



AP[®] Macroeconomics 2005 Scoring Guidelines

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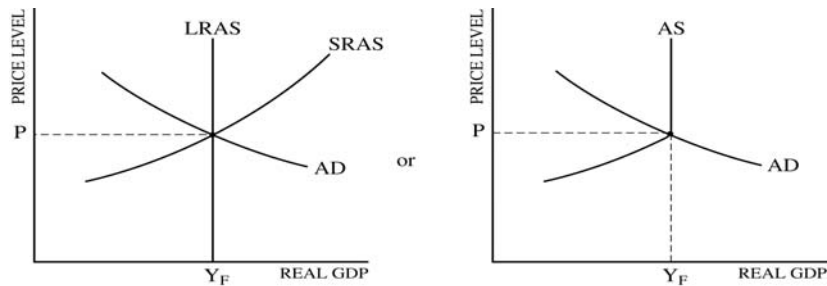
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Question 1

13 points (3 + 3 + 5 + 1 + 1)

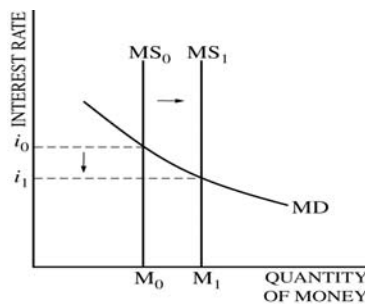


(a) 3 points:

- One point is earned for a correctly labeled AD/AS graph.
- One point is earned for showing the equilibrium at full-employment output indicated by a vertical LRAS or an AS curve with a vertical section.
- One point is earned for correctly labeled equilibrium price and output levels.

(b) 3 points:

- One point is earned for stating that U.S. exports fall.
- One point is earned for showing a decrease in AD on graph in (a).
- One point is earned for indicating a decrease in equilibrium output and price levels.



(c) 5 points:

- One point is earned for prescribing purchase of government bonds.
- One point is earned for a correctly labeled graph of the money market.
- One point is earned for showing a shift of the money supply curve to the right producing a decrease in the interest rate.
- One point is earned for explaining that the decrease in interest rate leads to an increase in business investment demand (or an increase in consumption by households), which increases aggregate demand.
- One point is earned for explaining that the increase in aggregate demand increases equilibrium price and output levels.

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Question 1 (continued)

(d) 1 point:

- One point is earned for stating that the real interest rate is the nominal rate minus inflation (or expected inflation), or that the real interest rate is the nominal rate adjusted for inflation.

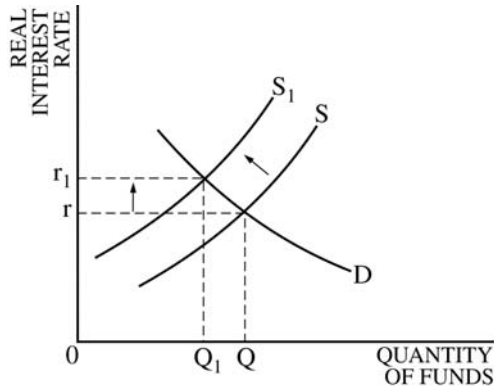
(e) 1 point:

- One point is earned for indicating that the real interest rate falls because the nominal interest rate falls and the price level increases.

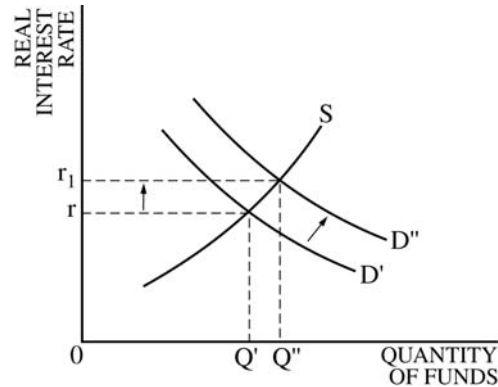
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Question 2

8 points (2 + 1 + 2 + 3)



OR



(a) 2 points:

- One point is earned for indicating that the demand-for-funds curve shifts to the right or that the supply-of-funds curve shifts to the left.
- One point is earned for concluding that the real interest rate will increase.

(b) 1 point:

- One point is earned for indicating that the investment in plant and equipment will decrease because of the higher real interest rate.

(c) 2 points:

- One point is earned for stating that the decrease in investment in plant and equipment will decrease the growth of the capital stock (or reduce capital stock).
- One point is earned for concluding that long-term economic growth will decrease.

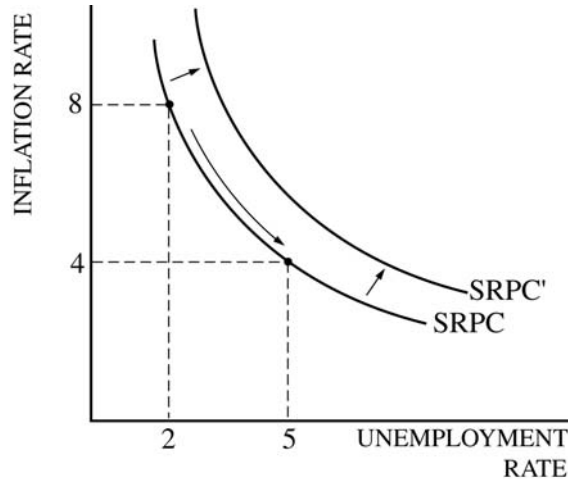
(d) 3 points:

- One point is earned for indicating that the real interest-rate increase from part (a) will increase the demand for the country's financial assets.
- One point is earned for stating that the demand for the country's currency will increase.
- One point is earned for stating that the country's currency will appreciate.

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Question 3

6 points (2 + 2 + 1 + 1)



(a) 2 points:

- One point is earned for correctly labeling axes.
- One point is earned for correctly plotting actual data points and showing a downward-sloping short-run Phillips curve.

(b) 2 points:

- One point is earned for identifying a correct factor, such as increase in input prices, production costs, expected inflation, or business taxes.
- One point is earned for showing an outward shift of the short-run Phillips curve from part (a).

(c) 1 point:

- One point is earned for graphing the long-run Phillips curve, vertical at the unemployment rate of 5 percent.

(d) 1 point:

- One point is earned for stating that there is no trade-off between inflation and unemployment in the long run.