



AP[®] Macroeconomics 2013 Free-Response Questions

About the College Board

The College Board is a mission-driven not-for-profit organization that connects students to college success and opportunity. Founded in 1900, the College Board was created to expand access to higher education. Today, the membership association is made up of more than 6,000 of the world's leading educational institutions and is dedicated to promoting excellence and equity in education. Each year, the College Board helps more than seven million students prepare for a successful transition to college through programs and services in college readiness and college success — including the SAT[®] and the Advanced Placement Program[®]. The organization also serves the education community through research and advocacy on behalf of students, educators, and schools.

© 2013 The College Board. College Board, Advanced Placement Program, AP, AP Central, SAT, and the acorn logo are registered trademarks of the College Board. Admitted Class Evaluation Service and inspiring minds are trademarks owned by the College Board. All other products and services may be trademarks of their respective owners. Visit the College Board on the Web: www.collegeboard.org. Permission to use copyrighted College Board materials may be requested online at: www.collegeboard.org/inquiry/cbpermit.html.

Visit the College Board on the Web: www.collegeboard.org.
AP Central is the official online home for the AP Program: apcentral.collegeboard.org.



2013 AP[®] MACROECONOMICS FREE-RESPONSE QUESTIONS

MACROECONOMICS

Section II

Planning Time—10 minutes

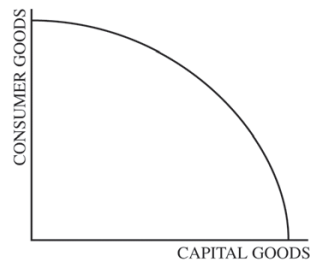
Writing Time—50 minutes

Directions: You have 10 minutes to read all of the questions in this booklet, to sketch graphs, to make notes, and to plan your answers. You will then have 50 minutes to answer all three of the following questions. It is suggested that you spend approximately half your time on the first question and divide the remaining time equally between the next two questions. In answering the questions, you should emphasize the line of reasoning that generated your results; it is not enough to list the results of your analysis. Include correctly labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes. Use a pen with black or dark blue ink.

1. Assume that the United States economy is operating at full employment.
 - (a) Using a correctly labeled graph of the long-run aggregate supply, short-run aggregate supply, and aggregate demand, show each of the following.
 - (i) Current price level, labeled PL_1
 - (ii) Current output level, labeled Y_1
 - (b) Assume that personal savings in the United States increase. Using a correctly labeled graph of the loanable funds market, show the impact of the increase in personal savings on the real interest rate.
 - (c) Based on the real interest rate change identified in part (b),
 - (i) will interest-sensitive expenditures increase, decrease, or remain unchanged?
 - (ii) what will happen to the rate of economic growth? Explain.
 - (d) Assume that the real interest rate of the euro zone increases relative to the real interest rate of the United States. Draw a correctly labeled graph of the foreign exchange market for the euro and show the impact of the change in the real interest rate in the euro zone on each of the following.
 - (i) Demand for the euro. Explain.
 - (ii) Value of the euro relative to the United States dollar
 - (e) Assume that the United States current account balance is zero. Based on the change in the value of the euro identified in part (d)(ii), will the United States current account balance now be in surplus, be in deficit, or remain at zero?

2013 AP[®] MACROECONOMICS FREE-RESPONSE QUESTIONS

2. Assume that the country of Fischerland produces only consumer goods and capital goods.



- (a) The graph above shows the production possibilities curve for Fischerland. The production of which of the following exhibits increasing opportunity costs: consumer goods only, capital goods only, both goods, or neither good?
- (b) Redraw the graph given above. Show a point that represents fully employed and efficiently used resources on the redrawn graph and label it A.
- (c) Assume there is a recession in Fischerland. On your graph in part (b), label as C a point representing the recession.
- (d) Identify a fiscal policy action that the Fischerland government can take to address the recession.
- (e) Assume instead that no discretionary policy actions are taken. Will short-run aggregate supply increase, decrease, or remain the same in the long run? Explain.
-
3. Inflation and expected inflation are important determinants of economic activity.
- (a) Draw a correctly labeled graph of a short-run Phillips curve.
- (b) Using your graph in part (a), show the effect of an increase in the expected rate of inflation.
- (c) What is the effect of the increase in the expected rate of inflation on the long-run Phillips curve?
- (d) Given the increase in the expected rate of inflation from part (b),
- will the nominal interest rate on new loans increase, decrease, or remain unchanged?
 - will the real interest rate on new loans increase, decrease, or remain unchanged?
- (e) Assume that the nominal interest rate is 8 percent. Borrowers and lenders expect the rate of inflation to be 3 percent, and the growth rate of real gross domestic product is 4 percent. Calculate the real interest rate.

STOP

END OF EXAM