
AP Macroeconomics

Sample Student Responses and Scoring Commentary

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Free Response Question 2

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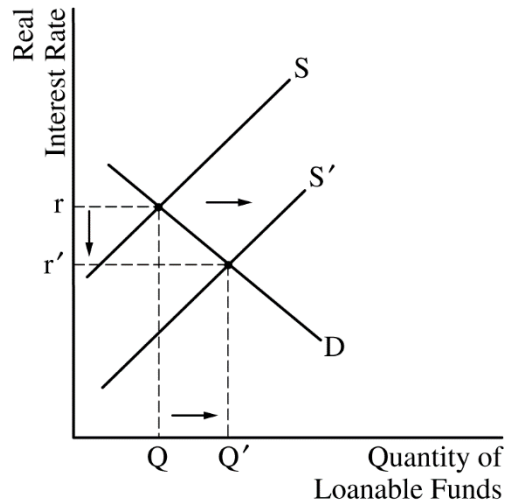
**AP[®] MACROECONOMICS
2018 SCORING GUIDELINES**

Question 2

5 points (1 + 2 + 2)

(a) 1 point:

- One point is earned for stating that private savings will increase.



(b) 2 points:

- One point is earned for drawing a correctly labeled graph of the loanable funds market showing a downward sloping demand curve and an upward sloping supply curve.
- One point is earned for showing a rightward shift in the supply curve (increased private savings) and for showing a decrease in the equilibrium real interest rate.

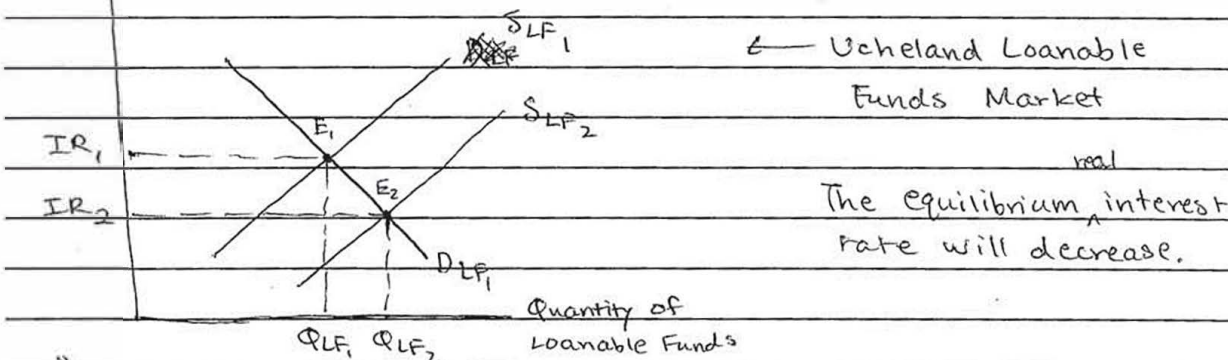
(c) 2 points:

- One point is earned for stating that aggregate demand will increase and for explaining that the decrease in the real interest rate will result in an increase in interest-sensitive spending (consumption or investment or net exports).
- One point is earned for stating that potential real gross domestic product (GDP) will increase as a result of an increase in capital formation brought about by the increase in investment spending (or because capital formation increased the long-run aggregate supply).

ANSWER PAGE FOR QUESTION 2

a) Private savings in Uchelund will increase, as people ~~are~~ respond to the incentive of greater interest earnings after taxes.

b) Real Interest Rate



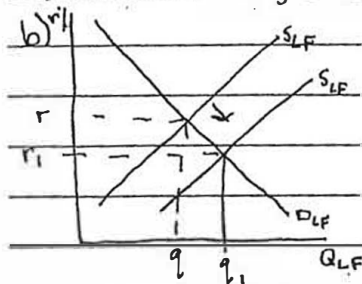
c) i) In the short run, the lower real interest rates will encourage investment, causing aggregate demand to increase.

ii) In the long run, the potential real gross domestic product in Uchelund will increase. This is because the increase in investment will increase the amount of capital in Uchelund, leading to a long-term increase in potential output.

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ANSWER PAGE FOR QUESTION 2

a) Private savings in Uchelard will increase.

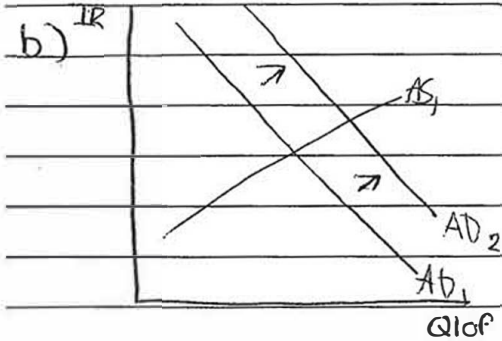


c) i. The short run effect on demand will be an increase because the interest rate will be lower.

ii. In the long run, GDP in Uchelard may decrease because people will be more inclined to save their money due to the decreased tax rate on household earnings.

ANSWER PAGE FOR QUESTION 2

a) Private savings will increase



c) i) The short run effect is that aggregate demand of loanable funds and interest rate will increase due to the increase in savings.

ii) real gdp in vchelard will increase due to the higher abundance and level of money circulating throughout the country as a result of a lower housing tax on interest earnings

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AP[®] MACROECONOMICS

2018 SCORING COMMENTARY

Question 2

Overview

The question examined students' knowledge and understanding of the impact of a change in tax policy on the equilibrium real interest rate in the loanable funds market and how a change in the real interest rate in the loanable funds market affects the economy in the short run and the long run. In part (a) students were required to state how a decrease in the tax rate on interest earnings would affect private savings. Part (b) asked students to draw a correctly labeled graph of the loanable funds market and to show the impact of the change in the tax rate on the equilibrium real interest rate. In part (c)(i) students were required to state the impact of the real interest rate change on aggregate demand in the short run and explain why the change in aggregate demand occurs. In part (c)(ii) students were asked to explain how the change in the real interest rate affects potential real gross domestic product.

Sample: 2A

Score: 5

The student answers all parts of the question correctly and earned all 5 points.

Sample: 2B

Score: 3

The student did not earn 1 point in part (c)(i) because the response does not explain that aggregate demand will increase because of the increase in interest-sensitive spending resulting from the decrease in the real interest rate. The student did not earn 1 point in part (c)(ii) because the response does not state that long-run aggregate supply (LRAS) will increase due to an increase in capital stock formation.

Sample: 2C

Score: 1

The student earned 1 point in part (a) for correctly stating that private savings will increase.