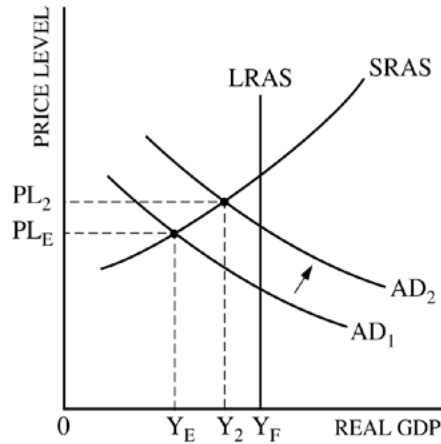


AP[®] MACROECONOMICS
2010 SCORING GUIDELINES (Form B)

Question 1

10 Points (2 + 2 + 2 + 2 + 2)

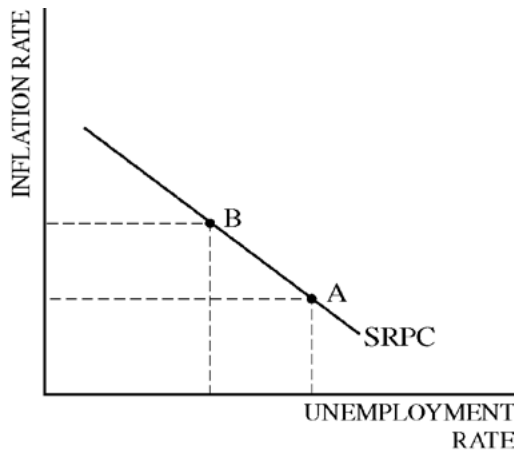


(a) 2 points:

- One point is earned for a correctly labeled AD/AS graph with vertical LRAS at Y_F .
- One point is earned for showing equilibrium output and price level to the left of Y_F .

(b) 2 points:

- One point is earned for showing a rightward shift of the AD curve.
- One point is earned for showing the new equilibrium output and price level.



(c) 2 points:

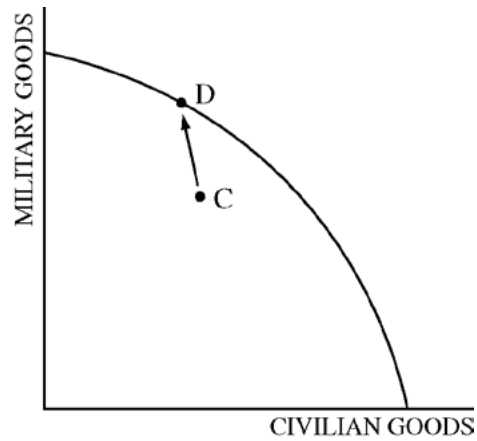
- One point is earned for a correctly labeled graph of the short-run Phillips curve.
- One point is earned for correctly labeling points A and B on the SRPC that indicate a leftward movement along the SRPC.

(d) 2 points:

- One point is earned for stating that the real interest rate will rise.
- One point is earned for the explanation that government borrowing increases the demand for loanable funds.

**AP[®] MACROECONOMICS
2010 SCORING GUIDELINES (Form B)**

Question 1 (continued)

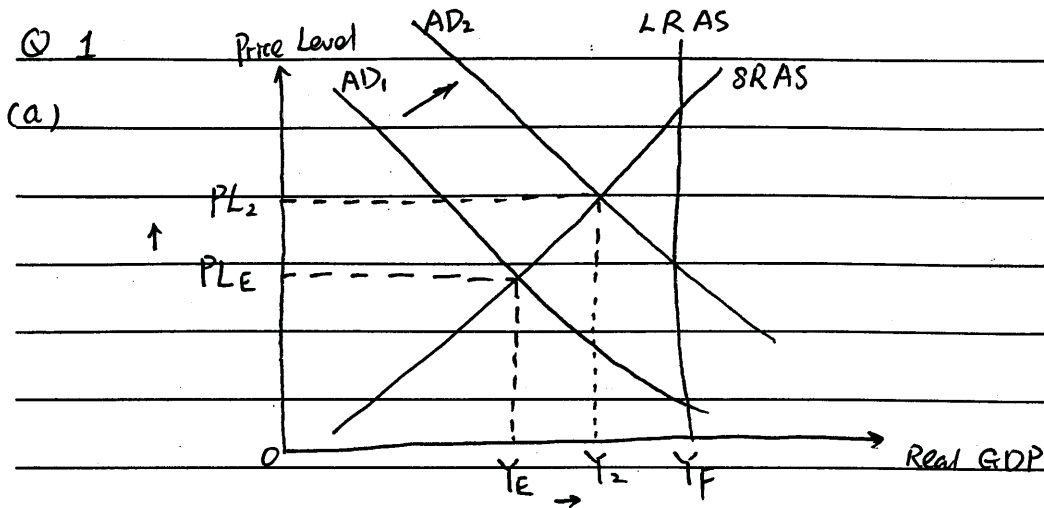


(e) 2 points:

- One point is earned for a correctly labeled production possibilities curve.
- One point is earned for labeling points C and D, showing a movement toward the curve and an increase in military goods.

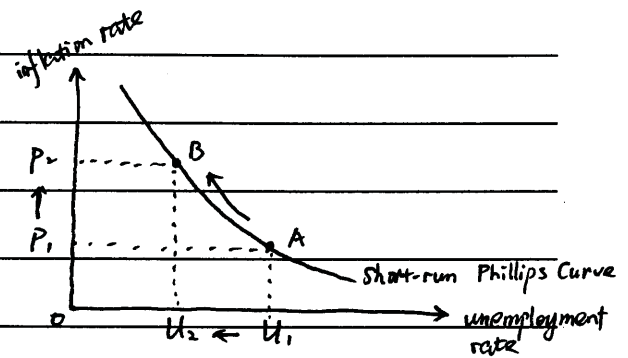
Write in the box the number of the question you are answering on this page as it is designated in the exam.

1 (a), (b), (c), (d)



- (b) (i) As shown, Aggregate Demand increases from AD_1 to AD_2 .
- (ii) As shown, both equilibrium price level and real output increase.

- (c) Increased military spending causes a movement from point A to B along Short-run Phillips Curve. Unemployment rate falls from u_1 to u_2 and inflation rate increases from P_1 to P_2 .

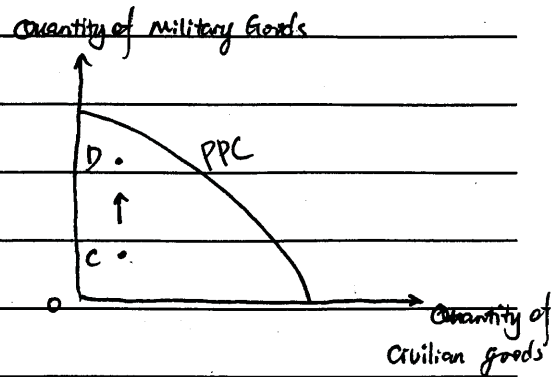


- (d) The real interest rate will increase. Since the increased military spending is financed through government borrowing, the demand for loanable funds in the loanable funds market increases. Hence, the demand curve for loanable funds shift to the right and the real interest rate rises correspondingly.

1 (e)

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

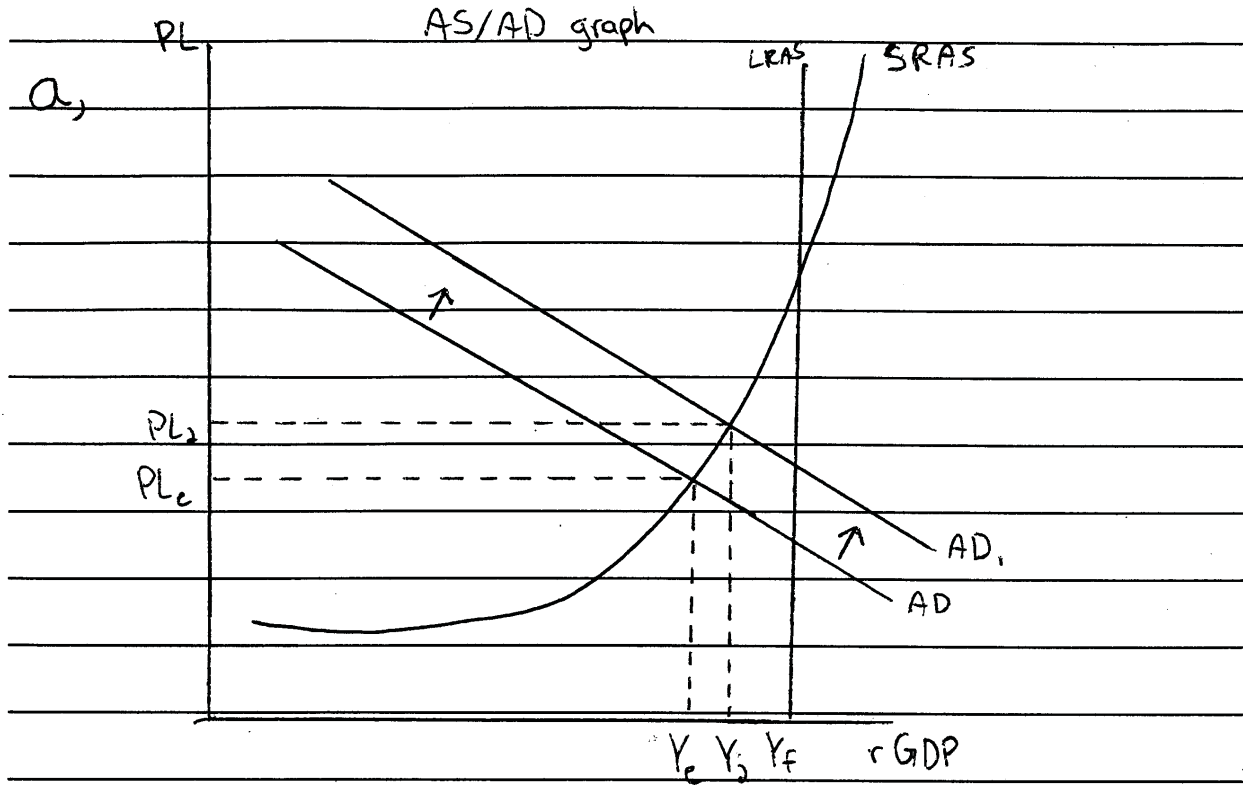
1 (e) Since the question specifies that the economy is producing at an output less than the full-employment output level, the economy is initially at point C, inside the PPC curve.



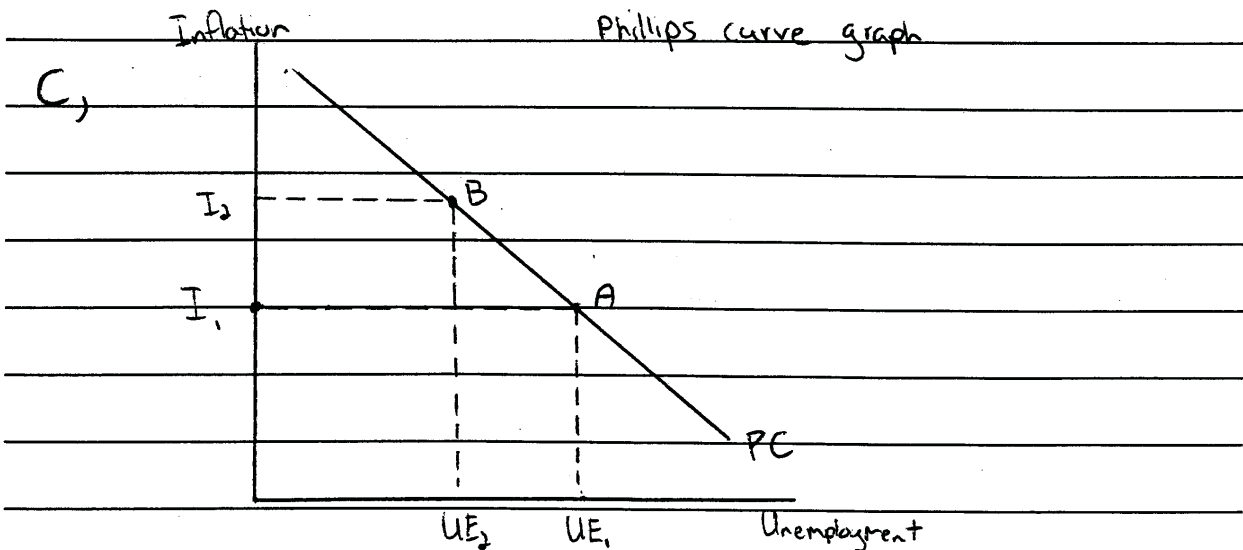
Since not all resources have been efficiently employed in the production, the economy can thus increase the quantity of military goods without trade-off of civilian goods. Hence, the increased military expenditure is shown by upward movement from C to D.

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

1



- b, (i) Aggregate demand will increase because domestic military expenditures is a form of government spending
- (ii) Labelled on Graph.

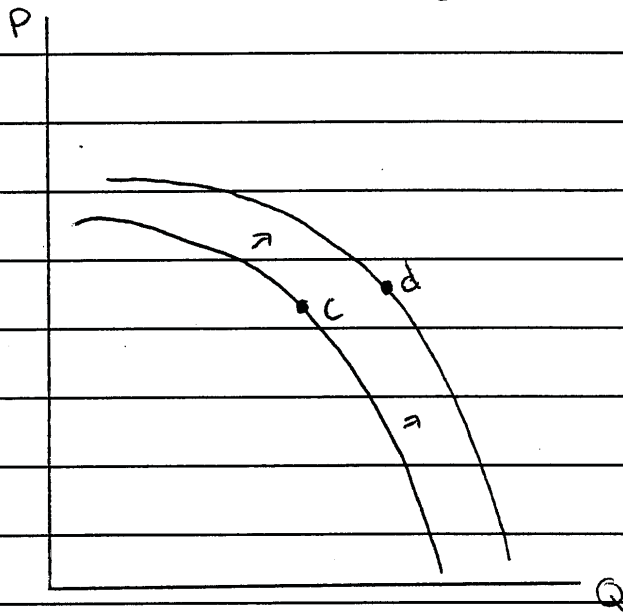


1

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

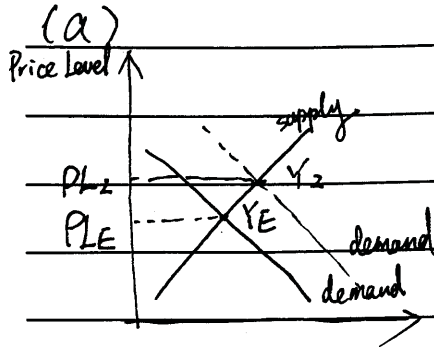
d, The real interest rate will increase because as the government borrows money, the money supply decreases and that makes the interest rates go higher (increase)

e, PPC graph



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

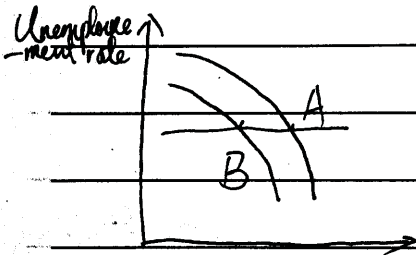
1. ~~(A)~~



(b)

See graph above, the aggregate demand curve shift rightward

(c)



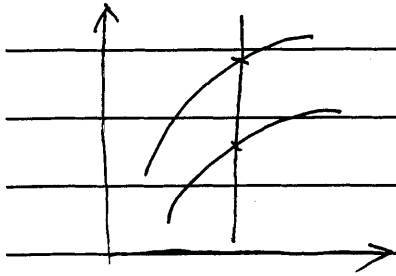
(d)

The national debt is increased through government borrowing. Thus depreciating the value of the currency of the country. The government would most likely to sell bonds to the open market to stabilize the currency. Thus the interest rate will decrease.

1

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

(e)



AP[®] MACROECONOMICS
2010 SCORING COMMENTARY (Form B)

Question 1

Sample: 1A

Score: 10

The student earned all 10 points for this question.

Sample: 1B

Score: 7

The student lost 1 point in part (d) for an incorrect explanation for the rise in the real interest rate. The student lost 2 points in part (e) because the PPC graph is not correctly labeled and the movement from point C to point D shows a shift in the curve.

Sample: 1C

Score: 1

The student earned 1 point in part (b) for the rightward shift of the demand curve.