



Student Performance Q&A:

2002 AP[®] Macroeconomics Free-Response Questions

The following comments are provided by the Chief Faculty Consultant regarding the 2002 free-response questions for AP Macroeconomics. *They are intended to assist AP workshop consultants as they develop training sessions to help teachers better prepare their students for the AP Exams.* They give an overview of each question and its performance, including typical student errors. General comments regarding the skills and content that students frequently have the most problems with are included. Some suggestions for improving student performance in these areas are also included. Consultants are encouraged to use their expertise to create strategies for teachers to improve student performance in specific areas.

Macroeconomics Question 1

What was intended by the question?

This long question tested students' understanding of aggregate analysis and discretionary fiscal and monetary policies.

How well did students perform?

Students did well on the question; the mean score, 6.5 points of the 11 possible points, equaled 59 percent of the maximum. The final scoring distribution was very effective in separating students across the different grading points.

What were common errors or omissions?

Many students were unable to recognize that the economy was operating below full employment in parts (a) and (b). Greater care is needed to contrast the portion of the aggregate supply curve associated with full employment or potential GDP with an equilibrium level below potential GDP.

In part (a), students should realize that expansionary fiscal policy aimed at reducing the rate of unemployment would involve either an increase in government expenditure or a decrease in taxes. Expansionary policy would shift the aggregate demand curve outward (to the right), increasing real output and the price level. Students needed to recognize that the equilibrium real output (or GDP) was below potential GDP both before and after the expansionary policy.

The increased borrowing by the government to fund the expansionary policy would increase the demand for loanable funds, increasing interest rates. Alternatively, an increase in income will increase the demand for money and interest rates. Many students were unable to show a linkage between the expansionary fiscal policy and higher interest rates in part (c). Simply stating "crowding out" was insufficient to earn the point. The crowding out of private spending is the result of higher interest rates and not the process that drives up interest rates.

Students often did not provide a fully correct graph of the money market, as asked. Finally, many students did not understand that the expansionary monetary policy required to answer the question was an open-market operation — the Fed buying bonds. Many incorrectly suggested other forms of expansionary monetary policy, e.g., lower the required reserve ratio.

Based on your experience at the AP Reading, what message would you like to send to teachers that could improve the performance of their students on the exam?

As a general rule applicable to all questions, students too frequently do not provide explanations when asked. If the question asks for an explanation, a simple assertion of the correct result will not earn full credit. Also, students frequently lose credit for incompletely labeled graphs. A fully correct graph requires that each axis be labeled and each curve be labeled.

Macroeconomics Question 2

What was intended by the question?

This question was concerned with long-run economic growth. Students were asked to show the impact on the long-run aggregate supply curve (or potential real gross domestic product) from five different underlying changes.

How well did students perform?

The mean student score was slightly less than forty percent.

What were common errors or omissions?

Many students showed that they really did not understand the factors of production or determinants of potential income: labor, capital, land, and technology. Each element of the question referred to a potential change in one of these factors of production. Too many students wrote about the short-run impact on the aggregate demand curve; such discussion was not relevant to the question as asked.

Based on your experience at the AP Reading, what message would you like to send to teachers that could improve the performance of their students on the exam?

It is imperative that teachers differentiate between the short-run and long-run macro impacts of both changes in underlying assumptions or behavior and of fiscal/monetary policies.

Macroeconomics Question 3

What was intended by the question?

This question tested students' understanding of international flows of financial capital and the foreign exchange market.

How well did students perform?

Students found this question to be difficult; the mean grade was only 37.9 percent of the maximum. The question was effective, however, in differentiating students according to overall performance.

What were common errors or omissions?

There will be an increase in funds flowing to the United States from Japan, as Japanese investors seek the higher real return in the United States, increasing the supply of Yen to purchase dollars. There will be a decrease in funds flowing from the United States to Japan due to the lower real returns in Japan, reducing the demand for Yen by holders of dollars. Students did not always recognize that the question was asking for the impact on the flows of financial capital across national boundaries.

The second part of the question was the most difficult portion for students. It asked them to graph the impact of the flows of financial capital [from part (a)] in the market for Yen. Thus, a correct graph would have quantity of Yen on the horizontal axis and the dollar price of a Yen on the vertical axis. In a correct graph, the supply of Yen in the market would increase, lowering the equilibrium dollar price of a Yen. The Yen depreciates compared to the dollar. Alternatively, students could show a decrease in the demand for Yen, again with a depreciation of the Yen. Many students inappropriately (as least for the question) tried to analyze the impact in the market for dollars. Students found it difficult to draw an appropriate graph of the Yen market. Too frequently students tried to trace the impacts through the market for dollars, even though the Yen market was specifically requested in the question. Finally, students were not always clear in their explanations for why imports and exports changed as the exchange rate varied. We required them to note that there would be a relative price change of imported versus domestic goods, and that consumers would be attracted to those goods whose relative price had fallen.

Based on your experience at the AP Reading, what message would you like to send to teachers that could improve the performance of their students on the exam?

Teachers need to emphasize the fundamentals of a foreign exchange market. They need to explain clearly who are demanders of a currency (and for which reasons) and who are suppliers of a currency. The general reciprocal nature of the markets, demand for Yen by dollar holders generates a supply of dollars for Yen, needs to be understood by students.