

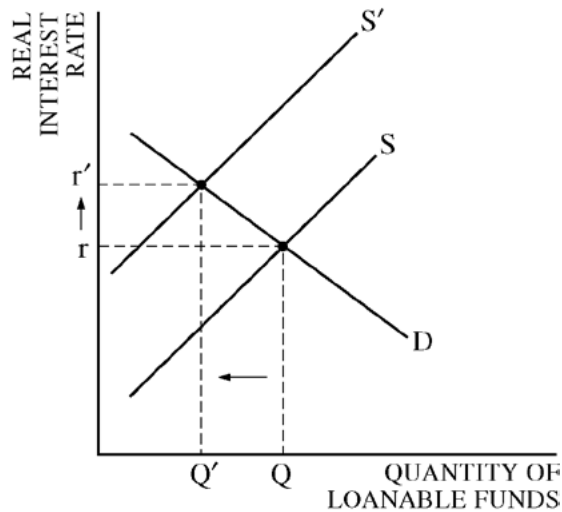
**AP[®] MACROECONOMICS
2009 SCORING GUIDELINES**

Question 2

6 points (2 + 2 + 2)

(a) 2 points:

- One point is earned for stating that Tara's currency will depreciate.
- One point is earned for explaining that capital flight increases the supply of and/or decreases the demand for Tara's currency in the foreign exchange market, thereby lowering the market equilibrium exchange rate.



(b) 2 points:

- One point is earned for a correctly labeled graph of the loanable funds market. The graph must have correctly labeled axes and correctly labeled supply and demand curves.
- One point is earned for showing a leftward shift of the supply curve and a higher interest rate.

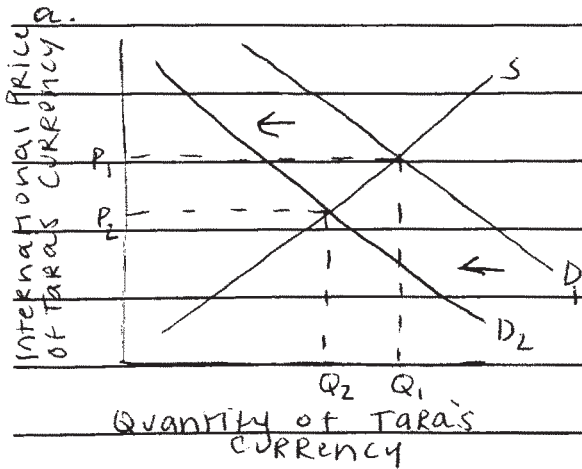
(c) 2 points:

- One point is earned for stating that the interest rate rise found in (b) will result in a decrease in the rate of economic growth.
- One point is earned for explaining that the interest rate increase reduces investment, which causes a decline in the rate of growth of the capital stock.

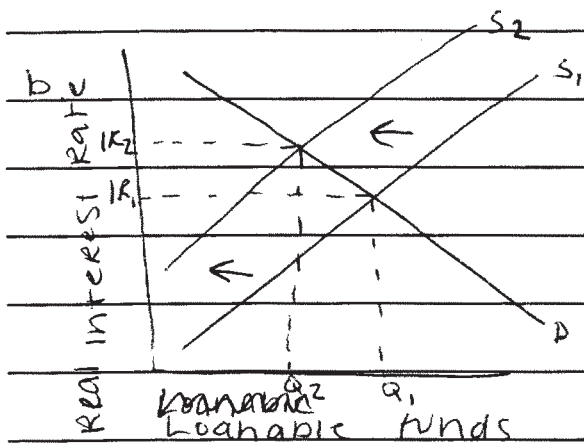
Write in the box the number of the question you are answering on this page as it is designated in the exam.

Question 2

2A



This decision will cause the demand for this currency to decrease and therefore the international value of the currency to decrease



As investors withdraw their funds, the supply of loanable funds decreases and the real interest rate increases

c. Because of the increase in interest rates, due to a decrease in the supply of loanable funds, investment in capital goods and technology will decrease slowing economic growth

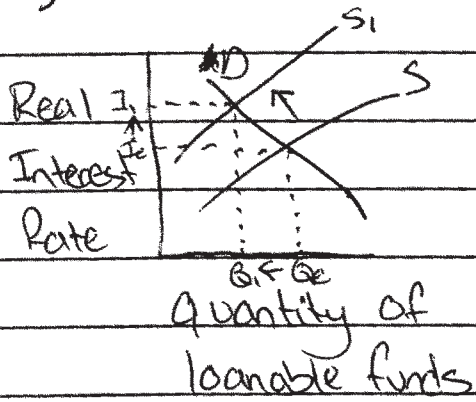
2. a), b), c)

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

2B

a) As investors move their money out of Tara, the international value of Tara's currency on the foreign exchange market will decrease. There is hardly any loanable money in Tara and so the currency will be worth less.

b) Loanable Funds Graph in Tara



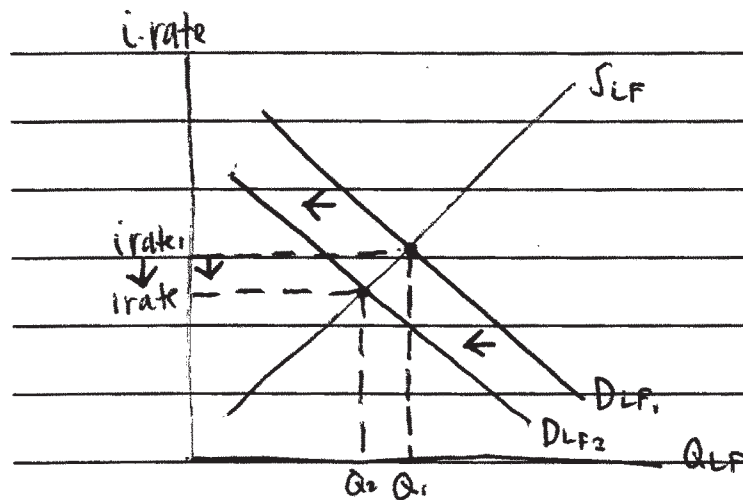
Interest Rates will increase tremendously.

~~There will be no growth, economy~~

c) Tara's rate of economic growth will decrease. There are no loans to give out and interest rates are very high. So, because of this, there will be no more growth and the economy will decrease.

A) Since investors have taken their confidence in Tara out and shown that it is a risk to invest money in the country due to their political instability - Tara will have a decrease in their money supply and the international value of their currency will decrease as their int. rate decreases as well.

B) Loanable Funds Mkt.



C) Economic growth will slow down because the decrease in interest rate will cause less foreign interest in investing within Tara

AP[®] MACROECONOMICS
2009 SCORING COMMENTARY

Question 2

Overview

This question tested students' understanding of the foreign exchange market, the loanable funds market, and the real interest rate as a determinant of economic growth. Part (a) asked how the loss of investment funds would affect the foreign exchange market. Part (b) asked how the loss of investment funds would affect the loanable funds market and tested whether students could draw the relevant graph and shift. Part (c) tested students' understanding of the relationship between the real interest rate and economic growth.

Sample: 2A

Score: 6

The student earned all 6 points for this question.

Sample: 2B

Score: 4

The student lost 1 point in part (a) by not providing a correct explanation for the currency depreciation. The student lost 1 point in part (c) for failing to explain that the fall in the rate of economic growth is caused by a fall in the rate of capital stock accumulation.

Sample: 2C

Score: 2

The student lost 1 point in part (a) by not providing a correct explanation for the currency depreciation. In part (b) 1 point was lost because of the incorrect shifting of the demand for loanable funds to the left. The student lost 2 points in part (c) because the predicted change in the rate of economic growth is inconsistent with the fall in the interest rate found in part (b).