LEARNING OUTCOMES

Topics in Demand and Supply Analysis

The candidate should be able to:

- calculate and interpret price, income, and cross-price elasticities of demand and describe factors that affect each measure
- compare substitution and income effects
- contrast normal goods with inferior goods
- describe the phenomenon of diminishing marginal returns
- determine and interpret breakeven and shutdown points of production
- describe how economies of scale and diseconomies of scale affect costs

The Firm and Market Structures

The candidate should be able to:

- describe characteristics of perfect competition, monopolistic competition, oligopoly, and pure monopoly
- explain relationships between price, marginal revenue, marginal cost, economic profit, and the elasticity of demand under each market structure
- describe a firm’s supply function under each market structure
- describe and determine the optimal price and output for firms under each market structure
- describe pricing strategy under each market structure
- explain factors affecting long-run equilibrium under each market structure
- describe the use and limitations of concentration measures in identifying market structure
- identify the type of market structure within which a firm operates
**Aggregate Output, Prices, and Economic Growth**

The candidate should be able to:

- explain how the aggregate demand curve is generated
- explain the aggregate supply curve in the short run and long run
- explain causes of movements along and shifts in aggregate demand and supply curves
- describe how fluctuations in aggregate demand and aggregate supply cause short-run changes in the economy and the business cycle
- distinguish among the following types of macroeconomic equilibria: long-run full employment, short-run recessionary gap, short-run inflationary gap, and short-run stagflation
- explain how a short-run macroeconomic equilibrium may occur at a level above or below full employment
- analyze the effect of combined changes in aggregate supply and demand on the economy
- describe sources, measurement, and sustainability of economic growth
- describe the production function approach to analyzing the sources of economic growth
- define and contrast input growth with growth of total factor productivity as components of economic growth
- calculate and explain gross domestic product (GDP) using expenditure and income approaches
- compare the sum-of-value-added and value-of-final-output methods of calculating GDP
- compare nominal and real GDP and calculate and interpret the GDP deflator
- explain GDP, national income, personal income, and personal disposable income
- explain the fundamental relationship among saving, investment, the fiscal balance, and the trade balance

**Understanding Business Cycles**

The candidate should be able to:

- describe the business cycle and its phases
- describe credit cycles
- describe how resource use, consumer and business activity, housing sector activity, and external trade sector activity vary as an economy moves through the business cycle
- describe theories of the business cycle
- interpret a set of economic indicators, and describe their uses and limitations
- describe types of unemployment, and compare measures of unemployment
- explain inflation, hyperinflation, disinflation, and deflation
- explain the construction of indexes used to measure inflation
- compare inflation measures, including their uses and limitations
- contrast cost-push and demand-pull inflation

**Monetary and Fiscal Policy**

The candidate should be able to:

- compare monetary and fiscal policy
- describe functions and definitions of money
- explain the money creation process
- describe theories of the demand for and supply of money
describe the Fisher effect
describe roles and objectives of central banks
contrast the costs of expected and unexpected inflation
describe tools used to implement monetary policy
describe the monetary transmission mechanism
explain the relationships between monetary policy and economic growth, inflation, interest, and exchange rates
describe qualities of effective central banks
contrast the use of inflation, interest rate, and exchange rate targeting by central banks
determine whether a monetary policy is expansionary or contractionary
describe limitations of monetary policy
describe roles and objectives of fiscal policy
describe the arguments about whether the size of a national debt relative to GDP matters
describe tools of fiscal policy, including their advantages and disadvantages
explain the implementation of fiscal policy and difficulties of implementation
determine whether a fiscal policy is expansionary or contractionary
explain the interaction of monetary and fiscal policy

Geopolitics

The candidate should be able to:
describe geopolitics from a cooperation versus competition perspective
describe geopolitics and its relationship with globalization
describe tools of geopolitics and their impact on regions and economies
describe geopolitical risk and its impact on investments

International Trade and Capital Flows

The candidate should be able to:
compare gross domestic product and gross national product
describe benefits and costs of international trade
contrast comparative advantage and absolute advantage
compare the Ricardian and Heckscher–Ohlin models of trade and the source(s) of comparative advantage in each model
compare types of trade and capital restrictions and their economic implications
explain motivations for and advantages of trading blocs, common markets, and economic unions
describe common objectives of capital restrictions imposed by governments
describe the balance of payments accounts including their components
explain how decisions by consumers, firms, and governments affect the balance of payments
describe functions and objectives of the international organizations that facilitate trade, including the World Bank, the International Monetary Fund, and the World Trade Organization

Currency Exchange Rates

The candidate should be able to:
define an exchange rate and distinguish between nominal and real exchange rates and spot and forward exchange rates
calculate and interpret the percentage change in a currency relative to another currency
- describe functions of and participants in the foreign exchange market
- calculate and interpret currency cross-rates
- calculate an outright forward quotation from forward quotations expressed on a points basis or in percentage terms
- explain the arbitrage relationship between spot rates, forward rates, and interest rates
- calculate and interpret a forward discount or premium
- calculate and interpret the forward rate consistent with the spot rate and the interest rate in each currency
- describe exchange rate regimes
- explain the effects of exchange rates on countries’ international trade and capital flows