| **Required Course Numbers** | | | | | | | | | | | | | | | |
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| **Test Content Categories** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| I. **Fundamental Economic Concepts (20%)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. **Understands the concepts of scarcity, choice, and opportunity costs and knows the factors of production** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the meaning of scarcity of resources, goods, and services |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the role of land, labor, capital goods, and entrepreneurship in the production of goods and services |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands the relationship between scarcity, choice, and opportunity costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. **Knows how to apply marginal cost and marginal benefits analysis to decision-making** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows how to differentiate between marginal benefit and total benefit |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows how to differentiate between marginal costs and total costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Applies marginal analysis to decision-making |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| d. Understands how changes in marginal costs and benefits affect decision-making |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. **Knows how to use the production possibilities curve to illustrate the concepts of opportunity costs, economic efficiency, and growth** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows how to use the production possibilities curve to illustrate the concepts of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| * opportunity costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| * economic efficiency |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| * economic growth * scarcity |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. **Understands absolute advantage and comparative advantage** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands and can distinguish between absolute and comparative advantage |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Can determine comparative advantage based on opportunity costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5. **Understands specialization, interdependence, and gains from trade** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the relationship between trade, specialization, and division of labor |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands how specialization and trade produce gains and lead to interdependence |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6. **Knows the types of economic systems and how the basic economic choices are made in each system** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the main characteristics of various economic systems (e.g., market, command, mixed, and traditional) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows how various economic systems answer the basic questions of what, how, and for whom |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7. **Knows the roles of individuals, businesses, and government in a market economy and knows how to use the circular flow model to show how the different sectors are related** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows that consumers demand goods and services and supply resources, land, labor, and capital |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows that businesses supply goods and services and demand resources, land, labor, and capital |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Knows the role of government in a market economy |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| d. Knows how to use the circular flow model to show how different economic sectors are related |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **8.** **Knows how to evaluate charts and graphs** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands graphs that show positive relationship between variables |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands graphs that show negative relationship between variables |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands the correspondence between table of numbers and graphs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **II. Microeconomics (45%)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **A. Supply and Demand** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. Knows the definition of a market and the role of incentives |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows what a market is |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands that buyers and sellers are motivated by individual gains |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. Understands the law of demand and the relationship between price and quantity demanded |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands what the demand curve represents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the relationship between price and quantity demanded |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands what a supply curve represents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| d. Understands the relationship between price and quantity supplied |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. Knows the difference between individual demand and market demand |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows how the market demand curve is obtained by aggregating individual consumers’ demand curves |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. Knows the difference between firm supply and market supply |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows how the market supply curve is obtained by aggregating individual firms’ supply curves |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5. Understands the interaction of demand and supply in determining equilibrium price and quantity |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands that the equilibrium market price and quantity occurs where quantity demanded equals quantity supplied |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6. Understands how price guides resource allocation and rations goods and services |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands that surpluses and shortages are caused by non-equilibrium prices |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands how the market responds to non-equilibrium prices |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands how market prices ration goods and services |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7. Knows the determinants of demand and supply and how to analyze the effect of a given economic event on equilibrium price and quantity |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the factors that cause shifts in the supply curve and the factors that cause shifts in the demand curve |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Can demonstrate how equilibrium price and quantity change when there are shifts in the supply and/or demand curves |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8. Knows how to analyze the effects of government policies (e.g., price ceiling, price floor) on price and output |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the definition, purpose, and effects of price floors |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows the definition, purpose, and effects of price ceilings |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Knows the effects of taxes and subsidies |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. Understands the determinants of price elasticity of demand and the meaning of the coefficients of price elasticity of demand |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the definition and interpretation of the coefficient of the price elasticity of demand |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the classification of price elasticity of demand as elastic, inelastic, or unit elastic |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands the determinants of the price elasticity of demand |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 10. Understands how price elasticity of demand affects the relationship between changes in price and total revenue |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the effect of a change in price on total revenue, given a price elasticity of demand |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 11. Knows total utility, marginal utility, and the law of diminishing marginal utility |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the definition of total utility and marginal utility |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows the law of diminishing marginal utility |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **B. Product Market** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. Understands the relationship among revenues, costs, and economic profits |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the concepts of and distinction between accounting and economic profit |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. Understands the relationship between inputs and outputs and the law of diminishing returns |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the distinction between the short run and the long run |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the distinctions between fixed and variable inputs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands the relationship between total product and marginal product |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| d. Understands the law of diminishing returns |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. Understands how changes in productivity and prices of inputs affect costs (e.g., MC, VC, and FC) in the short run |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the distinctions between fixed, variable, and total costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands how changes in productivity and the price of inputs affect the firm’s costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands the relationship between total, average, and marginal costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. Understands long-run costs, economies of scale, and diseconomies of scale |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the distinction between the short-run average cost curves and the long-run average cost curve |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the meaning of the terms constant returns to scale, economies of scale, and diseconomies of scale |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5. Understands that profit-maximizing firms produce where marginal cost equals marginal revenue |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands that the firm chooses the output level at which marginal cost (MC) equals marginal revenue (MR) to maximize profit |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6. Knows the characteristics of perfect competition and understands the distinction between a firm’s demand curve and the market demand curve |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can identify characteristics of perfectly competitive markets |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the relationship between a perfectly competitive firm’s price and the market equilibrium price |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7. Understands why a firm may continue to operate in the short run while incurring losses |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands that a firm with losses will continue to produce in the short run if revenues exceed variable costs |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8. Understands the motive of firms for entering or exiting the perfectly competitive market |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the role of economic profits and losses in motivating the entry and exit of firms from perfectly competitive markets |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands why firms in a perfectly competitive market earn zero economic profit in long-run equilibrium |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. Understands the characteristics, sources, and models of a monopoly |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can identify the characteristics of a monopoly |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Can identify different sources of monopolies (e.g., patents, natural, geographic) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands how a monopoly determines output and price to maximize profit |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 10. Understands the characteristics of an oligopoly |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can identify characteristics of an oligopoly and compare them with those of other market structures |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 11. Understands the characteristics of monopolistic competition |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can identify characteristics of monopolistic competition and compare them with those of other market structures |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 12. Understands the difference between monopoly and perfectly competitive market with respect to price, output, and allocative efficiency. Knows how allocative efficiency is defined |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can compare a perfectly competitive market with a monopoly with respect to price, output, and allocative efficiency |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 13. Knows the different forms of business organization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the three types of business organization: sole proprietorship, partnership, and corporation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows advantages and disadvantages of each form of business organization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **C. Factor Markets** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. Understands wage and employment determination in competitive labor markets |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands what the demand curve for labor represents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the relationship between the wage rate and the quantity of labor demanded |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands the relationship between the demand for labor and the demand for the product that the labor is used to produce |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| d. Understands what the supply curve for labor represents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| e. Understands the relationship between the wage rate and the quantity of labor supplied |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| f. Understands the factors that shift the supply curve of labor |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| g. Understands that the equilibrium wage rate and quantity occurs where quantity demanded of labor equals quantity supplied of labor |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **D. Government Policy and Regulation of Markets** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. Understands the problems posed by externalities and what the government can do to correct them |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands how externalities can cause an inefficient allocation of resources |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands how government actions can improve the allocation of resources |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. Understands the problems posed by public goods and why private markets fail to provide them |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the characteristics of public goods |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands why private markets fail to provide the allocatively efficient level of public goods |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands the role of government in providing public goods |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. Knows how antitrust laws are used to promote a competitive market environment |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the purpose and effects of antitrust laws |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. Knows the different types of taxes and the distinctions among them |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the distinctions among different types of progressive, proportional, and regressive taxes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows how tax policies can affect the distribution of income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5. Knows the roles of regulatory agencies (e.g., FDIC, SEC) in overseeing the activities of financial markets |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the purpose of regulatory agencies in product, factor, and financial markets |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **III. Macroeconomics (35%)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **A. Economic Performance and Fluctuations** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. Knows the definition and meaning of GDP and measures of standards of living |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can define Gross Domestic Product (GDP) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows the shortcomings of GDP as a measure of standard of living |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. Understands the distinction between nominal and real values for variables such as GDP, wages, and interest rates |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. Knows the meaning, types, costs, and measurement of unemployment |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the definitions of various types of unemployment and can distinguish among them |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows how the labor force and the unemployment rate are defined |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Knows various costs of unemployment |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. Knows the meaning, measurement, and costs of inflation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can define inflation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows that the price level is measured using a price index such as the consumer price index (CPI) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Knows various costs of inflation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5. Knows how to use a price index (e.g., CPI, GDP deflator) to convert nominal values to real values |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can convert nominal values to real values using a price index, such as the CPI or the GDP deflator |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6. Knows the meaning of economic growth and its determinants |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can define economic growth |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Can identify the sources of economic growth |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7. Understands the relationship between savings, investment, and economic growth |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8. Knows the characteristics and phases of the business cycle |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows how real GDP and unemployment change during each phase of the business cycle |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. Understands the aggregate demand curve and its components |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands what the aggregate demand curve represents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the components of aggregate demand and the factors that shift the aggregate demand curve |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 10. Understands the distinction between short- run and long-run aggregate supply and their determinants |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands what the short-run aggregate supply curve represents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the sources of shifts of the short-run aggregate supply curve |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Understands what the long-run aggregate supply curve represents |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| d. Understands the sources of shifts of the long-run aggregate supply curve |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 11. Knows how to apply the aggregate demand and aggregate supply model to determine equilibrium price level and output in the short run and in the long run |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands that equilibrium output and price level occurs where the aggregate supply curve intersects the aggregate demand curve |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Can identify inflationary and recessionary gaps |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **B. Money and Banking and the Federal Reserve System** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. Knows the functions of money and various measures of the money supply |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Know the definition and functions of money |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows the various measures of the money supply |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. Understands how banks create money |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands how banks create money |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the concept of the money multiplier |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. Understands the structure and functions of the Federal Reserve System |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the structure of the Federal Reserve System |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the role and functions of the Federal Reserve |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. Understands how the Federal Reserve uses the tools of monetary policy |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands how the Federal Reserve uses the tools of monetary policy to change the money supply |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5. Understands the demand for money and its determinants (e.g., interest rates, income) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the demand for money and its determinants |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the relationship between the quantity of money demanded and the interest rate |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6. Understands the function of financial markets and the basic categories of investment instruments (e.g., stocks, bonds, money markets) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the function of financial markets as they relate to saving and investment |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the basic categories of financial assets (e.g., stocks, bonds, money market funds) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7. Knows how to use the money supply-and-demand model to determine the equilibrium interest rate |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows how equilibrium interest rates are determined in the money market |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows how the money market adjusts when the interest rate is above or below equilibrium |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| c. Knows how changes in money supply or money demand affect equilibrium interest rates |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| d. Understands the relationship between interest rates and bond prices |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **C. Fiscal and Monetary Policies** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. Knows the definition of government budget surpluses and deficits and their relationship to debt |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. Understands the multiplied effects of changes in government spending and changes in taxes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the concept of the spending multiplier |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands how the size of the marginal propensity to consume affects the value of the spending multiplier |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. Understands the goals and tools of fiscal and monetary policies |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. Knows how fiscal and monetary policy actions affect aggregate supply and demand |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows how fiscal and monetary policies affect aggregate demand in the short and long run |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows how fiscal and monetary policies affect aggregate supply in the short and long run |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5. Knows the appropriate fiscal and monetary policy actions to deal with unemployment (recession) and inflation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows fiscal or monetary policy actions to deal with recession |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows fiscal or monetary policy actions to deal with inflation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6. Knows the strengths and weaknesses of fiscal and monetary stabilization policies |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Can identify the strengths and weaknesses of fiscal policies |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Can identify the strengths and weaknesses of monetary policies |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7. Understands how the economy adjusts to long-run equilibrium in the absence of changes in fiscal or monetary policy |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands, in the absence of active policy actions, how the economy adjusts to a long-run equilibrium from a recession or inflation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8. Knows the definition of full employment and the natural rate of unemployment |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows the meaning of full employment and the concept of the natural rate of unemployment |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. Understands the short-run tradeoff between unemployment and inflation |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **D. Macroeconomics of the Open Economy** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1. Understands comparative advantage and gains from international trade |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands that trade based on comparative advantage results in mutual gains |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. Understands the effects of government policies (e.g., tariffs, quotas, subsidies) on domestic and international markets |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Understands the effects of government policies (e.g., tariffs, quotas, subsidies) on domestic and foreign supply and demand |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Understands the effects of government policies (e.g., tariffs, quotas, subsidies) on imports and exports |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. Knows how the equilibrium exchange rate is determined and the effects of currency appreciation or depreciation on exports and imports |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| a. Knows why the value of the United States dollar increases or decreases relative to other currencies |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| b. Knows the effect of currency appreciation/depreciation on exports, imports, and the balance of trade |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |