phillips Curve:** Relationship between inflation and unemployment.
- **Stagflation:** High inflation and unemployment.
- **Crowding out effect:** Government borrowing raises interest rates.
- **Economic growth:** Measured by real GDP over time.

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Unit 6: Open Economy – International Trade & Finance

- **Balance of payments:** Current and capital accounts.
- **Exchange rates:** Determined by tastes, income, inflation, and speculation.
- Appreciation and depreciation of currencies.
- **Tariffs:** Revenue tariffs vs. protective tariffs.
- Effects of appreciation/depreciation on exports and imports.

Additional Notes: