

AP Microeconomics Topic Outline

Below is a summary outline of the major content areas covered by the AP Examination in Microeconomics. The objective (multiple choice) portion of the examination is devoted to each content area in the approximate percentages indicated. The free response portion of the examination will test students in some combination of the four major categories outlined below. The outline is a guide and is by no means an exhaustive list of topics or the preferred order of topics.

I. Basic Economic Concepts (8–14%)

- A. Scarcity, choice, and opportunity cost
- B. Production possibilities curve
- C. Comparative advantage, absolute advantage, specialization, and trade
- D. Economic systems
- E. Property rights and the role of incentives
- F. Marginal analysis

II. The Nature and Functions of Product Markets (55–70%)

- A. Supply and demand (15–20%)
 - 1. Market equilibrium
 - 2. Determinants of supply and demand
 - 3. Price and quantity controls
 - 4. Elasticity
 - a. Price, income, and cross-price elasticities of demand
 - b. Price elasticity of supply
 - 5. Consumer surplus, producer surplus, and market efficiency
 - 6. Tax incidence and deadweight loss
- B. Theory of consumer choice (5–10%)
 - 1. Total utility and marginal utility
 - 2. Utility maximization: equalizing marginal utility per dollar
 - 3. Individual and market demand curves
 - 4. Income and substitution effects
- C. Production and costs (10–15%)
 - 1. Production functions: short and long run
 - 2. Marginal product and diminishing returns
 - 3. Short-run costs
 - 4. Long-run costs and economies of scale
 - 5. Cost minimizing input combination
- D. Firm behavior and market structure (25–35%)
 - 1. Profit:
 - a. Accounting versus economic profits
 - b. Normal profit
 - c. Profit maximization: $MR=MC$ rule
 - 2. Perfect competition
 - a. Profit maximization
 - b. Short-run supply and shutdown decision
 - c. Behavior of firms and markets in the short run and in the long run
 - d. Efficiency and perfect competition

3. Monopoly
 - a. Sources of market power
 - b. Profit maximization
 - c. Inefficiency of monopoly
 - d. Price discrimination
 - e. Natural monopoly
4. Oligopoly
 - a. Interdependence, collusion, and cartels
 - b. Game theory and strategic behavior
5. Monopolistic competition
 - a. Product differentiation and role of advertising
 - b. Profit maximization
 - c. Short-run and long-run equilibrium
 - d. Excess capacity and inefficiency

III. Factor Markets (10–18%)

- A. Derived factor demand
- B. Marginal revenue product
- C. Labor market and firms' hiring of labor
- D. Market distribution of income

IV. Market Failure and the Role of Government (12–18%)

- A. Externalities
 1. Marginal social benefit and marginal social cost
 2. Positive externalities
 3. Negative externalities
 4. Remedies
- B. Public goods
 1. Public versus private goods
 2. Provision of public goods
- C. Public policy to promote competition
 1. Antitrust policy
 2. Regulation
- D. Income distribution
 1. Equity
 2. Sources of income inequality