

Advanced Placement Microeconomics – Summer Assignment

Welcome to economics! Simply stated, economics is the study of how we allocate our limited resources to deal with our unlimited wants. So, at its most basic level, economics is about scarcity and choice. This course will provide you with a framework for how to think about how scarcity and choice affect every aspect of our lives.

This is a college level course, so please be prepared for college level work. We need to cover a great deal of material in quite a limited amount of time, so expect to spend a significant amount of time on economics outside of class. This begins with the summer assignment. The summer assignment serves three major functions:

1. Provides a jumpstart to the year, allowing us to enjoy time covering the more challenging components of the curriculum.
2. Provides an exposure to economic problems to help you begin to “think like an economist”.
3. Provides you with a very elementary introduction to some of the issues of economics so you can make an informed decision about whether or not you want to remain signed up for the class.

This introductory material is somewhat basic, though. I encourage you to browse through the textbook and examine the different topics we will explore.

This assignment is due by 7:50am on the first day of school and it will be graded on effort and accuracy. You will be submitting all six assignments through Haiku. Late assignments, if accepted, incur a penalty (except under extenuating circumstances). There is a 5% bonus for submitting the assignment by August 31 and a 10% bonus for submitting it by July 31.

MATERIALS NEEDED FOR THE COURSE

- You will need a 3-ring binder devoted only to this class. There are a lot of handouts. Some students choose to also use some sort of bound notebook (e.g., composition, spiral) **in addition** to the binder for note taking. This is up to you.

BOOKS

- *Krugman's Economics for AP*, 2nd Edition, by Ray and Anderson (ISBN: 1-4641-2218-0)
- *Naked Economics – Undressing the Dismal Science*, 2010 Edition by Wheelan (ISBN: 1-934780-27-8)
- *Strive for a Five – Preparing for the AP Microeconomics Examination to Accompany Krugman's Economics for AP*, 2nd Edition, by Fox and Heggood (ISBN: 1-4641-5593-3)
- *Multiple Choice & Free Response Questions in Preparation for the AP Economics Exam*, by D&S Marketing Systems (ISBN: 978-1-934780-27-5)

METHOD OF SUBMISSION (we will be using Haiku):

- To register for our class on Haiku
 - Go to <https://whschool.learning.powerschool.com/bstaub/apmicroeconomics/signup>
 - Please use the code **WHECO to register for our class**. There will be dropboxes associated with each part of this summer assignment. Make sure this is where you place your assignment. Don't email it to me; don't just upload it to the generic dropbox.

- **For typed parts of the assignment (all of them):**
 - Each page must contain your full name and course name (use the heading feature to avoid formatting issues).
 - Each page must be single-spaced in 12-point font using either Arial, Times New Roman, or Cambria
 - 1" margins all the way around the paper.
 - Each assignment gets its own file and will be submitted separately. That is, Assignment I is its own file, Assignment II is its own file, Assignment III is its own file, etc. In general, files should be saved as: *Last Name_First Name_Name of Assignment*
 - So the assignments for the summer assignment should be saved as follows:
 - *Last Name_First Name_Why?*
 - *Last Name_First Name_Naked Economics Chapter 1-2*
 - *Last Name_First Name_the \$1400 iPhone*
 - *Last Name_First Name_Louis Vuitton*
 - *Last Name_First Name_Tariffs*
 - *Last Name_First Name_Economics and Law Enforcement*
 - Incorrectly formatted assignments will not be accepted

THE ASSIGNMENTS (there are 6 assignments)

Assignment I: Why?

- Write one paragraph explaining what you hope to gain from taking a class in microeconomics. What are your reasons for signing up for this class? Note: A "typical" paragraph is about 5-6 sentences.

Assignment II: Naked Economics

Overview

Write an analysis of the first two chapters, focusing on (but not solely just answering) the questions identified below for each chapter.

You should follow these parameters:

- Each chapter analysis should begin on a new page.
- Each chapter analysis should have its own title. You should use the chapter and theme for this.
- Use the questions as a **guide** to form a well-constructed analysis of each chapter. You will need to give your personal thoughts as well.
- Avoid using direct quotes from the text; interpret the concept in your own words.
- You may use in-text citations (using only a page number) to make references to specific information from the book.
- Limit each analysis to 1 page or less. Your objective is to be brief but also descriptive!

- Scoring
 - Each analysis will be graded based upon the following grading criteria:
 - Identification & Explanation (50%) - Did you accurately identify and elaborate on the significant points of the chapter?
 - Personal Reflection (50%) - What are your personal thoughts about the themes and topics?

Guiding Questions

- Chapter 1 (The Power of Markets)
 - What are the two basic assumptions economists make about individuals and firms?
 - What example does the author give to back up his statement that “maximizing utility is not synonymous with acting selfishly”?
 - What is the role and significance of prices in a market economy?
 - What are the advantages and disadvantages of a market economy?
- Chapter 2 (Incentives Matter)
 - Explain how each of the following relates to efficient outcomes in a market economy:
 - Adverse selection
 - Perverse incentives
 - Principal-agent problem
 - Prisoner’s dilemma
 - How does the author back up his assertion that government benefits create perverse incentives?

Assignment III: The \$1,400 iPhone

Read “5 Reasons a \$1,400 iPhone Isn’t Crazy” and write a response of about 2 paragraphs that addresses the following questions. This article can be found at the end of this packet and on our Haiku page.

- If you were in charge of pricing the highest-level iPhone, would you price it at \$1,400? Explain.
- Why did the iPhone 5c fail?

Assignment IV: Louis Vuitton

Louis Vuitton is a luxury retail company that operates worldwide. One of the interesting philosophies of Louis Vuitton is that their luxury bags never go on sale. There are rumors that they actually burn their unsold bags, but I have not been able to confirm this. Write a response of about 2 paragraphs that addresses the following questions.

- Why would Louis Vuitton not put their merchandise on sale?
- Is it better to throw out inventory (and generate \$0 in revenue) or sell it at a discounted price so you can at least recoup some of your costs?

Assignment V: Tariffs

President Trump recently instituted tariffs on steel and aluminum. Other countries, most notably China, have responded with threats of tariffs on United States' goods.

Define the following terms in one to two sentences.

1. Ceteris paribus
2. Absolute advantage
3. Comparative advantage
4. Production Possibilities Curve
5. Opportunity Cost

Comment on how you think the tariffs will affect the US economy. As an economist, would you recommend for or against these tariffs? Why?

Assignment VI: Economics and Law Enforcement

Define or explain the following (one sentence should suffice):

1. The fundamental economic problem.
2. Scarcity
3. Opportunity cost
4. Marginal benefit
5. Marginal cost

Reflect on the following prompts: Do law enforcement agencies really seek an efficient amount of lawbreaking rather than no lawbreaking? Consider some illegal activities that might sometimes create more good than harm. How do the penalties for these crimes compare with the penalties for more serious crimes that are less likely to ever be efficient? How much should people be fined for doing something that we really want to prohibit from ever happening? Now pick a few of these and construct a well-written paragraph or two discussing the economics of law enforcement.

5 Reasons a \$1,400 iPhone Isn't Crazy

There is plenty for iPhone haters to hate about a supersize price tag, but economic fundamentals would justify it



The more expensive an iPhone is, the more people will lust after it. PHOTO: KIICHIRO SATO/ASSOCIATED PRESS



By

Christopher Mims

July 30, 2017 7:00 a.m. ET

[373 COMMENTS](#)

How much would you pay for an iPhone?

This September, Apple will unveil not just the usual two new iPhones, but also an ultra-deluxe 10th-anniversary model, according to reports from multiple analysts. They expect this device to include premium features like an OLED screen, 3-D imaging and a retina scanner, and they expect it to command a premium price, between \$1,000 and \$1,400, depending who you ask.

The speculation has met with howls of protest from some Apple watchers. At \$1,400, it would cost twice what an entry-level iPhone 7 does—and nearly twice what the potentially comparable [Samsung](#) Galaxy S8 now costs.

Yet there is plenty of evidence that those who say that price is untenable will be eating crow come fall.

The launch of a pricey new iPhone has big implications for Apple's financials, and it also bodes well for Apple's continued dominance in mobile phones. Here are five reasons for Apple to go big, price-wise:

1. Boosting the Brand

An ultraexpensive edition of the iPhone makes sense as a shot in the arm for the whole brand. Apple's slow and steady approach to adding new features and incrementally refining its gadgets has given us a powerful device with a thriving ecosystem of apps and third-party services. But the same forces that made the iPhone ubiquitous and reliable have also made it about as exciting as a Toyota Corolla.



The 2018 Dodge Challenger SRT Demon, shown in April at the New York International Auto Show, with a starting price of \$85,000. PHOTO: JULIE JACOBSON/ASSOCIATED PRESS

The next iPhone has the potential to upend that stodgy image by being a “halo device,” says Janell Townsend, a professor of marketing at Oakland University in Rochester Hills, Mich., and a visiting professor at the University of Zurich. Halo devices have exceptional features representing key attributes of a brand and serve to influence consumers’ perceptions of all products in the line, she says.

Take the Dodge Challenger SRT Demon. It has an 840-horsepower engine, making it [the world’s fastest production car](#). Not many people will shell out \$85,000 for one, but it can draw them to its lesser siblings, which [start at \\$27,000](#).

2. Crazy New Tech

A big reason companies have halo products is that they give them a way to test new technologies, says Dr. Townsend. While many of the potential features of the anniversary iPhone are found in other high-end smartphones, notably the Galaxy S8, Apple is said to be cooking up other technologies, such as an advanced 3-D sensor array.

If crammed into a conventional iPhone, all the new hardware might take too big of a bite of Apple's margins. Yet while Dodge is unlikely to put an 840-horsepower engine into the company's family-friendly crossover SUV, Apple has a history of spreading its high-tech components across entire product lines once their costs come down.



During its last holiday quarter, Apple sold nine iPhones a second. Apple's iPhone 7 smartphones, shown on a shelf at an Apple store in Beijing in September 2016. PHOTO: THOMAS PETER/REUTERS

3. Supplies Are Limited

Cutting-edge products often can't be made in quantities Apple demands. During its last holiday quarter, Apple [sold nine iPhones a second](#). Apple [faced supply shortfalls for the iPhone 7 Plus](#) and before that [for the iPhone 6](#), and analysts are saying the 10th-anniversary iPhone [may face delays](#). The solution, as Apple watcher John Gruber observed, is simply to [charge more](#).

If Apple's high-end iPhone is aimed at a new segment—people willing to pay more than \$1,000 for a phone—Apple can charge whatever it likes to balance supply and demand for the device, rather than worrying about whether increasing the price will hurt its overall market share. And even if the high-end iPhone's list price were “just” \$1,000, Apple could get people to pay more—as it always does—by offering a small amount of storage on the base model, then charging \$100 to \$200 for more.

Cash Cow

The iPhone's average selling prices peak over the holidays, with the new phones. iPhone sales drive Apple's gross profit margin, which is off its March 2015 high.

Source: the company

4. All About the ASP

With a phone priced upward of \$1,400, Apple would have the opportunity to move the single most important metric on its balance sheet: the average selling price of a new iPhone. This number, which hit a record of \$695 in the fiscal quarter ended December 2016, is the most important driver of Apple’s gross profit margin.

In technology, prices usually decline over time, but Apple bucks that trend by upping the feature set of each subsequent phone. Since it discontinued the cheaper iPhone 5C, average selling price has been rising.

5. \$\$\$\$ = Desire

The final reason a pricey iPhone makes sense is that, paradoxically, the more expensive Apple makes the device, [the more people will lust after it](#).

Conspicuous consumption was first described in “The Theory of the Leisure Class” by the economist and sociologist Thorstein Veblen, who singled out products that, contrary to logic, sold better when their prices went up. When the iPhone came out in 2007, it was the epitome of a “Veblen good”—rare and, at \$599 with a two-year contract, expensive.

For the same reasons, an expensive anniversary version could once again make the iPhone a Veblen good, says M. Berk Talay, professor of marketing at the University of Massachusetts Lowell. Much like the Mercedes-Benz vehicle line, where each class clearly telegraphs how much the buyer paid, the new iPhone lineup could boost the Apple brand’s ability to signal wealth, he says.



Samsung Electronics Co.’s Galaxy 8 phone has several new features expected in the coming deluxe, 10th-anniversary iPhone. Shown, a Galaxy S8+ displayed at KT Corp.’s Olleh Square space in Seoul in April. PHOTO:SEONGJOON CHO/BLOOMBERG NEWS

This could be particularly helpful to Apple in China. The company has been hurt lately by [double-digit decreases in sales](#) there, but Chinese consumers have a history of [gravitating toward luxury goods](#). A higher-priced iPhone could convey status, something that's been harder and harder to do since 2014, when Apple last changed the look of its handsets.

If Apple releases a new iPhone at such a lofty price, expect reviewers to make unfavorable comparisons with devices like Samsung's Galaxy S8, which packs in many advanced features for around \$750. But if the analysts are right, we can also expect that, by the end of 2017, Apple may report record-breaking numbers in the most important area of its business.

Write to Christopher Mims at christopher.mims@wsj.com

Appeared in the July 31, 2017, print edition as 'Why an iPhone Priced At \$1,400 Isn't Crazy.'