Seymour Public Schools Curriculum

Grade: 10-12 Subject AP Macroeconomics

Unit 1 – Basic Economic Concepts

Unit 2 – Measurement of Economic Performance

Unit 3 – National Income and Price Determination

Unit 4 – Financial Sector

Unit 5 – Stabilization Policies

Unit 6 – Economic Growth

Unit 7 – Open Economy: International Trade and Finance

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UNIT 1- Basic Economic Concepts

Subject: AP Macroeconomics Grade: 10-12 Time Frame: (# of weeks, etc)	The purpose of Unit 1 is to layout basic economic principles that will serve as building blocks for the rest of the class. The economic principles can be grouped into three categories: how people make decisions, how people interact, and how the economy works as a whole. Throughout the class, references will be made repeatedly to these principles. Timeframe is 6 weeks.
CCSS Overarching Standards	CCSS.ELA-LITERACY.RH.11-12.3 Evaluate various explanations for actions or events and determine which explanation best accords with textual evidence, acknowledging where the text leaves matters uncertain. CCSS.ELA-LITERACY.RH.11-12.7 Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.
Enduring Understanding	1. The fundamental lessons about interactions among people are that trade can be mutually beneficial, that markets are usually a good way of coordinating trades among people, and that the government can potentially improve market outcomes if there is some sort of market failure or if the market outcome is inequitable. 2. Economists try to address their subject with a scientist's objectivity. Like all scientists, they make appropriate assumptions and build simplified models in order to understand the world around them. Two simple economic models are the circular-flow diagram and the production possibilities frontier. 3. There are two ways to compare the ability of two people in producing a good. The person who can produce the good with a smaller quantity of inputs is said to have an absolute advantage in producing the good. The person who has the smaller opportunity cost of producing the good is said to have a comparative advantage. The gains from trade are based on comparative advantage, not absolute advantage.
Essential Questions	1. Why trade among people or nations can be good for everyone? 2. Why do economists apply the methods of science? 3. What is the difference in the meaning of absolute advantage and comparative advantage?
Priority Standards	● Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others. ● Different methods can be used to allocate goods and services. People acting individually or collectively must choose which methods to use to allocate different kinds of goods and services. ● Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.

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Performance Expectations **(Student outcomes: what will students will know/understand and be able to do)**	● Explain the kinds of questions that economists try to answer. ● Evaluate different methods of allocating goods and services, by comparing the benefits to the costs of each method. ● Describe what, how, and for whom goods and services are produced. ● Explain the circular flow model of the global economy.		

Strategies (examples)	**Materials/Resources (examples)**	**Assessments (examples)**
• Direct instruction • Case studies • Unit project (to be developed) • Hands on activities (to be developed)	• Textbook • Online Resources • YouTube	<u>Summative Assessments</u> Pre and post assessment of released AP Exam questions <u>Formative Assessments</u> Class discussion Group activities Individual responses

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UNIT 2- **Measurement of Economic Performance** (what is this unit's focus? What will students be able to know and do as a result of this unit?)

Subject: AP Macroeconomics **Grade: 10-12** **Time Frame: (# of weeks, etc)**	Students will experience how Economist use economic measurements for measuring the health of an Economy. Economic prosperity as measured by GDP varies subsequently around the world. The standard of living depends on the nation's ability to produce goods and services. Last the students will see how the Central Bank and Policymakers can manipulate the Invisible Hand of the free markets. Timeframe is 6 weeks
CCSS Overarching Standards	CCSS.ELA-LITERACY.RH.11-12.3 Evaluate various explanations for actions or events and determine which explanation best accords with textual evidence, acknowledging where the text leaves matters uncertain. CCSS.ELA-LITERACY.RH.11-12.7 Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.
Enduring Understanding	1. GDP is divided among four components of expenditure: consumption, investment, government purchases, and net exports. Consumption includes spending on goods and services by households, with the exception of purchases of new housing. Investment includes spending on new equipment and structures, including households' purchases of new housing. Government purchases include spending on goods and services by local, state, and federal governments. Net exports equal the value of goods and services produced domestically and sold abroad (exports) minus the value of goods and services produced abroad and sold domestically (imports). 2. A correction for inflation is especially important when looking at data on interest rates. The nominal interest rate is the interest rate usually reported; it is the rate at which the number of dollars in a savings account increases over time. By contrast, the real interest rate takes into account changes in the value of the dollar over time. The real interest rate equals the nominal interest rate minus the rate of inflation. 3. The standard of living in an economy depends on the economy's ability to produce goods and services. Productivity, in turn, depends on the amounts of physical capital, human capital, natural resources, and technological knowledge available to workers. 4. The unemployment rate is the percentage of those who would like to work but do not have jobs. The Bureau of Labor Statistics calculates this statistic monthly based on a survey of thousands of households. The unemployment rate is an imperfect measure of joblessness. Some people who call themselves unemployed may actually not want to work, and some people who would like to work have left the labor force after an unsuccessful search
Essential Questions	1. Demonstrate how gross domestic product (GDP) is defined and calculated? 2. How are real and nominal interest rates different? 3. Why productivity is the key determinant of a country's standard of living? 4. How is unemployment data used to measure the connection between GDP and inflation?
Priority Standards	●Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services. The amount of money in the economy affects the overall price level. Inflation is an increase in the overall price level that reduces the value of money. ● Income for most people is determined by the market value of the productive resources they sell. What workers earn primarily depends on the

	market value of what they produce. ● Investment in factories, machinery, new technology, and in the health, education, and training of people stimulates economic growth and can raise future standards of living. ● Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued. ● Fluctuations in a nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy. Recessions occur when overall levels of income and employment decline. ● Unemployment imposes costs on individuals and the overall economy. Inflation, both expected and unexpected, also imposes costs on individuals and the overall economy. Unemployment increases during recessions and decreases during recoveries.
Performance Expectations **(Student outcomes: what will students will know/understand and be able to do)**	● Interpret media reports about current economic conditions and explain how these conditions can influence decisions made by consumers, producers, and government policy makers. ● Make informed decisions by anticipating the consequences of inflation and unemployment. ● Identify some public policies that may cost more than the benefits they generate, and assess who enjoys the benefits and who bears the costs. Explain why the policies exist.

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UNIT 3- National Income and Price Determination

Subject: AP Macroeconomics Grade: 10-12 Time Frame: (# of weeks, etc)	Students will demonstrate that the welfare economies benefit from trade. Because there are gains from trade, restrictions on free trade reduce the gains from trade and cause deadweight losses similar to those generated by a tax. This also addresses why a nation's net exports must equal its net capital outflow. There is also a relationship between the prices and quantities in the market for loanable funds and the prices and quantities in the market for foreign-currency exchange. Students will finally learn about some of the sources for shifts in the aggregate-demand curve and the aggregate-supply curve and how these shifts can cause recessions. Timeframe 6 weeks
CCSS Overarching Standards	CCSS.ELA-LITERACY.RH.11-12.3 Evaluate various explanations for actions or events and determine which explanation best accords with textual evidence, acknowledging where the text leaves matters uncertain. CCSS.ELA-LITERACY.RH.11-12.7 Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.
Enduring Understanding	1. An economy's saving can be used to finance investment at home or buy assets abroad. Thus, national saving equals domestic investment plus net capital outflow. The nominal exchange rate is the relative price of the currency of two countries, and the real exchange rate is the relative price of the goods and services of two countries. When the nominal exchange rate changes so that each dollar buys more foreign currency, the dollar is said to appreciate or strengthen. When the nominal exchange rate changes so that each dollar buys less foreign currency, the dollar is said to depreciate or weaken. 2. To analyze the macroeconomics of open economies, two markets are central—the market for loanable funds and the market for foreign-currency exchange. In the market for loanable funds, the real interest rate adjusts to balance the supply of loanable funds (from national saving) and the demand for loanable funds (from domestic investment and net capital outflow). In the market for foreign-currency exchange, the real exchange rate adjusts to balance the supply of dollars (from net capital outflow) and the demand for dollars (for net exports). Because net capital outflow is part of the demand for loanable funds and because it provides the supply of dollars for foreign-currency exchange, it is the variable that connects these two markets. 3. The aggregate-demand curve slopes downward for three reasons. The first is the wealth effect: A lower price level raises the real value of households' money holdings, which stimulates consumer spending. The second is the interest-rate effect: A lower price level reduces the quantity of money households' demand; as households try to convert money into interest-bearing assets, interest rates fall, which stimulates investment spending. The third is the exchange-rate effect: As a lower price level reduces interest rates, the dollar depreciates in the market for foreign-currency exchange, which stimulates net exports. Any event or policy that raises consumption, investment, government purchases, or net exports at a given price level increases aggregate demand. Any event or policy that reduces consumption, investment, government purchases, or net exports at a given price level decreases aggregate demand. 4. All societies experience short-run economic fluctuations around long-run trends. These fluctuations are irregular and largely unpredictable. When recessions do occur, real GDP and other measures of income, spending, and production fall, and unemployment rises.
Essential Questions	1. Why is saving, domestic investment, and net capital outflow are related? 2. Why are models used to explain an open economy's trade balance and exchange rate?

	3. Why do Economists use the model of aggregate demand and aggregate supply to explain economic fluctuations? 4. Why do shifts in either aggregate demand or aggregate supply can cause booms and recessions?
Priority Standards	● Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations. ● Income for most people is determined by the market value of the productive resources they sell. What workers earn primarily depends on the market value of what they produce. ● Investment in factories, machinery, new technology, and in the health, education, and training of people stimulates economic growth and can raise future standards of living. ● Fluctuations in a nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy. Recessions occur when overall levels of income and employment decline. ● Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.
Performance Expectations **(Student outcomes: what will students will know/understand and be able to do)**	● Explain how their lives would be more difficult in a world with no money, or in a world where money sharply lost its value. ● Predict the consequences of investment decisions made by individuals, businesses, and governments. ● Interpret media reports about current economic conditions and explain how these conditions can influence decisions made by consumers, producers, and government policy makers. ● Anticipate the impact of federal government and Federal Reserve System macroeconomic policy decisions on themselves and others.

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UNIT 4 - **Financial Sector**

Subject: AP Macroeconomics Grade: 10-12 Time Frame: (# of weeks, etc)	Students will be able to show how the loanable funds market coordinates saving and investment. Within the framework of the loanable funds market, we are able to see the effects of taxes and government deficits on saving, investment. We will show how people compare different sums of money at different points in time, how they manage risk. This unit will demonstrate how money is important because the quantity of money affects inflation and interest rates in the long run, and production and employment in the short run. Students will find that, in the long run, there is a strong relationship between the growth rate of money and inflation. Students will also find that there are numerous costs to the economy from high inflation, but that there is not a consensus on the importance of these costs when inflation is moderate. Timeframe 6 weeks.
CCSS Overarching Standards	CCSS.ELA-LITERACY.RH.11-12.3 Evaluate various explanations for actions or events and determine which explanation best accords with textual evidence, acknowledging where the text leaves matters uncertain. CCSS.ELA-LITERACY.RH.11-12.7 Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.
Enduring Understanding	1. The U.S. financial system is made up of many types of financial institutions, such as the bond market, the stock market, banks, and mutual funds. All of these institutions act to direct the resources of households that want to save some of their income into the hands of households and firms who want to borrow. 2. The interest rate is determined by the supply and demand for loanable funds. The supply of loanable funds comes from households who want to save some of their income and lend it out. The demand for loanable funds comes from households and firms who want to borrow for investment. To analyze how any policy or event affects the interest rate, one must consider how it affects the supply and demand for loanable funds. 3. Because savings can earn interest, a sum of money today is more valuable than the same sum of money in the future. A person can compare sums from different times using the concept of present value. The present value of any future sum is the amount that would be needed today, given prevailing interest rates, to produce that future sum. 4. The Federal Reserve, the central bank of the United States, is responsible for regulating the U.S. monetary system. The Fed chairman is appointed by the president and confirmed by Congress every four years. The chairman is the lead member of the Federal Open Market Committee, which meets about every six weeks to consider changes in monetary policy. The Fed controls the money supply primarily through open-market operations. The purchase of government bonds increases the money supply, and the sale of government bonds decreases the money supply. The Fed can also expand the money supply by lowering reserve requirements or decreasing the discount rate, and it can contract the money supply by raising reserve requirements or increasing the discount rate. 5. The overall level of prices in an economy adjusts to bring money supply and money demand into balance. When the central bank increases the supply of money, it causes the price level to rise. Persistent growth in the quantity of money supplied leads to continuing inflation.
Essential Questions	1. How is the financial system related to key macroeconomic variables? 2. Why do analysts use the loanable-funds model to analyze various government policies? 3. What is the relationship between present value and future value?

	4. What is the Federal Reserve System? 5. Why does inflation result from rapid growth in the money supply?
Priority Standards	● A market exists when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services. ● Institutions evolve and are created to help individuals and groups accomplish their goals. Banks, labor unions, markets, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy. ● Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses. ● There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also have direct or indirect effects on people's incomes. ● Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued. ● Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.
Performance Expectations **(Student outcomes: what will students will know/understand and be able to do)**	● Identify markets in which they have participated as a buyer and as a seller and describe how the interaction of all buyers and sellers influences prices. Also, predict how prices change when there is either a shortage or surplus of the product available. ● Explain situations in which they pay or receive interest, and explain how they would react to changes in interest rates if they were making or receiving interest payments. ● Identify and evaluate the benefits and costs of alternative public policies, and assess who enjoys the benefits and who bears the costs. ● Identify some public policies that may cost more than the benefits they generate, and assess who enjoys the benefits and who bears the costs. Explain why the policies exist. ● Anticipate the impact of federal government and Federal Reserve System macroeconomic policy decisions on themselves and others.

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UNIT 5 - **Stabilization Policies**

Subject: AP Macroeconomics Grade: 10-12 Time Frame: (# of weeks, etc)	Policymakers sometimes try to offset inflation and unemployment by shifting aggregate demand with monetary and fiscal policy. Students will addresses the theory behind these policies and some of the shortcomings of stabilization policy. There is a temporary trade-off between inflation and unemployment, and why is there no permanent trade-off. This result is an extension of the results produced by the model of aggregate supply and aggregate demand where a change in the price level induced by a change in aggregate demand temporarily alters output but has no permanent impact on output. Finally students will debate both sides of five leading debates over macroeconomic policy, or, at least, it may help them understand the reasoning of others who have taken a position. Timeframe 6 weeks.
CCSS Overarching Standards	CCSS.ELA-LITERACY.RH.11-12.3 Evaluate various explanations for actions or events and determine which explanation best accords with textual evidence, acknowledging where the text leaves matters uncertain. CCSS.ELA-LITERACY.RH.11-12.7 Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.
Enduring Understanding	1. Policymakers can influence aggregate demand with monetary policy. An increase in the money supply reduces the equilibrium interest rate for any given price level. Because alower interest rate stimulates investment spending, the aggregate-demand curve shifts tothe right. Conversely, a decrease in the money supply raises the equilibrium interest ratefor any given price level and shifts the aggregate-demand curve to the left. Policymakerscan also influence aggregate demand with fiscal policy. An increase in governmentpurchases or a cut in taxes shifts the aggregate-demand curve to the right. A decrease ingovernment purchases or an increase in taxes shifts the aggregate-demand curve to theleft. When the government alters spending or taxes, the resulting shift in aggregatedemand can be larger or smaller than the fiscal change. The multiplier effect tends toamplify the effects of fiscal policy on aggregate demand. The crowding-out effect tendsto dampen the effects of fiscal policy on aggregate demand. 2. The Phillips curve describes a negative relationship between inflation and unemployment. By expanding aggregate demand, policy makers can choose a point onthe Phillips curve with higher inflation and lower unemployment. By contractingaggregate demand, policy makers can choose a point on the Phillips curve with lowerinflation and higher unemployment. The trade-off between inflation and unemploymentdescribed by the Phillips curve holds only in the short run. In the long run, expected inflation adjusts to changes in actual inflation, and the short-run Phillips curve shifts. Asa result, the long-run Phillips curve is vertical at the natural rate of unemployment. Theshort-run Phillips curve also shifts because of shocks to aggregate supply. An adversesupply shock, such as an increase in world oil prices, gives policymakers a less favorabletrade-off between inflation and unemployment. That is, after an adverse supply shock,policymakers have to accept a higher rate of inflation for any given rate ofunemployment, or a higher rate of unemployment for any given rate of inflation. 3. Advocates of active monetary and fiscal policy view the economy as inherently unstable and believe that policy can manage aggregate demand in order to offset the inherentinstability. Critics of active monetary and fiscal policy emphasize that policy affects theeconomy with a lag and that our ability to forecast future economic conditions is poor. Asa result, attempts to stabilize the economy can end up being destabilizing.

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Essential Questions	1. Why do fiscal and monetary policy affect interest rates and aggregate demand? 2. Why do policymakers face a short-run trade-off between inflation and unemployment? 3. What are the current debates in Macroeconomic Policy?
Priority Standards	● There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also have direct or indirect effects on people's incomes. ● Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued. ● Fluctuations in a nation's overall levels of income, employment, and prices are determined by the interaction of spending and production decisions made by all households, firms, government agencies, and others in the economy. Recessions occur when overall levels of income and employment decline. ● Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.
Performance Expectations **(Student outcomes: what will students will know/understand and be able to do)**	● Identify and evaluate the benefits and costs of alternative public policies, and assess who enjoys the benefits and who bears the costs. ● Identify some public policies that may cost more than the benefits they generate, and assess who enjoys the benefits and who bears the costs. Explain why the policies exist. ● Interpret media reports about current economic conditions and explain how these conditions can influence decisions made by consumers, producers, and government policy makers. ● Anticipate the impact of federal government and Federal Reserve System macroeconomic policy decisions on themselves and others.

Strategies (examples)	**Materials/Resources (examples)**	**Assessments (examples)**
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UNIT 6-Economic Growth

Subject: AP Macroeconomics Grade: 10-12 Time Frame: (# of weeks, etc)	This unitwill introduce the concept and meaning of long-run economic growth and examine how economic growth occurs. Students should understand the role of productivity in raising real output and the standard of living, and the role of investment in human capital formation and physical capital accumulation, research and development, and technical progress in promoting economic growth. Having learned the determinants of growth, students should examine how public policies influence the long-run economic growth of an economy. Timeframe 6 weeks.
CCSS Overarching Standards	CCSS.ELA-LITERACY.RH.11-12.3 Evaluate various explanations for actions or events and determine which explanation best accords with textual evidence, acknowledging where the text leaves matters uncertain. CCSS.ELA-LITERACY.RH.11-12.7 Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.
Enduring Understanding	1. Economic prosperity, as measured by GDP per person, varies substantially around the world. The average income in the world's richest countries is more than ten times that in the world's poorest countries. Because growth rates of real GDP also vary substantially, the relative positions of countries can change dramatically over time. 2. The standard of living in an economy depends on the economy's ability to produce goods and services. Productivity, in turn depends on the physical capital, human capital, natural resources, and the technological knowledge available to workers. 3. Government policies can try to influence the economy's growth rate in many ways: by encouraging investment from aboard, fostering education, promoting good health, maintaining property rights and political stability, allowing free trade, and promoting the research and development of new technologies. 4. The accumulation of capital is subject to diminishing returns: The more capital an economy has, the less additional output the economy gets from an extra unit of capital. As a result, although higher savings leads to higher growth for a period of time, growth eventually slows down as capital, productivity, and income rise. Also because of diminishing returns, the return to capital is especially high in poor countries. Other things being equal, these countries can grow faster because of the catch-up effect. 5. Population growth has a variety of effects on economic growth. On the one hand, more rapid population growth may lower productivity by stretching the supply of natural resources and by reducing the amount of capital available for each worker. On the other hand, a larger population may enhance the rate of technological progress because there are more scientists and engineers.
Essential Questions	1. What does the level of a nation's GDP measure? 2. How do the four determinants of productivity function? 3. How does a higher savings lead to a higher standard of living? 4. Why does removing trade restrictions lead to more rapid economic growth? 5. What is the relationship between population growth and the level of GDP per capita?
Priority Standards	● A country's standard of living is derived from the productivity in producing goods and services. ● Human capital, like physical capital raises a nation's ability to produce goods and services. ● Constant returns to scale in production are contrary to the catch-up effect and diminishing returns.

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Performance Expectations **(Student outcomes: what will students will know/understand and be able to do)**	●Explain how a government can accelerate and decelerate economic growth, and why it would alternate between the two. ● Identify some public policies that may cost more than the benefits they generate, and assess who enjoys the benefits and who bears the costs. Explain why the policies exist. ● Anticipate the impact of federal government and Federal Reserve System macroeconomic policy decisions on themselves and others.

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UNIT 7-**Open Economy: International Trade and Finance**

Subject: AP Macroeconomics **Grade: 10-12** **Time Frame: (# of weeks, etc)**	An open economy interacts with the rest of the world both through the goods market and the financial markets, and it is important to understand how a country's transactions with the rest of the world are recorded in the balance of payments accounts. Students should understand the meaning of trade balance, the distinction between the current account balance and the financial account (formerly known as capital account) balance, and the implication for the foreign exchange market.
CCSS Overarching Standards	CCSS.ELA-LITERACY.RH.11-12.3 Evaluate various explanations for actions or events and determine which explanation best accords with textual evidence, acknowledging where the text leaves matters uncertain. CCSS.ELA-LITERACY.RH.11-12.7 Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.
Enduring Understanding	1. Net exports are the value of domestic goods and services sold abroad (exports) minus the value of foreign goods and services sold domestically (imports). Net capital outflow is the acquisition of foreign assets by domestic residents (capital outflow) minus the acquisition of domestic assets by foreigners (capital inflow). Because every international transaction involves an exchange of an asset for a good or service, an economy's net capital outflow always equals its net exports. 2. An economy's savings can be used either to finance investment at home or buy assets abroad. Thus, national saving equals domestic investment plus net capital outflow. 3. The nominal exchange rate is the relative price of the currency of two countries, and the real exchange rate is the relative price of the goods and services of two countries. When the nominal exchange rate changes so that each dollar buys more foreign currency, the dollar is said to appreciate or strengthen. When the nominal exchange rate changes so that each dollar buys less foreign currency, the dollar is said to depreciate or weaken. 4. According to the theory of purchasing-power parity, a dollar (or a unit of any currency) should be able to buy the same quantity of goods in all countries. This theory implies that the nominal exchange rate between the currencies of two counties should reflect the price levels on those countries. As a result, countries with relatively high inflation should have depreciating currencies, and countries with relatively low inflation should have appreciating currencies.
Essential Questions	1. How and why are net exports and net capital outflow related? 2. What is the relationship between saving, investment, and net capital outflow? 3. What are the nominal and real exchange rates? 4. What is the economic logic behind the theory of purchasing-power parity?
Priority Standards	● The market for loanable funds and the market for foreign-currency exchange are central to the macroeconomics of an open economy. ●A policy that reduces national savings, such as a government budget deficit, reduces the supply of loanable funds and drives up interest rate. ● Political instability can lead to capital flight, which tends to increase interest rates and cause the currency to depreciate.
Performance Expectations	●Explain how an open economic policy can both benefit and harm various growing and mature economies. ● Analyze the political and economic consequences of having either a trade surplus or a trade deficit. ●Interpret media reports about current economic conditions and explain how these conditions can influence decisions made by consumers,

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<tr><td>Strategies (examples)

• Direct instruction
• Case studies
• Unit project (to be developed)
• Hands on activities (to be developed)</td><td>Materials/Resources (examples)

• Textbook
• Online Resources
• YouTube</td><td>Assessments (examples)
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