CAISL
Carlucci American International School of Lisbon

INTRODUCTION TO ECONOMICS FRAMEWORK

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THEMES AND CONTENT

The Performance Indicators (shown later in this document) are developed in **three major units**:

The **Introduction to Economics** unit addresses the following essential questions:

1. What is economics and what are the Economic Principles?
2. Why do we study economics?
3. How do people make decisions?
4. What is the state of our economy, and why do we care?
5. How do different types of economies compare (what to produce, how to produce, for whom to produce)?

The **Microeconomics** unit addresses the following essential questions:

1. What are the laws of supply and demand and how do they affect the market?
2. What shifters change supply and demand of goods?
3. What makes markets succeed or fail?
4. How can the government affect the market?

The **Macroeconomics** unit addresses the following essential questions:

1. How should the government carry out its economic role?
2. Where does the government get its money and how does it spend it?
3. How has the economy of the U.S. historically grown and shrunk?
4. What is the role of labor in the market economy?

PERFORMANCE INDICATORS

A student who is meeting standards at a proficient level should be able to:

Introduction to Economics

- Explain that economics is a social science.
- Outline the social scientific method.
- Explain the process of model building in economics.
- Explain that economists must use the ceteris paribus assumption when developing economic models.
- Distinguish between positive and normative economics.

- Examine the assumption of rational economic decision-making.
- Explain that scarcity exists because factors of production are finite and wants are infinite.
- Explain that economics studies the ways in which resources are allocated to meet needs and wants.
- Explain that the three basic economic questions that must be answered by any economic system are: “What to produce?”, “How to produce?” and “For whom to produce?”
- Explain that as a result of scarcity, choices have to be made.
- Explain that when an economic choice is made, an alternative is always foregone.
- Explain that a production possibilities curve (production possibilities frontier) model may be used to show the concepts of scarcity, choice, opportunity cost and a situation of unemployed resources and inefficiency.

Microeconomics: Competitive Markets - Demand and Supply

- Explain how factors including changes in income (in the cases of normal and inferior goods), preferences, prices of related goods (in the cases of substitutes and complements) and demographic changes may change demand.
- Explain that a demand curve represents the relationship between the price and the quantity demanded of a product, ceteris paribus.
- Draw a demand curve.
- Distinguish between movements along the demand curve and shifts of the demand curve.
- Draw diagrams to show the difference between movements along the demand curve and shifts of the demand curve.
- Explain that a supply curve represents the relationship between the price and the quantity supplied of a product, ceteris paribus.
- Draw a supply curve.
- Explain how factors including changes in costs of factors of production (land, labor, capital and entrepreneurship), technology, prices of related goods (joint/competitive supply), expectations, indirect taxes and subsidies and the number of firms in the market can change supply.
- Explain why scarcity necessitates choices that
- answer the “What to produce?” question.
- Explain why choice results in an opportunity cost.
- Explain, using diagrams, that price has a signaling function and an incentive function, which result in a reallocation of resources when prices change as a result of a change in demand or supply conditions.

Microeconomics: Elasticity

- Explain the concept of price elasticity of demand, understanding that it involves responsiveness of quantity demanded to a change in price, along a given demand curve.
- Calculate PED using the following equation. PED percentage change in quantity demanded percentage change in price
- State that the PED value is treated as if it were positive although its mathematical value is usually negative.
- Explain, using diagrams and PED values, the concepts of price elastic demand, price inelastic demand, unit elastic demand, perfectly elastic demand and perfectly inelastic demand.
- Explain the determinants of PED, including the number and closeness of substitutes, the degree of necessity, time and the proportion of income spent on the good.
- Calculate PED between two designated points on a demand curve using the PED equation above.
- Explain why PED varies along a straight line demand curve and is not represented by the slope of the demand curve.

Microeconomics: Market failure

- Examine the concept of market failure as a failure of the market to achieve allocative efficiency, resulting in an over-allocation of resources (over-provision of a good) or an under-allocation of resources (under-provision of a good)
- Explain that demerit goods are goods whose consumption creates external costs
- Explain that merit goods are goods whose consumption creates external benefits.

Macroeconomics

- Explain, using a diagram, the circular flow of income between households and firms in a closed economy with no government.
- Identify the four factors of production and their respective payments (rent, wages, interest and profit) and explain that these constitute the income flow in the model.
- Explain, using a diagram, the circular flow of income in an open economy with government and financial markets, referring to leakages/withdrawals (savings, taxes and import expenditure) and injections (investment, government expenditure and export revenue).
- Distinguish between GDP and GNP/GNI as measures of economic activity.
- Examine the output approach, the income approach and the expenditure approach when measuring national income.
- Explain, using a business cycle diagram, that economies typically tend to go through a cyclical pattern characterized by the phases of the business cycle.
- Explain the long-term growth trend in the business cycle diagram as the potential output of the economy.
- Distinguish between inflation, disinflation and deflation.
- Explain that inflation and deflation are typically measured by calculating a consumer price index (CPI), which measures the change in prices of a basket of goods and services consumed by the average household.
- Explain that the government earns revenue primarily from taxes (direct and indirect), as well as from the sale of goods and services and the sale of state-owned (government owned) enterprises.
- Distinguish between a budget deficit, a budget surplus and a balanced budget.
- Explain the relationship between budget deficits/surpluses and the public(government) debt.
- Distinguish between economic growth and economic development.
- Explain the multidimensional nature of economic development in terms of reducing widespread poverty, raising living standards, reducing income inequalities and increasing employment opportunities.
- Explain, using examples, that economically less developed countries share certain common characteristics (noting that it is dangerous to generalize as there are many exceptions in each case), including low levels of GDP per capita, high levels of poverty, relatively large agricultural sectors, large urban informal sectors and high birth rates.
- Distinguish between GDP per capita figures and GDP per capita figures at purchasing power parity (PPP) exchange rates.
- Compare and contrast two health indicators for economically more developed countries and economically less developed countries.
- Compare and contrast two education indicators for economically more developed countries and economically less developed countries.

ASSESSMENT

For students to receive a credit towards their High School Diploma, they must demonstrate proficiency on:

- Create your Country assignment - measuring national income and economic development.
- Summative assessments set by the class teacher which may take the form of
    - in-class or out-of-class essays;
    - tests and quizzes which assess both knowledge and skill acquisition;
    - oral presentations;
    - other types of projects connected to works studied set by the teacher.
- A final exam at the end of the year.