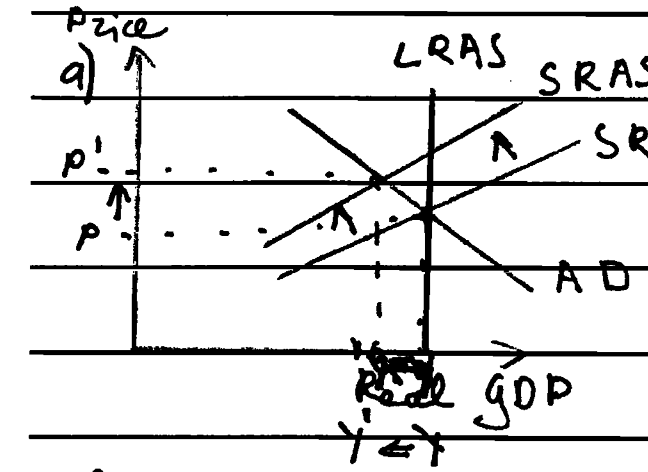
CollegeBoard
Advanced Placement Program

AP® Macro Economics
2004 Sample Student Responses
Form B

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

1.

a)

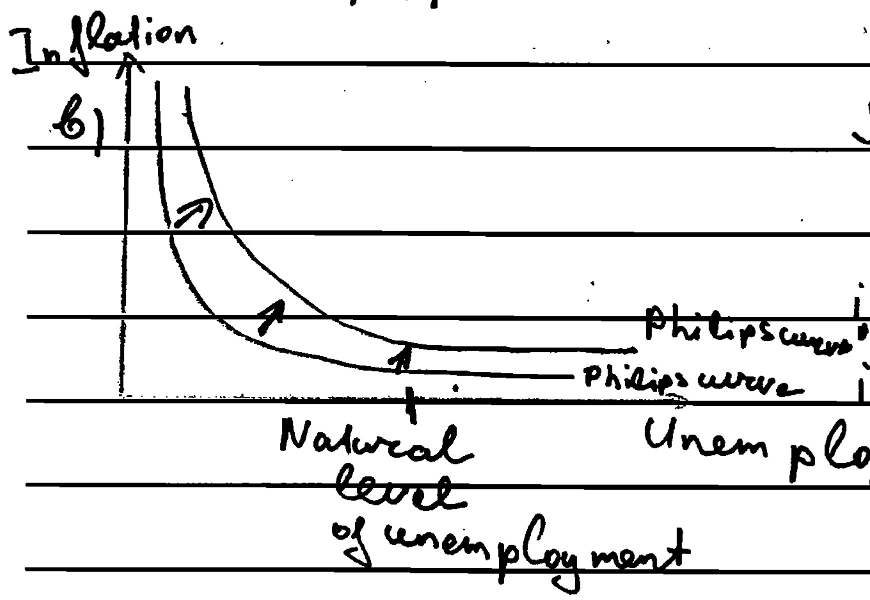


Short run agregate supply decrease (shifts to the left)

ii) Price increase from p to p'

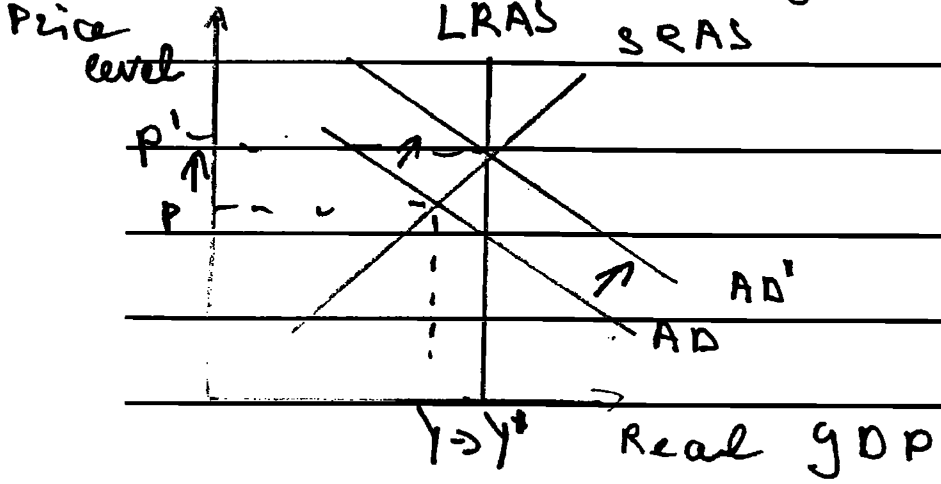
i) Output decrease from Y to Y'

b)



Short run curve shifts to the right as price level(inflation) increase and ~~unemploy~~ unemployment increase (employment decrease)

c) i) By increasing money supply, the central bank lower interest rate. As Lower interest rate means higher level of investment. As Investments is a part of Agregat demand, when Investment increase, agregate demand increase ($AD = C+I+G$) (shifts to the right)



ii) Real output increase from Y to Y'

iii) Price level increase from p to p'.

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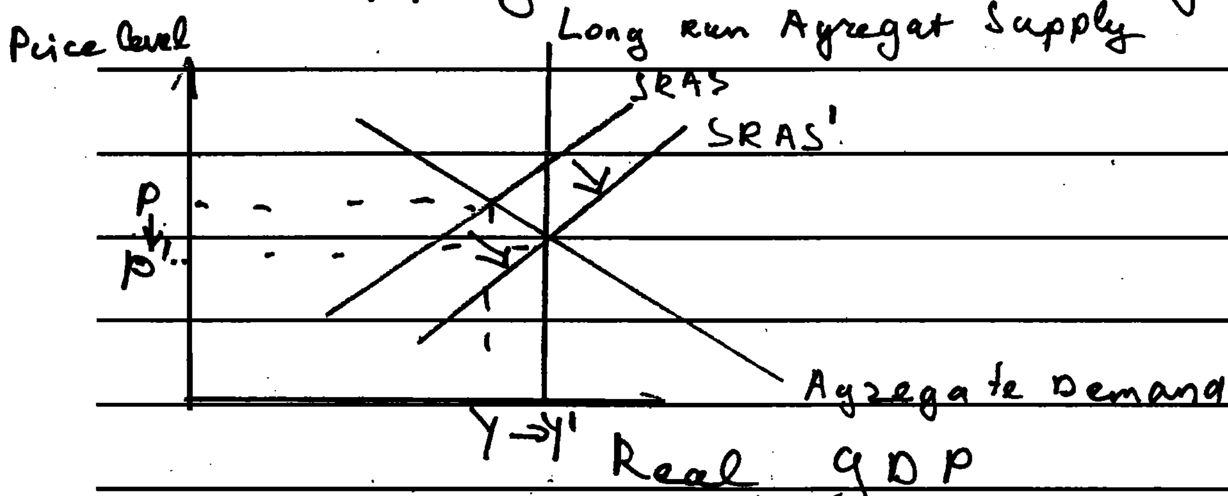
d) Lower production costs means increase in supply (shifts to the right)



i) Real output increase from Y to Y'

ii) price level decrease from p to p'

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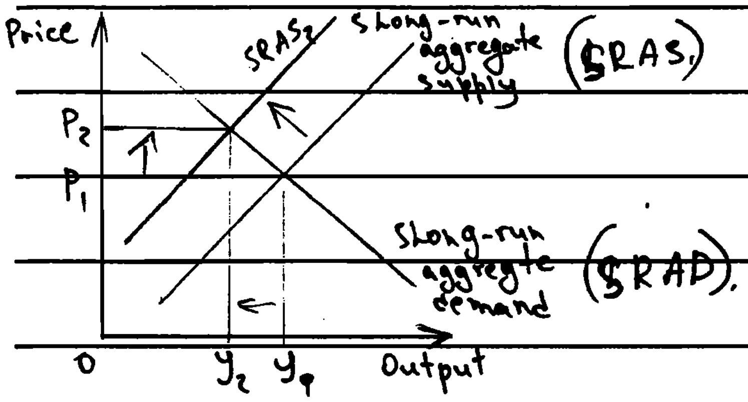
1. 2. i



As the price for oil, an important natural resource, ~~there~~ which is used for further production, increases the short-run aggregate supply (SRAS) shifts from $SRAS_1$ to $SRAS_2$, or in other words, decreases. As the result of this shift real output (Y) decreases from initial equilibrum level of Y_1 to new equilibrum level Y_2.

1. a. ii

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As shown on the graph on the previous page with the decrease of aggregate supply in the short-run, the price level will increase from the initial equilibrum level P_1 to the new equilibrum level P_2.

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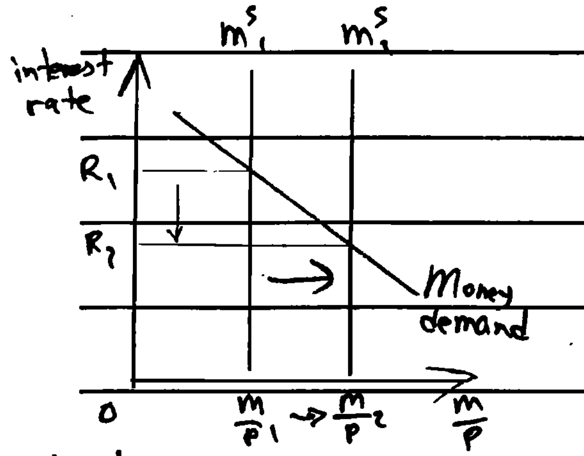
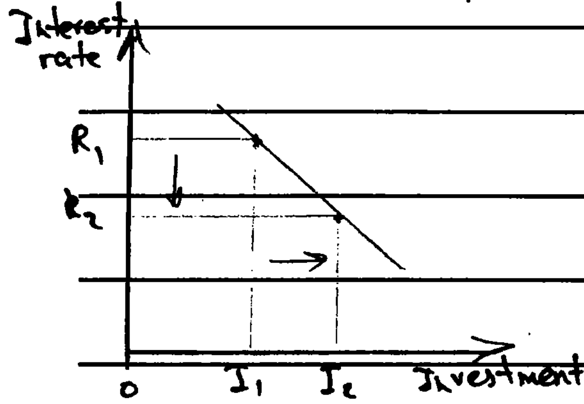
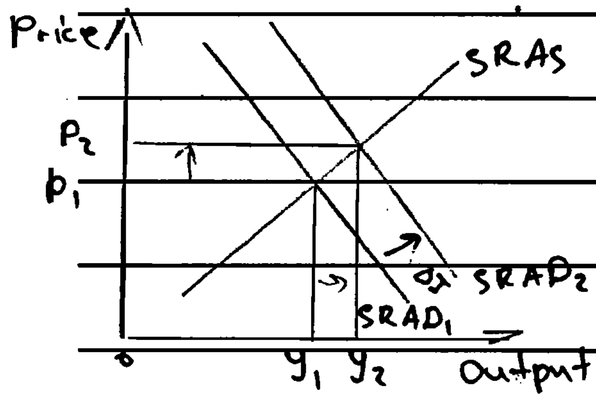
1. C. i.







As the government decides to increase the money supply (M^s) the interest rate will fall from R_1 to R_2. As the result of decrease in interest rate the investment level will increase from I_1 to I_2. This increase will lead to the increase in the aggregate demand in short run from $SRAD_1$ to ~~Short~~ $SRAD_2$. on the level of the increased investment (ΔI)

1. C. ii

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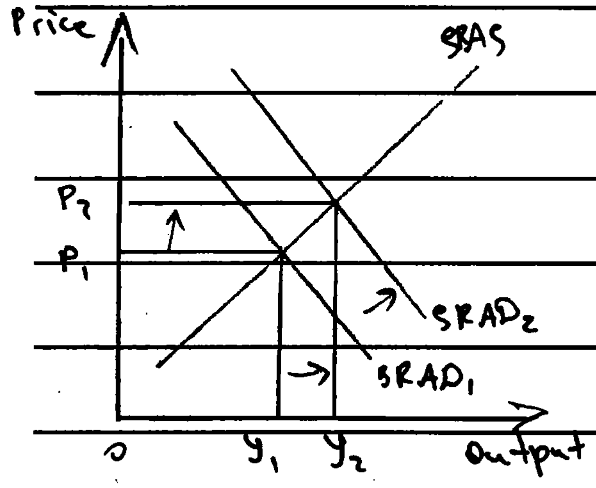

As the increase in investment shifts up the AD curve, the real output increases from Y_1 to Y_2 and price level also increases from P_1 to P_2.

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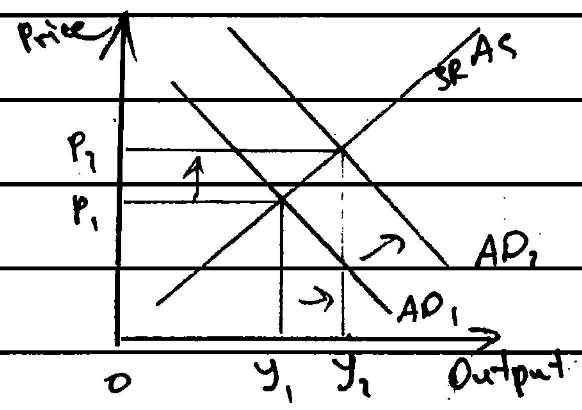
1. d. i.

The reduction in bussiness taxes leads to the increase in consumption, which is ~~the~~ one of the components of aggregate demand, so AD curve will shift up from AD_1 to AD_2.



As it can be seen from the graph, the output level will increase from Y_1 to Y_2.

1. d. ii

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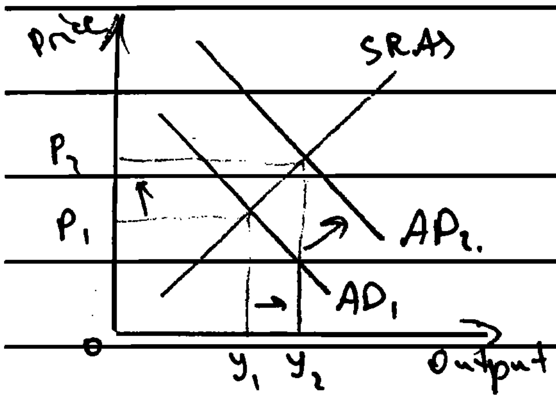

With the increase of AD the price level also increase from P_1 to P_2.

~~But as long as taxes affect Aggregate demand~~

1C

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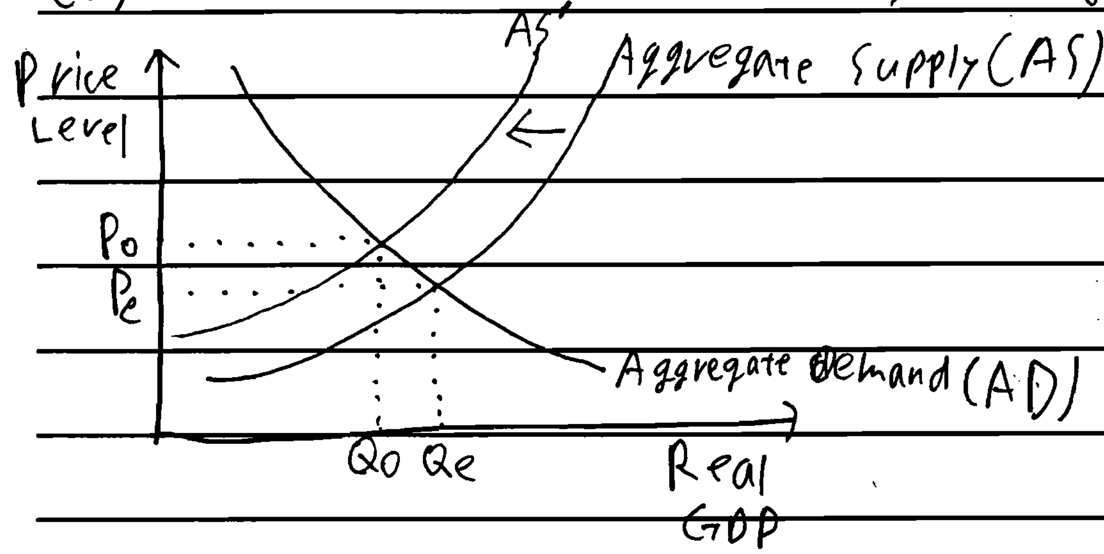
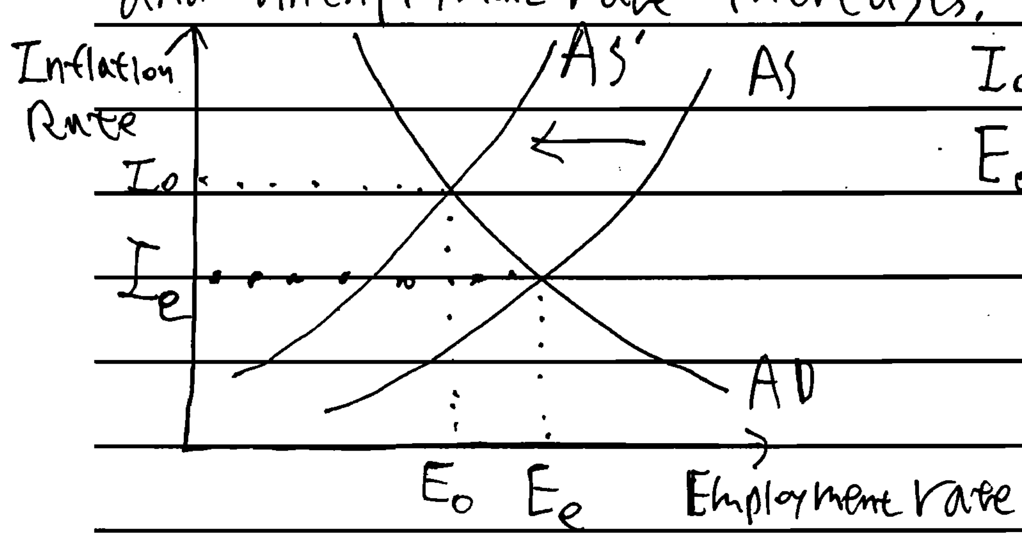
1.

(a) Since the country's economy is in equilibrium,



increase in the price of oil makes production cost more, reducing the AS. So the AS graph shifts to the left.
(i) Shift of AS curve moved Real GDP from Qe to Qo. Since Qo < Qe, Real output decreased.
(ii) Shift of AS curve moved price level from Pe to Po. Since Po > Qo, Price level increased.

(b) Since the aggregate supply decreases, both inflation rate and unemployment rate increases.



Io > Ie → inflation rises
Eo < Ee → unemployment rate increases

1.

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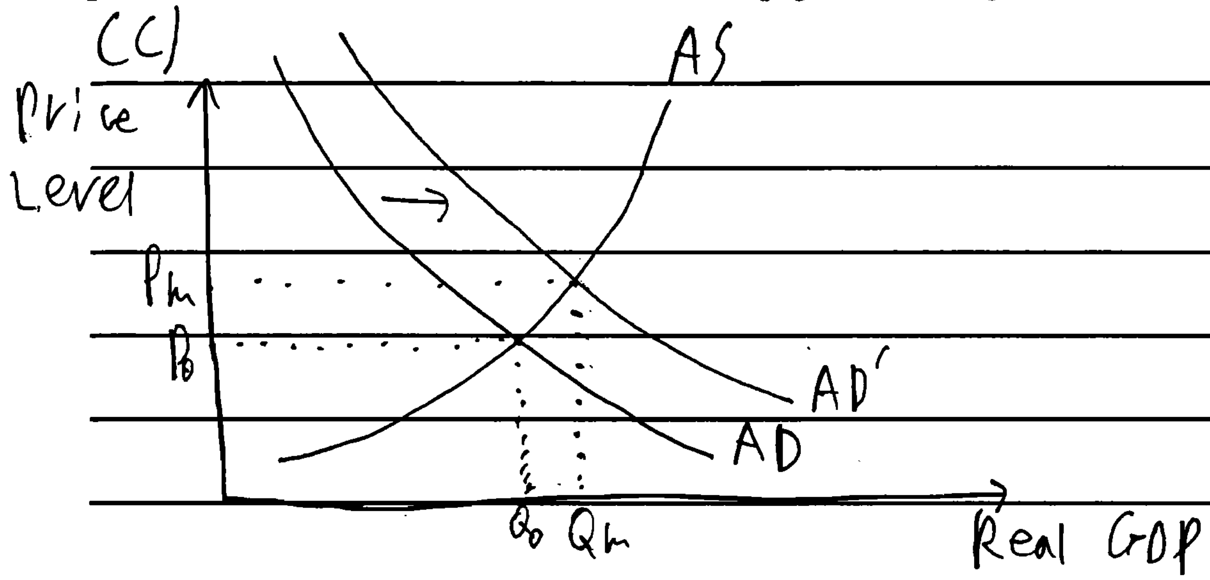
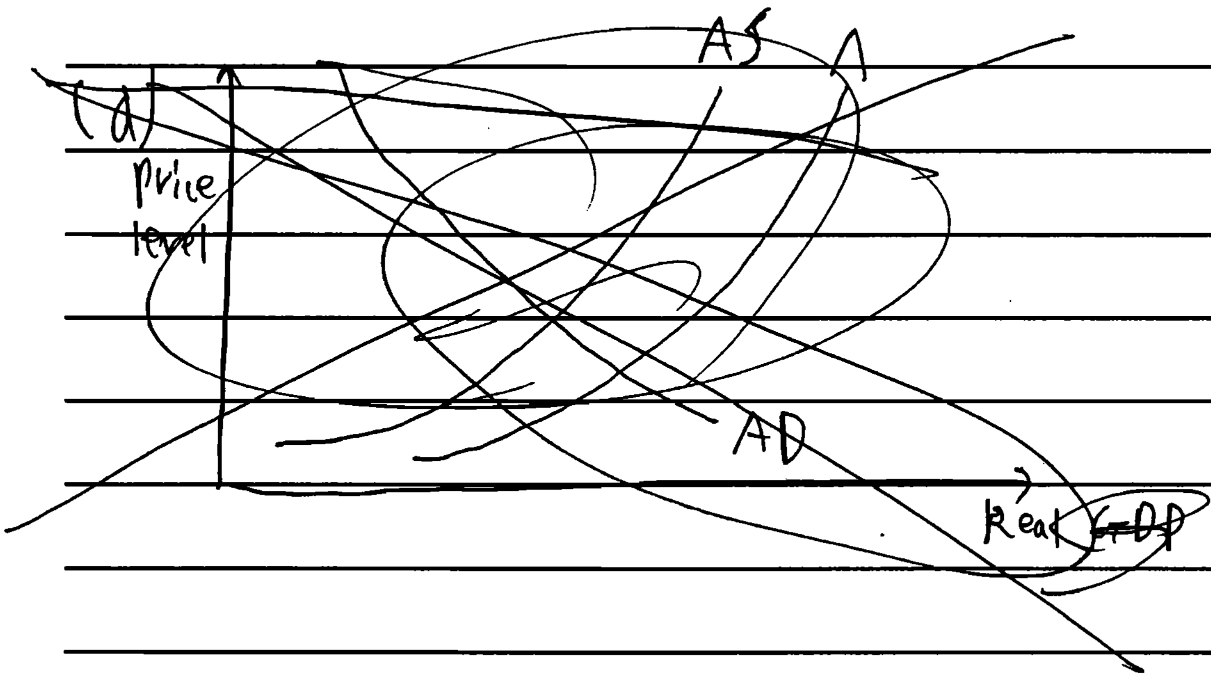
(c)



(i) increase in the money supply will cause ~~[illegible]~~ increase in purchasing power, shifting the AD curve to the right.

(ii) $Q_m > Q_0$ therefore, real output increases.
$P_m > P_0$, therefore, price level increases.

(d)



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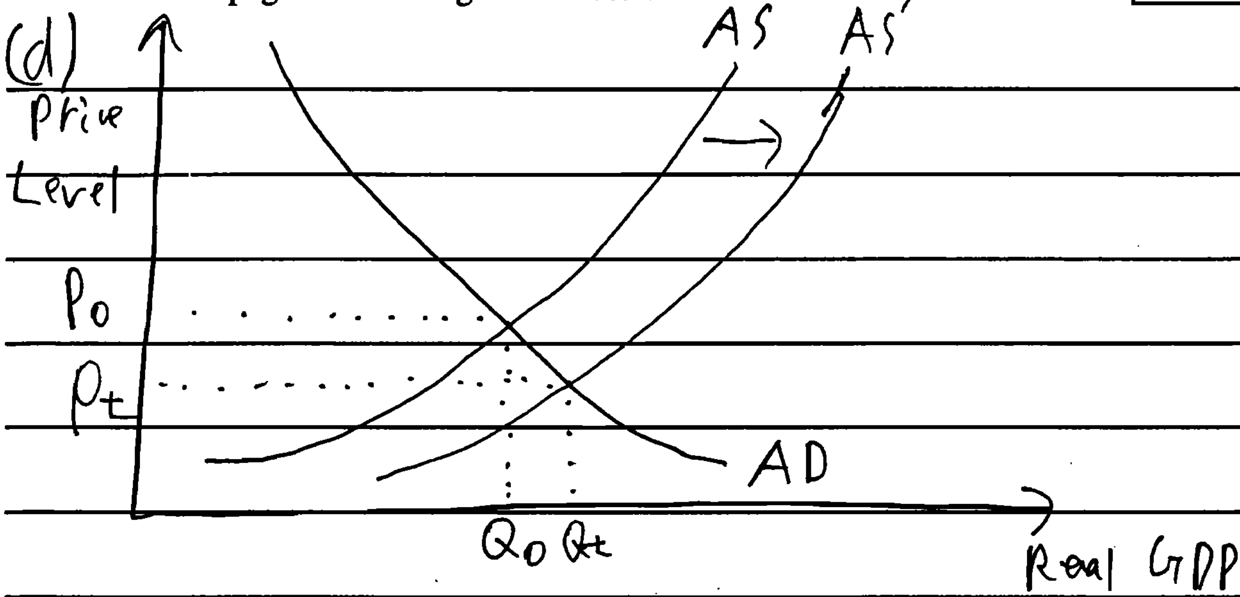
1.

(d)



reduced business tax decreases cost of production, moving the AS curve to the right.

(i) $Q_t > Q_o$, therefore, real output increases.

(ii) $P_t < P_o$, therefore, price level decreases.