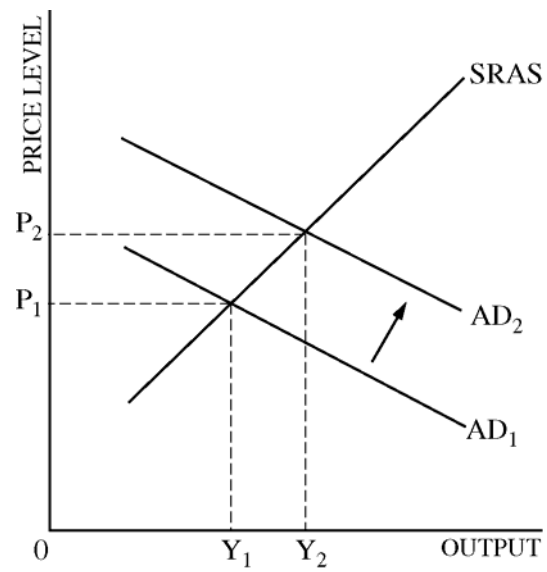
# AP® MACROECONOMICS
# 2008 SCORING GUIDELINES (Form B)

## Question 1

**11 points:** (2 + 2 + 2 + 3 + 2)

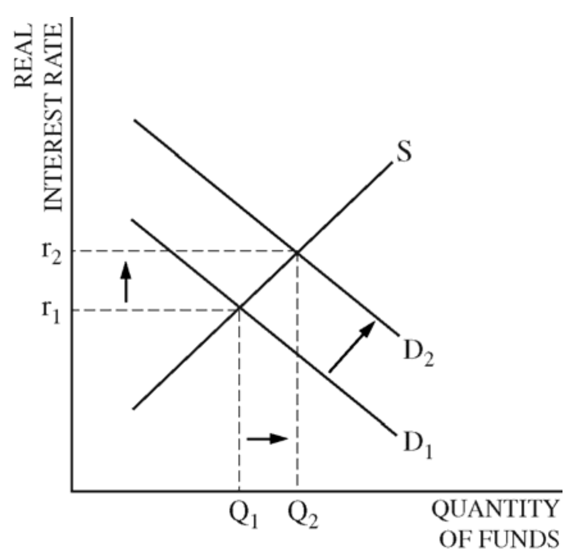
(a) 2 points:

- One point is earned for stating that the aggregate demand will increase.
- One point is earned for recognizing that the short-run aggregate supply is not affected.




(b) 2 points:

- One point is earned for a correctly labeled graph of aggregate demand and aggregate supply.
- One point is earned for showing a rightward shift of the aggregate demand curve and showing an increase in both real output and the price level.



**Question 1 (continued)**

(c) 2 points:

- One point is earned for a correctly labeled graph of the loanable-funds market.
- One point is earned for showing a rightward shift of the demand curve for funds and concluding that the real interest rate will rise. (A leftward shift of the supply curve is accepted.)

(d) 3 points:

- One point is earned for stating that the supply of Country Z's currency will decrease.
- One point is earned for the explanation that the higher interest rate reduces the outflow of funds to countries that now have a relatively lower interest rate.
- One point is earned for concluding that the value of Country Z's currency will rise or Country Z's currency will appreciate.

(e) 2 points:

- One point is earned for stating that Country Z's exports will decrease.
- One point is earned for the explanation that the appreciating currency makes Country Z's goods relatively more expensive.

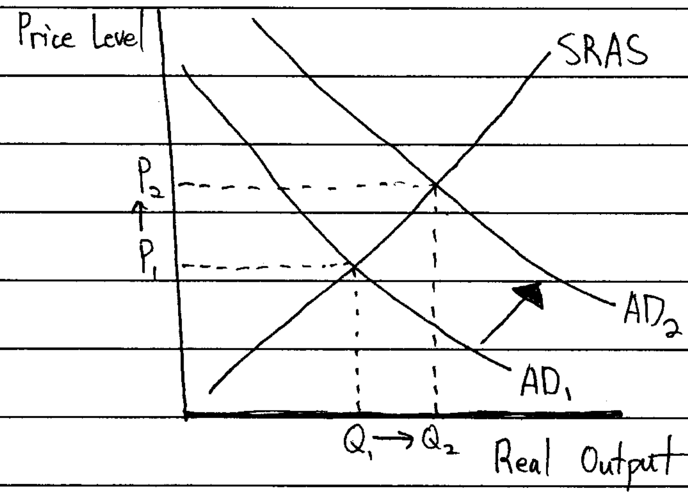
Write in the box the number of the question you are answering on this page as it is designated in the exam.

1

1A1

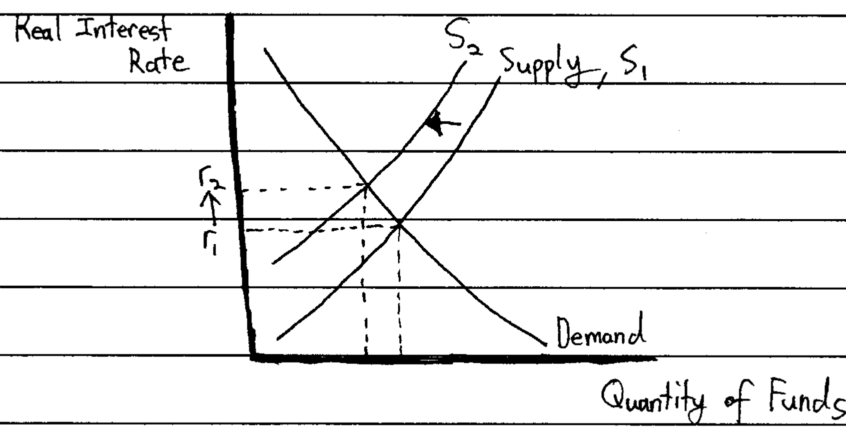
(a) The increase in government expenditures will increase aggregate demand. The short-run aggregate supply will be unaffected.

(b)




The increase in government expenditures shifts the aggregate demand curve to the right ($AD_1 \rightarrow AD_2$). The price level rises ($P_1 \rightarrow P_2$) and real output also increases ($Q_1 \rightarrow Q_2$).

(c)




When the government borows from the public, the supply of loanable funds decreases ($S_1 \rightarrow S_2$), which in turn increases the real interest rate. ($r_1 \rightarrow r_2$)

1

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

1A2

(d) When the real interest rate increases, the supply of Country Z's currency in the foreign exchange market will decrease. This is because people will reduce investments on foreign financial assets and increase investments on financial assets in Country Z. The decrease of the supply of Country Z's currency will cause Country Z's currency to appreciate.

(e) Due to the increase of the value of Country Z's currency, Country Z's exports will decrease. This is because Country Z's products will become relatively more expensive compared to the products of Country Z's trading partners.

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

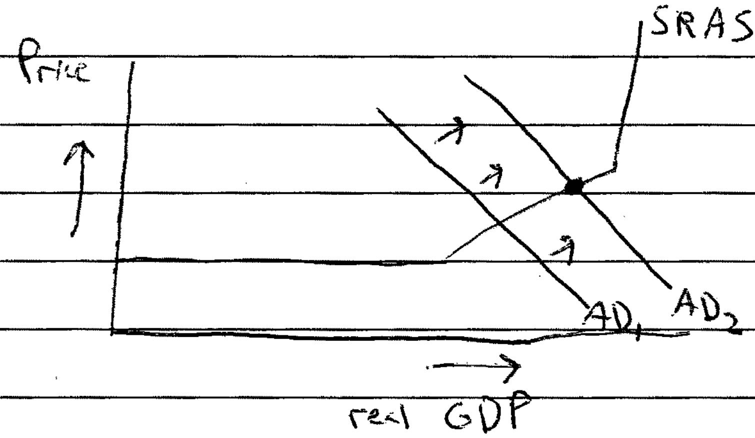
# 1

1B1

a)(i) An increase in government spending is an expansionary fiscal policy and it will increase aggregate demand.

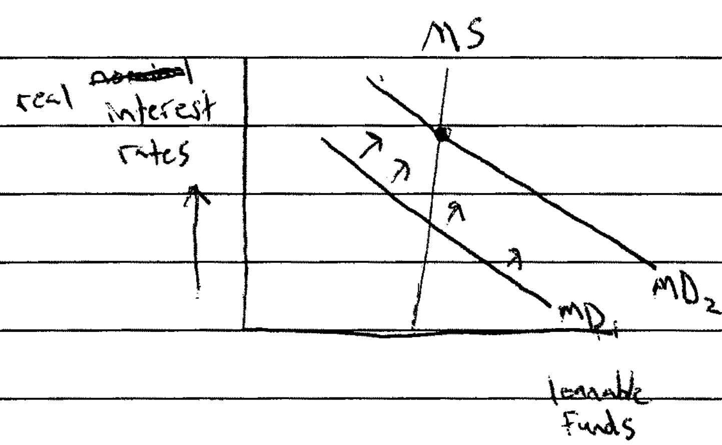
(ii) The increase in gov. spending will not effect short-run aggregate supply because it does not effect any of the factors that increase production.

b)




The increase in AD from $AD_1$ to $AD_2$ has increased prices and increased real output.

c)




The increase in gov. borrowing increases the money demand from $MD_1$ to $MD_2$ and real interest rates rise →

# 1.

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

1B2

d)(i) Since price levels are higher as a result of increased gov. spending, and interest rates having risen, the people of country Z will begin to import cheaper goods from foreign countries and also invest more in foreign countries. the increase in imports going to country Z will increase the supply of country Z's currency in the foreign exchange market because people in country Z will have to give out their currency into the foreign exchange market to buy these imported goods.

(ii) Country Z's currency will depreciate because it's supply is more in the foreign exchange market

e) Country Z will export less because its currency has depreciated and foreign countries have to pay less for country Z's goods. Also, since country Z's prices have gone up it will be harder to export goods because foreign countries people might not want to pay the increase in price.

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

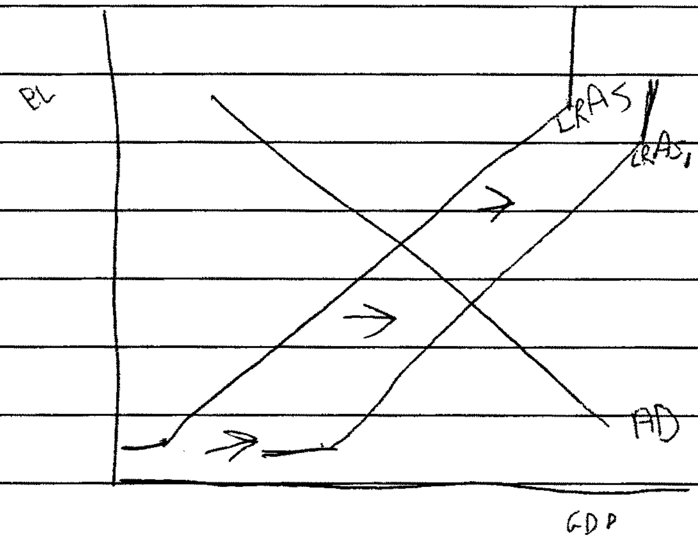
1

1C1

(a)(i) The aggregate Demand will ~~increase~~ not change due to the goverment spending more money

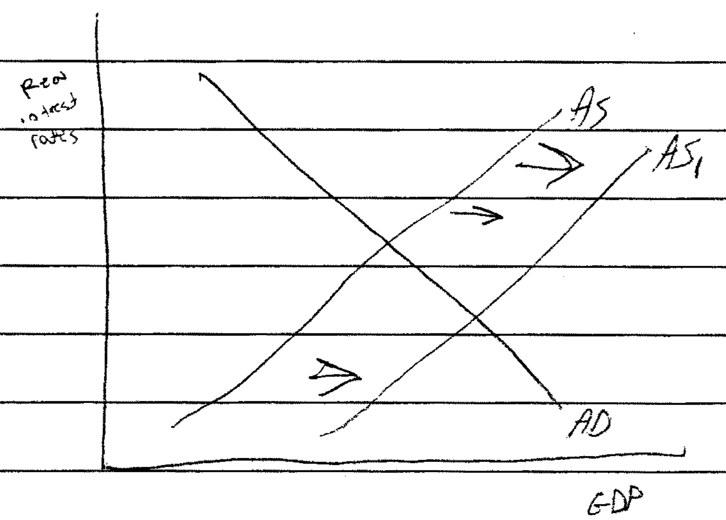
(a)(ii) The Short-run aggregate supply will increase due to the goverment speeding More money

b)




The PL would fall due to the increased supply. The GDP would also increase because of the increased supply which means increased production.

c)



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

1C2

D) i) The supply of the country's currency will go up because the intrest rates lowered.

(D) ii) The vaule of the country's currency will also go up.

(e) They will ~~[illegible]~~ increase due to the lower intrest rates and higher vaule.

## Question 1

**Sample: 1A**
**Score: 11**

The student earned all points in this question.

**Sample: 1B**
**Score: 6**

The student earned both points in part (a) and both points in part (b). In part (c) the student lost 1 point because the graph is not correctly labeled; however, 1 point was earned for showing an increase in demand that results in an increase in the real interest rate. The student lost 2 points in part (d) for asserting that the supply of currency would increase, which is not consistent with the increase in the real interest rate. The student earned the last point in part (d) for asserting that the currency would depreciate, which is consistent with an increase in the supply of the currency. The student did not earn any points in part (e) because the conclusion of decreasing exports is not consistent with a depreciating currency.

**Sample: 1C**
**Score: 2**

The student did not receive any points in part (a) because the conclusions are incorrect. The student lost 1 point in part (b) because the graph is incorrectly labeled. The other point in part (b) was earned because the student indicates a falling price level and rising output, which is consistent with the graph showing an increase in aggregate supply. No points were earned in part (c) because the graph is not correctly labeled and the shift is wrong. A point was earned in part (d) for stating that the supply of currency will increase, which is consistent with a falling real interest rate, but the explanation is insufficient to receive the point. The final point in part (d) was not earned because a rising value of the currency is inconsistent with an increase in the supply of the currency. No points were earned in part (e).