

2020-21 AP Economics Summer Assignment

Due: September 11, 2020

Welcome to AP Economics! Economics is the study of how humans make decisions. Whether these decisions are personal, for businesses, or are policy decisions made by governments, economics is a useful framework for understanding the process by which we make choices given different constraints.

But that's just the technical, definitional stuff. At a more philosophical level, economics is about making the world a better place. To be able to study human behavior, like negotiation, and economic behavior, like maximizing profits, is not just about learning a valuable skill. It's a privilege and we have a responsibility to use that education to empower ourselves and others. These may seem like meta, wide-eyed ideas, but as we move forward through the class they'll become increasingly tangible.

Your summer assignment is designed to be an introduction to the application of economic ideas. These guiding ideas and practices will be your key to success in the course and in understanding economics as a practical subject.

AP Economics Skills and Big Ideas

CollegeBoard has neatly put forth eight guiding terms that we'll be referring to throughout the course. The first four are the basic skills of economics: (1) principles and models, (2) interpretation, (3) manipulation, and (4) graphing and visuals. The second four are the big ideas of economics: (1) scarcity and markets, (2) costs, benefits, and marginal analysis, (3) production choices and behavior, and (4) market inefficiency and public policy.

You are not expected to know what these are (that's why you're taking the class!) but you are expected to keep these terms in mind as you approach this summer assignment and throughout the school year.

Part I: Introduction to the Big Ideas

The first part of this introductory assignment to AP Economics will explore the four big ideas mentioned earlier. Take a moment to read the short summaries of each concept below:

Big Idea 1: Scarcity and Markets -- Limited resources and unlimited wants result in the need to make choices. In a market economy, the choices of buyers and sellers determine market prices and the allocation of scarce resources.

Big Idea 2: Costs, Benefits, and Marginal Analysis -- There are trade-offs associated with any decision. Making optimal decisions requires evaluating the additional costs and benefits of possible actions.

Big Idea 3: Production Choices and Behavior -- Firms seek to minimize costs and maximize profits, which influences their production decisions in the short run and long run.

Big Idea 4: Market Inefficiency and Public Policy -- Private markets can fail to allocate resources efficiently, and well-designed public policy can endeavor to promote greater efficiency and equity in the economy.

Consider the first part of your assignment as a pre-assessment of sorts. Based on the brief summaries of the big ideas above, answer the following questions for each of the four ideas:

- 1) What is one example of each idea that you observe, or would expect to observe, in the real world? (ie. the actions of groups, businesses, or governments)
- 2) What is one example of each idea that you observe in your personal life? (ie. the people and things immediately around you)

Each of your answers should clearly describe a situation and how it relates to its respective Big Idea. Don't worry about having the perfect example. This activity is just to get you started thinking about the concepts, which we'll explore further in Part II below.

Part II: Economic Thinking

The asset of logical reasoning and dedication gained by studying and mastering economics is one the greatest benefits of taking this course. Economists like to call this “economic thinking,” which is a term we'll use henceforth. At its core economics is about curiosity and the willingness to dig deeper past the presumptions people have of things.

This summer, you will get to explore the world of *Freakonomics*, where conventional wisdom is turned upside down by economic thinking. This breakthrough book is widely regarded as one of the greatest books on economics precisely because it's made to be read by everyone. Whether you're a beginner or the President of the World Bank, this book breaks down the essential concepts of economics in simple, funny, and relatable ways. (and as an added bonus, people automatically think you're really smart if you talk about this book, so at least you've got that flex on hand)

By exercising logical reasoning, simple mathematics, and the power of asking the right questions, authors Steven Levitt and Stephen Dubner answer some of the strangest, but oddly interesting, questions you never thought to ask: What do schoolteachers and sumo wrestlers have in common? Why do drug dealers still live with their moms? What makes the perfect parent?

Our summer assignment is not just about answering these questions, but more importantly about grasping the basic principles of economics. The book is six chapters, but for your summer assignment you'll only be reading the introduction and the first three chapters (pg. 1-113)! To accommodate each of the chapters are core competency questions to link the big ideas of economics to their applications in *Freakonomics*.

Two economists have prepared a great student guide to the book that you can access here:

<http://files.harpercollins.com/OMM/StudentFREAKONOMICS.pdf>

The student guide includes a breakdown and walkthrough of the Big Ideas that appear in the book, as well core questions to make sure you understand the relationships between the scenarios and economic thinking.

Your assignment will be to answer the 14 core questions for each of the three chapters you are assigned. The questions are available on the link above, but have also been attached to the end of this assignment for your convenience. I encourage you to read the Preface and Overview in the Student Guide before starting the questions, and to review the Summary and Basic Economic Concepts sections before answering the questions. You will submit your final answers on the Google Form below, but I urge you to type your answers on a document before copying and pasting your final responses into the Google Form (to avoid a situation in which the form, browser, or your computer accidentally crashes and you lose your answers):

<http://tiny.cc/ccqbsz> or https://docs.google.com/forms/d/e/1FAIpQLSe-Ma9O8pRRanzAC7RYy5nKyEGxqJwLp9JeXVvryyp4v-OaKw/viewform?usp=sf_link

An important facet of economics is understanding human behavior and quantifying it through some measure. Humans tend to make choices that involve the lowest costs and the highest benefits. That's why, for example, some of you might be incentivized to just Google the answers to the book and maybe never even open it (or even order it!). The cost of doing the assignment is less time spent on leisure, and the benefit of cheating is more time spent relaxing. The benefit usually outweighs the cost and you may be incentivized to lurk the internet for the answers.

Unfortunately this book was made by a bunch of economists who know that. The corresponding Teacher Guide is basically inaccessible, and therefore you may be tempted to copy the answers from online study resources like CourseHero, Quizlet, Chegg, GradeSaver, Reddit, etc. That's a bad idea. Most of the answers I've found on these websites are insufficient or outright wrong.

Now using economic thinking and the application of the Big Ideas, a revised version of our cost-benefit analysis might look like the following.

Choice 1: Procrastinate the summer assignment until the last minute and try finding all forty-two answers online.

- A. Benefits: You get to spend more time on TikTok; Maybe Mr. Mirza is bluffing and all the answers are there online, so you get to save a bunch of time.
- B. Costs: You'll probably get the answers wrong, and thus start the quarter off with an F; Turns out Mr. Mirza already did you the trouble of Googling the answers and he was right, the ones online aren't very good; Mr. Mirza will email your mom and you're going to get an earful in September.

Choice 2: Read *Freakonomics* and answer the questions to the best of your ability.

- A. Benefits: You'll start the year off with an A, which means you'll be less stressed and can focus on other important things, like college applications; You'll genuinely enjoy reading an eye-

opening book that will help you succeed in the class; You'll make Mr. Mirza happy; and You can probably still do *everything* else you want to do

- B. Costs: Instead of doing whatever you want for 8 hours a day, you only get to do whatever you want for 7 hours a day.

As someone who practices economic thinking, my goal as your teacher is to create the right incentives to maximize your education and success. I care about you getting good grades, but I care more about you learning and actually being able to apply and use what you learned. Ultimately, that's the entire point of an economics education, and you have the opportunity to be in this class because I believe you're 110% capable of mastering the skills we've introduced thus far (and, of course, making the right choice above).

In case you're in need of some motivation or structure, here are some reading tips:

- 1) Create a space in your house dedicated to reading -- use this spot exclusively for that purpose, and you'll find that over time just being there will make you feel like reading
- 2) Try the Pomodoro Technique -- read for 25 minutes, then take a 5 minute break, and repeat the cycle as necessary (you can thank one of your classmates for this suggestion!)
- 3) Just commit to reading one page -- some days you're just not gonna feel like reading, but you'll need to keep up the discipline to stay on track; sometimes committing to reading just a single page convinces you to go further, but other times it means you just read one page (and that's okay because you're still making progress)

Part III: Start Developing Your Personal Skills for Success

Unfortunately this summer we won't be able to facilitate the in-person skills-development activities and retreat I had envisioned prior to the COVID-19 related shutdowns. However, that doesn't mean that we can't commit ourselves to a practicing growth mindset and preparing ourselves for the upcoming year. The book we'll be organizing our skills development around is *Atomic Habits* by James Clear.

The book is intrinsically economical in its thinking. As you'll read in *Freakonomics* and learn about in class, economics is about making decisions and improvements at the margins. That is, is it worthwhile to improve something even in the slightest way? Similarly, the essential habits of success are not built or given at once, but rather are formed over a lifetime of practice. For many of you, this principle may be closer than you think; for example, are there really "smart kids" in the class, or are the "smart kids" just the ones who started building productive study habits earlier on than others? The point is, your skills, talents, habits, and mindsets aren't set in stone, they can grow over time if you are intentional with their direction.

Sometimes the preachy, self-assured nature of these texts can dissuade readers. If you feel that way before opening the book, you certainly won't after reading the first few pages. This isn't just a book for someone who is a self-identifying "bad" student or someone experiencing a setback or challenge. It's also a book for people who are already "good" students or are already excelling at something they do. *Atomic Habits*, really, is the real world application of economics to human psychology. It's for anyone who wants to do something better. Maybe you want to be a better lacrosse player, or you want to get a better SAT score. Maybe you want to stop pushing things off to the last minute, or you want to finally create a productive work environment at home. Our class

will be a space to build and practice the academic and personal skills paramount to excellence, and the book will be our useful guide.

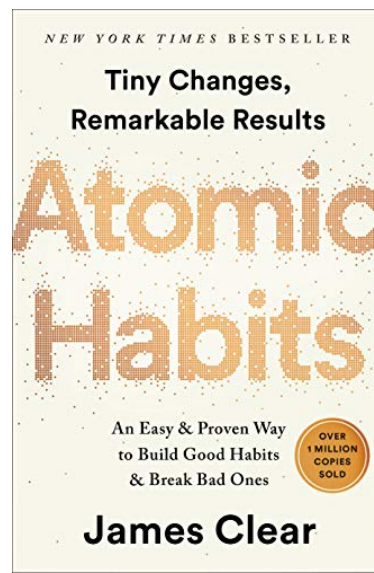
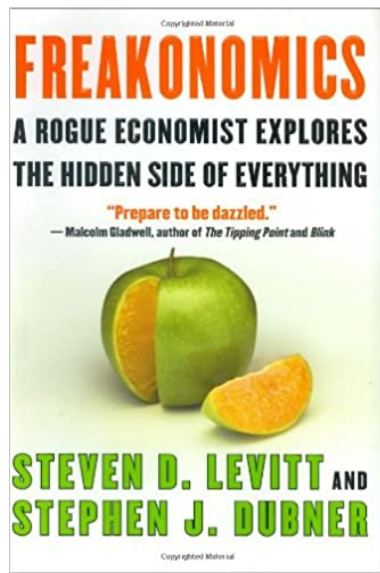
We are only reading the Introduction and Chapter 1 over the summer and will pick up the rest of the book once the school year starts.

Given the length of Part II of this assignment, I want to keep Part III short but meaningful. After reading the Introduction and Chapter 1 (pg. 1-28), answer the following reflection questions. This part of the assignment is really on you, the amount of work you put into it is the reward you're going to reap from it.

- 1) What are three (3) ideas or lessons from the first chapter that you found especially helpful or interesting? Why did these resonate with you?
- 2) Thinking back to what you learned in Part I of the summer assignment, how might the ideas articulated by Clear connect with the Big Ideas of economics?
- 3) Economics pushes intellectual boundaries by challenging conventional wisdom, which Clear certainly does in his position on goals. What are some of the problems of “goals” as argued by Clear? Why does he argue that building systems leads to better outcomes than setting goals? Do you agree or disagree, and why?
- 4) What outcomes do you hope to achieve by taking AP Economics? How might the principles in the book help you build the systems to actualize your desired outcomes?
- 5) What other outcomes do you hope to achieve this school year, and what role might economic thinking and the principles of atomic habits play in it, if at all?

Final Notes

Below are the two books you'll need to purchase for the summer assignment. They can both be found on Amazon for a considerably discounted price, and are also available at other major book retailers and online bookstores. Each student must own their own copy of each book.



I'm ecstatic about you having the opportunity to learn economics and sharing in the benefits it brings. I'm also excited to foster a class with a growth mindset because it reflects my larger view that school should not just be a raw exchange of information, but a formative space to develop the skills needed for a lifetime of success in college and beyond. It is a thrill and pleasure to introduce this course to CMIT North, and I look forward to having you in class.

If you ever want to talk about the assignment or readings, have any questions, or just want to chat, I welcome you to reach out to me at imirza@cmitacademy.org.

All my best,
Mr. Mirza

Freakonomics Core Questions

From: [Student's Guide to Freakonomics](#) by Palmer and Carlson

Chapter 1: What do Schoolteachers and Sumo Wrestlers Have in Common?

1. Explain how the imposition of a fine for tardy parents at a day care center may have altered the motivations of these parents.
2. What is an incentive? How does it relate to the study of economics?
3. What examples can you think of where moral or social incentives and economic incentives are both present? Are the different incentives complementary or competing? For each of the cases you cite, which do you think is the stronger incentive?
4. Describe some ways in which a school teacher might be able to improve the scores of his or her students on a standardized test.
5. How has a well motivated and seemingly benign government requirement to administer standardized tests to grade school students had unintended and malicious consequences? Can you think of other examples of government regulations that were imposed to achieve one goal but have had unanticipated consequences?
6. Explain how Levitt devised a means of examining student test scores to uncover evidence of cheating teachers. Explain also why Levitt's analysis of the data constituted evidence, but not proof, of cheating.
7. Explain what incentives, if any, a university might have to artificially improve the test scores and grades of its athletes.
8. Describe, in general terms, how sumo wrestling tournaments in Japan are arranged and how the rank of an individual sumo wrestler might change as a result of his performance at one of these tournaments.
9. Describe what it means for a Japanese sumo wrestler to be "on the bubble" and what incentives this wrestler and his opponent may have to "throw" a wrestling match.
10. How did Levitt construct a means of detecting evidence of cheating among Japanese sumo wrestlers? What evidence does he offer in support of his claim that some Japanese sumo wrestlers probably "throw" some of their matches?
11. How did Paul Feldman set up his bagel business in the Washington, D.C. area? How did it differ from most business models?
12. What do the authors of *Freakonomics* conclude from an analysis of Paul Feldman's bagel sales data? Do these conclusions match with economists' expectations of human behavior?
13. What window does an analysis of the sales data of Paul Feldman's bagel business open? Why is this usually a difficult subject for economists and others to analyze?
14. Based on what can be learned from a study of sales data of Paul Feldman's bagel business, what variables affect the incidence of theft in an office setting?

Chapter 2: How is the Ku Klux Klan Like a Group of Real Estate Agents?

1. Describe, in broad terms, how the Ku Klux Klan came into existence and how its level of popularity varied over time. In addition, identify specific factors that caused the Klan's popularity to rise or fall.
2. Explain Stetson Kennedy's role in the Klan's ultimate decline in popularity in the South, focusing on the role the dissemination of what the Klan believed was secret information played in that process.

3. Explain what is meant by the term “information asymmetries” and give examples of information asymmetries we encounter in everyday life.
4. Explain whether, and if so, how, information asymmetries create a competitive advantage for particular individuals.
5. Explain how such innovations as the Internet have affected the prevalence of information asymmetries.
6. Explain how information asymmetries facilitated the corporate scandals that occurred in the early 2000s.
7. Provide examples that illustrate how the combination of an information asymmetry and fear can lead to inefficient outcomes. Explain how the introduction of the element of fear makes the problem of the information asymmetry even worse.
8. What evidence do the authors offer to support their claim that real estate agents exploit an information asymmetry to their client’s detriment? As more clients become aware of the possibility of such behavior by agents, how might it affect the relationship between the two?
9. Explain how the choice of terms a real estate agent uses to describe a particular property conveys additional information about the property, and hence the price a potential buyer might be able to successfully offer the seller.
10. This chapter examines how the economic incentives of a real estate agent may differ from those of his or her client. What other subject matter experts are often hired by individuals and businesses? Might they have incentives that differ from those of the clients that hire them?
11. Explain how the information a person has can affect his/her propensity to discriminate. As part of your explanation, distinguish between taste-based discrimination and information-based discrimination.
12. According to the voting data from the Weakest Link, which two groups of people are most likely to be discriminated against in that setting. What type of discrimination is being practiced in each case? Explain.
13. What do the data say about the characteristics of men and women who participate in Internet dating sites relative to the characteristics of the broader population?
14. Assuming many of the people who use Internet dating sites are not being truthful when they describe themselves, what could motivate them to do so, knowing that if they ever actually met a date face-to-face, the truth would likely come out?

Chapter 3: Why Do Drug Dealers Still Live With Their Moms?

1. What is “conventional wisdom?” What are some ways that “conventional wisdom” comes into being?
2. Explain why challenging the “conventional wisdom” with regard to a sticky social issue may be difficult to do.
3. Considering this chapter’s analysis of the transformation of Listerine from an antiseptic to a cure for halitosis, what can one conclude about the effect of advertising on market demand for a good or service?
4. Explain how the incentives of police departments and the public media gave rise to explanations of the rising crime rate in the 1980s that were totally wrong.
5. Describe, in general terms, the organizational structure of the Black Disciples street gang. How is it similar to the organizational structure of most businesses?
6. Explain how four years of financial records of the Black Disciples street gang found their way into the hands of a University of Chicago graduate student.

7. How did J.T., a branch leader of a Black Disciples street gang, acquire and maintain a regional monopoly over crack cocaine within the territorial domain of the gang?
8. What are monthly costs incurred by J.T.'s unit of the Black Disciples? Which costs would be considered fixed costs? Which would be considered variable costs?
9. Explain how a "tournament" or "winner take all" labor market works. Why would a street-level drug dealer be willing to accept low pay and poor working conditions?
10. Give your own examples of a "tournament" type of labor market.
11. How do the incentives of the street-level drug salesman differ from those of the gang leader/ franchise owner? Are they both attempting to maximize the profits of the gang? Why or why not?
12. How did the invention of crack cocaine transform the urban street gang?
13. According to the data cited in this chapter, civil rights laws and a shift in the attitudes in the United States regarding race helped to improve the status of black society. How did crack cocaine alter that progress?
14. Based on the examples in this chapter, what does the invention of better and cheaper production methods do to the price and sales of a good or service?