

# Economics

## 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
- compare 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