

## **AP ECONOMICS**

### ***Summer Reading 2017***

*"An economist is a man who states the obvious in terms of the incomprehensible."*  
- Alfred A. Knopf

*"An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today."*  
- Laurence J. Peter

*"An economist is someone who sees something that works in practice and wonders if it would work in theory."*  
- Ronald Reagan

Welcome to AP Economics! To aid you in your journey towards the enlightenment of economic thinking, the following book has been chosen as your summer reading:



***Naked Economics:  
Undressing the Dismal Science***  
by Charles Wheelan  
(2010 edition with the white cover.  
The old one had a green cover)

*This book is available online or at any retail bookstore.*

*After reading the book, please complete\* the following questions for discussion. Your responses must be typed, and they will be collected on **Friday, September 8<sup>th</sup>**.*

#### **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, and 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**

- What is the “good news about Asian sweatshops”?

### **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?

*\*Your answers do not need to be extensive, but should answer the questions completely and thoughtfully.*

Questions? Contact one of your friendly AP Economics teachers:

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