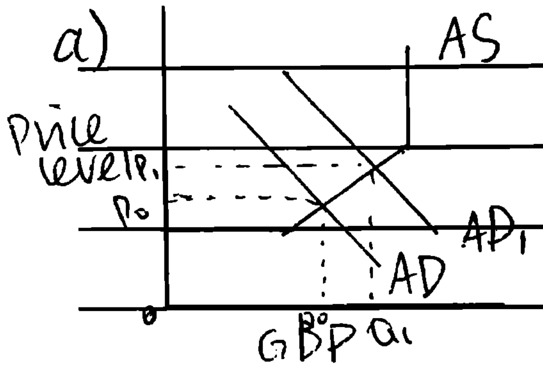
AP® Macroeconomics
2003 Sample Student Responses
Form B

1MACOSA,

Write in the box the number of the question you are answering on this page as it is designated in the examination.

#1

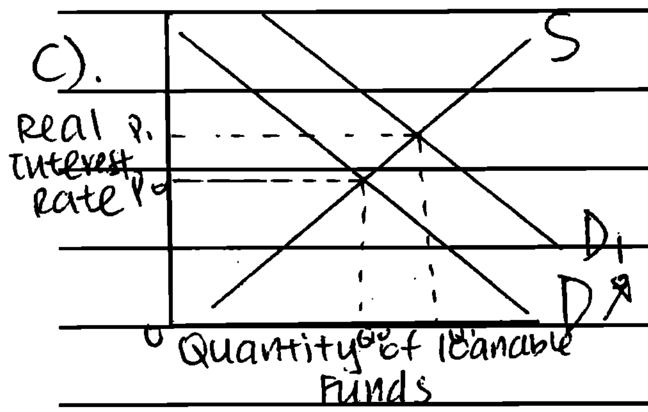
a)



- The current output is at Q_0 and price level is P_0.

b) When government increases spending to achieve full-employment output, one of the components of AD (C + I + G + (X-M)) will increase, causing aggregate demand to shift to the right (as labeled as AD_1 in the above graph). As a result, P_0 has shifted to P_1, and Q_0 has shifted to Q_1. Both output and price level have increased.

c).



- Due to the increase in deficit spending, the demand for loanable funds also increases causing interest and quantity of loanable funds to increase.

d) Since the interest rate of this country has increased, many foreigners would be attracted to invest in this country. As a result, the demand of this currency increases, and the international value of this currency will also increase.

/MAC Q5A$_2$

#1

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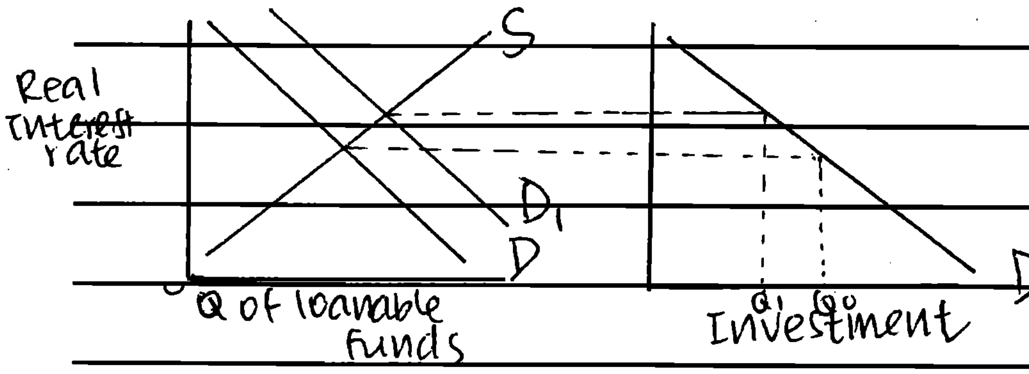
e) As the international value of this currency increases, this country's goods will be relatively more expensive to other countries' goods. Thus, this country's exports will decrease and imports will increase. This will create a trade deficit as imports are greater than exports.

f) Although originally the government deficit spending is to increase aggregate demand, according to the loanable-funds market discussed in part c, real interest rates will also increase. As a result, investment will



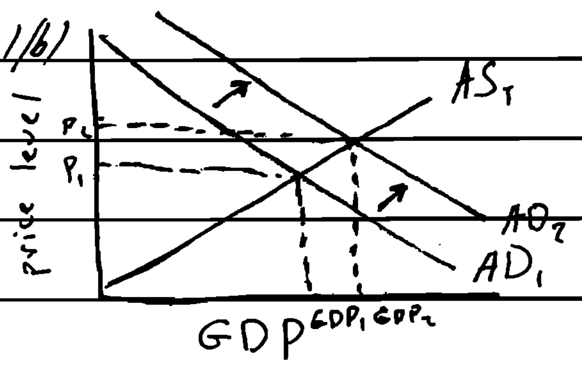
decrease. In the long run, if net investment spending is continually decreasing, then it means that the long-run growth will also decrease.

1MACOSB1

Write in the box the number of the question you are answering on this page as it is designated in the examination.

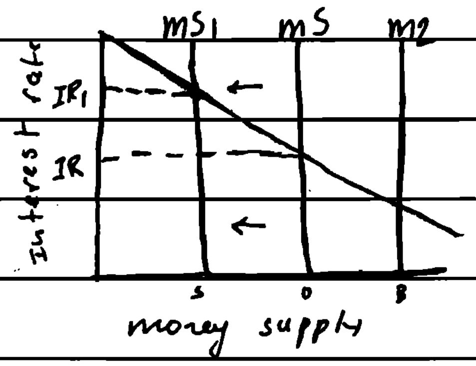
1

1) a) b)



i) The aggregate demand will increase or shift outward, because gov't spendings are demand shifter.
ii) Output will increase, because country also has increased the labors.
iii) Price level would increase, because more people are employed, therefore more money to spent

c)



The real interest rate will increase, because gov't needs to sell gov't bonds or borrow money from the citizens, in order to increase spending and decrease deficit. When gov't borrows money it increases the interest rate or crowding-out effect. Also selling gov't bonds increase the interest rate also.

d) The international value of country's (X) currency will increase, because the interest rates are high, foreign investers would want to loan their money to banks and for that they need to change their currency to country (X) currency. If there is a lot of demand for country (X) currency then the price of their currency will increase or the value

1MACO5[redacted]2

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e) i) Country (X) exports will decrease, because their currency value increased, which makes the exports more expensive.

[redacted] Imports would Increase, because now the country (X) can buy more foreign goods with the same amount of money.

ii) Imports will be greater then exports, country (X) will be In trade deficit.

f) the long-run growth of the country (X) can be seen from 2 sides side one the country (X) gov't would Increase taxes to even the [redacted] deficit, which will slow down the economy, the GDP will decrease and unemployment will Increase.
side two the country (X) might attract foreign Investors because of high interest, and foreign Investors will Invest In country (X), which results will be growth of the economy Increase In GDP, decrease In unemployment and Increase In price level