2017

AP® CollegeBoard

AP Macroeconomics

Sample Student Responses and Scoring Commentary

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- ☑ Free Response Question 1
- ☑ Scoring Guideline
- ☑ Student Samples
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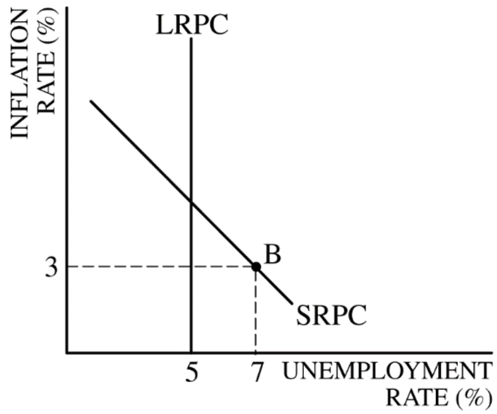
Question 1

9 points (2 + 2 + 1 + 2 + 1 + 1)



(a) 2 points:

- One point is earned for drawing a correctly labeled graph of a downward-sloping short-run Phillips curve (SRPC).
- One point is earned for showing a correctly labeled vertical long-run Phillips curve (LRPC) at the natural rate of unemployment, 5%, and for showing point B on the SRPC to the right of LRPC at the actual unemployment rate, 7%, and the inflation rate, 3%.

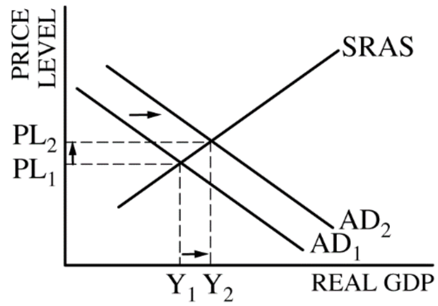
(b) 2 points:

- One point is earned for stating that the short-run aggregate supply (SRAS) curve will shift to the right in the long run and for explaining that nominal wages will fall in response to high unemployment.
- One point is earned for stating that LRPC will remain unchanged.

(c) 1 point:

- One point is earned for stating that the government should either increase its expenditures (or purchases) or decrease taxes.

Question 1 (continued)



(d) 2 points:

- One point is earned for drawing a correctly labeled graph showing a downward-sloping AD curve, upward-sloping SRAS curve, the equilibrium price level, and the equilibrium real GDP.

- One point is earned for showing a rightward shift of the AD curve and for showing an increase in both the price level and real GDP.

(e) 1 point:

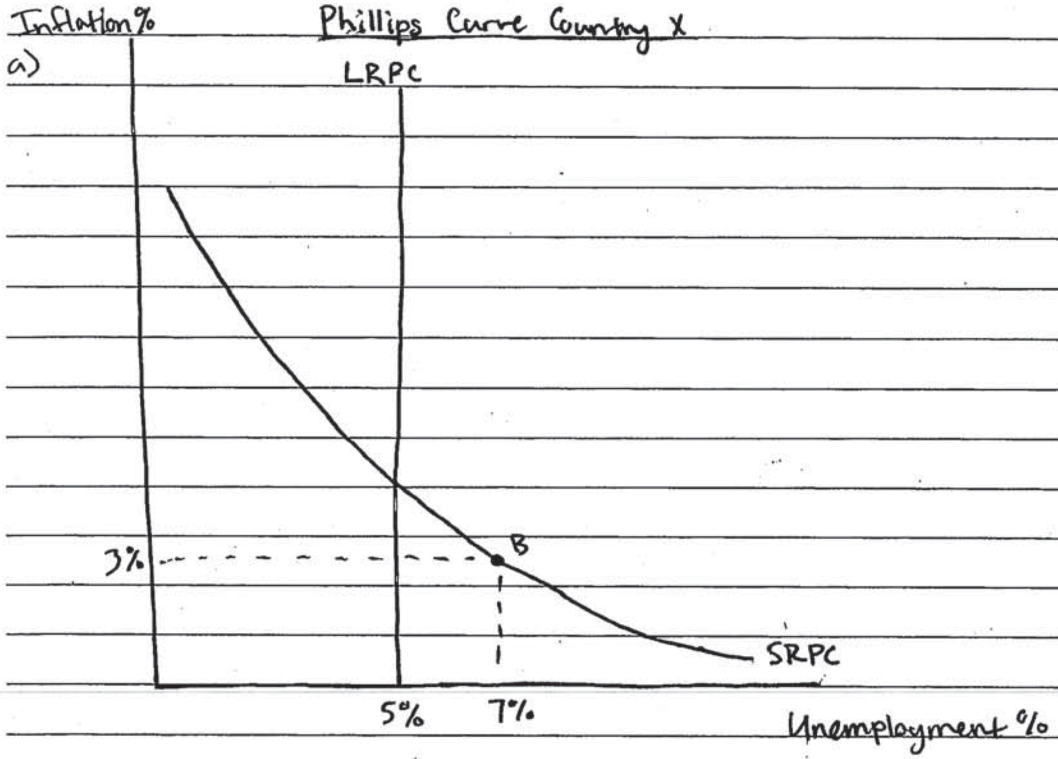
- One point is earned for stating that the supply of country X's currency will increase and for explaining that spending on imports will increase as a result of the increase in real GDP.

(f) 1 point:

- One point is earned for stating that country X's currency will depreciate.

ANSWER PAGE FOR QUESTION 1

a)



b) i) Short-run aggregate supply will shift right because the cost of labor will fall due to the high unemployment.

ii) The Long-run Phillips curve will remain the same.

c) One fiscal policy action that can reduce the unemployment rate in the short run is increasing government spending.

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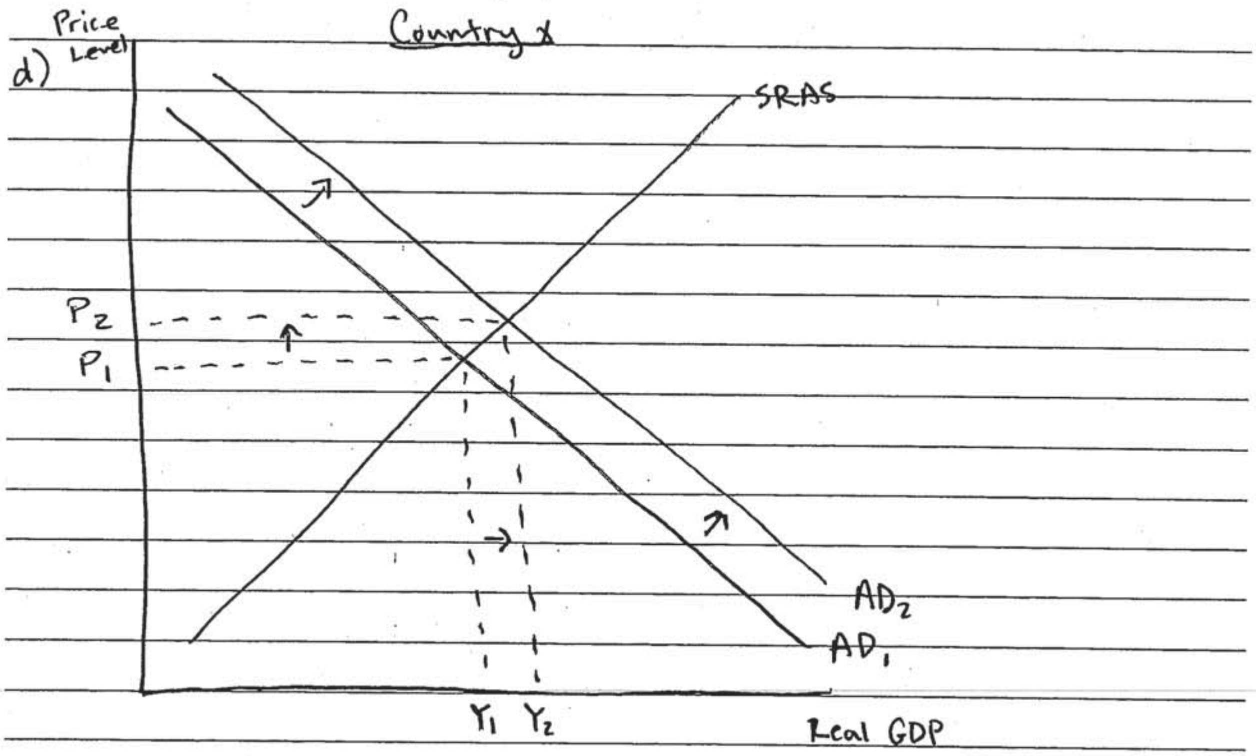
ADDITIONAL PAGE FOR ANSWERING QUESTION 1

d)



e) The supply of Country X's currency in the foreign exchange market will increase because a higher GDP results in higher incomes that can be used to purchase foreign goods.

f) Country X's currency will depreciate because there will be higher demand for foreign goods.

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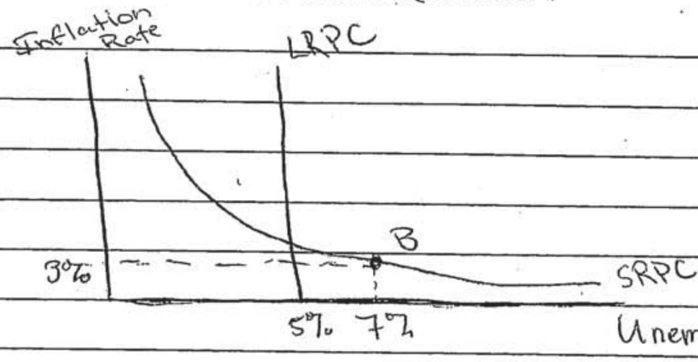
ADDITIONAL PAGE FOR ANSWERING QUESTION 1

a)

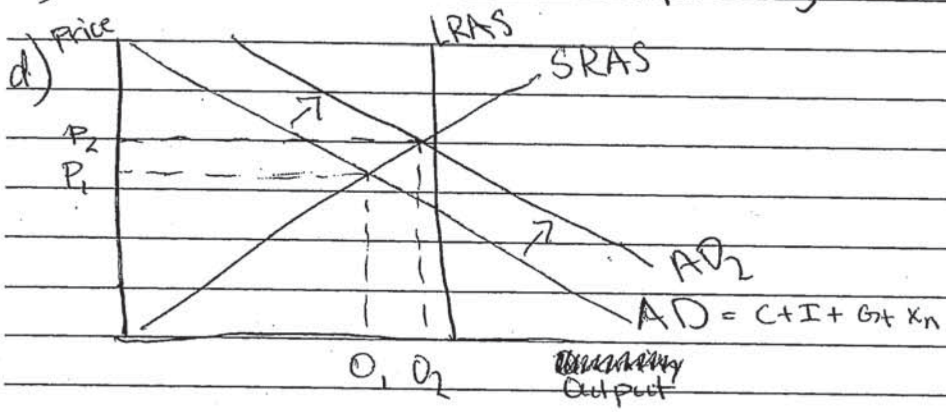


b) i) shift right because an increase in unemployment means a decrease in input prices which will shift the SRAS to the right

ii) Remain the same

c) Increase Government Spending

d)



e) Increase because the dollar is worth more and has greater buying power in the foreign exchange market

ADDITIONAL PAGE FOR ANSWERING QUESTION 1

f) ~~[illegible]~~ Appreciate

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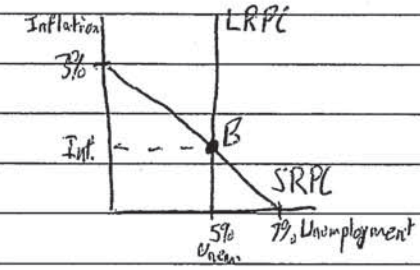
1C

a.

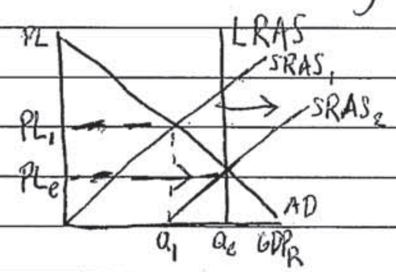


b. i. In the long run, the short-run aggregate supply curve will shift to the left since there are less people working in the economy.

ii. The Long-Run Phillips Curve will remain the same in the long run because eventually, the economy will correct itself.

c. A fiscal policy action that could be used to reduce the unemployment rate in the short run would be to increase government spending.

d.



e. The supply of Country X's currency in the foreign exchange market will [redacted] increase because Country X [redacted] will want to export more goods to continue to increases the real GDP.

f. Assuming a flexible exchange rate system, Country X's currency will appreciate in the foreign exchange market.

Question 1

Overview

The question examined students' understanding of the Phillips curve and the domestic and international effects of a fiscal policy action to reduce unemployment. Part (a) required students to use the Phillips curve model to show the relationship between inflation and unemployment in the short run (the short-run Phillips curve) and in the long run (the long-run Phillips curve) and to show an economy in short-run equilibrium when actual unemployment exceeds the natural rate of unemployment. From the short-run equilibrium, assuming the government takes no policy action, students were asked in part (b) to explain how the short-run aggregate supply curve will change, and to indicate what will happen to the long-run Phillips curve. The remainder of the question addresses the fiscal policy needed to lower unemployment and the effects of that fiscal policy. Part (c) asked students to identify a fiscal policy action necessary to lower unemployment. Part (d) required students to use an aggregate demand/aggregate supply model to show the effects of the fiscal policy they identified in part (c). Part (e) required students to explain how the change in real gross domestic product shown in part (d) will impact the supply of Country X's currency on the foreign exchange market. Part (f) required students to state whether Country X's currency will appreciate, depreciate, or remain the same in the foreign exchange market.

Sample: 1A
Score: 9

The student answers all parts of the question correctly and earned all 9 points.

Sample: 1B
Score: 7

The student did not earn 1 point in part (e) because the response does not provide a correct explanation for why the supply of Country X's currency in the foreign exchange market will increase. The student did not earn 1 point in part (f) because the assertion that Country X's currency will appreciate is incorrect.

Sample: 1C
Score: 4

The student earned the first point in part (a) for drawing a correctly labeled graph of the downward-sloping short-run Phillips curve. The student earned 1 point in part (b)(ii) for correctly stating that the long-run Phillips curve will remain the same. The student earned 1 point in part (c) for correctly stating that there should be an increase in government spending. The student earned the first point in part (d) for drawing a correctly labeled graph of aggregate demand and aggregate supply.