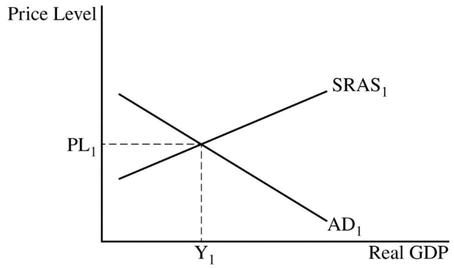
2024

AP® Macroeconomics

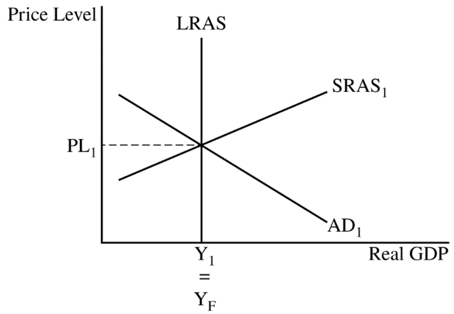
Scoring Guidelines
Set 2

Question 1: Long **10 points**

(a) Draw a correctly labeled aggregate demand–aggregate supply graph that shows PL_1 and Y_1 at the intersection of the aggregate demand (AD) and short-run aggregate supply (SRAS) curves. **1 point**



For the second point, the graph must show a vertical long-run aggregate supply (LRAS) curve at equilibrium real output $Y_1 = Y_F$. **1 point**

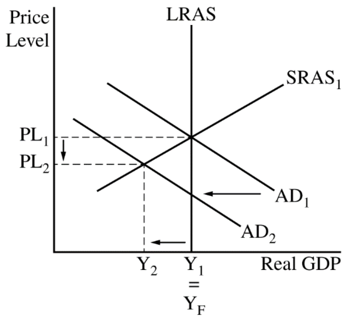


Total for part (a) **2 points**

(b) (i) Calculate the marginal propensity to consume as 0.4 and show your work. **1 point**

$$\text{MPC} = \frac{\Delta\ \text{Consumer Spending}}{\Delta\ \text{Disposable Income}} = \frac{\$100{,}000 - \$110{,}000}{\$110{,}000 - \$135{,}000} = \frac{-\$10{,}000}{-\$25{,}000} = 0.4$$

(ii) On the graph from part (a), show the short-run effect of the decrease in consumer spending as a leftward shift of the AD curve, resulting in a decrease in the price level to PL_2 and a decrease in real output to Y_2. **1 point**

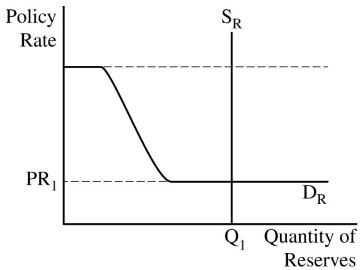


Total for part (b) 2 points

(c) Explain that input prices (e.g., nominal wages) and/or inflationary expectations will decrease, causing SRAS to increase until it reaches full employment. **1 point**

(d) State that the central bank would decrease its administered interest rates or decrease interest on reserves. **1 point**

(e) Draw a correctly labeled graph of the reserve market with the supply curve intersecting the demand curve in the range of ample reserves. **1 point**



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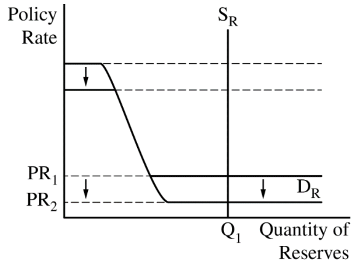
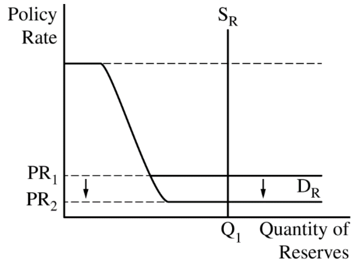
For the second point, the graph must show a decrease in the administered interest rates, resulting in a decrease in the policy rate. **1 point**



OR

For the second point, the graph must show a decrease in the lower bound of the demand curve for reserves, resulting in a decrease in the policy rate.



Total for part (e) 2 points

(f) For the first point, state that the quantity of national savings would decrease and the unemployment rate would decrease. **1 point**

For the second point, explain that the decrease in nominal interest rates will increase interest-sensitive spending (consumption, investment, or net exports), causing an increase in aggregate demand and real output. **1 point**

Total for part (f) 2 points

Total for question 1 10 points

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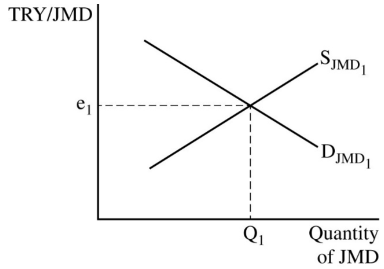
Question 2: Short — 5 points

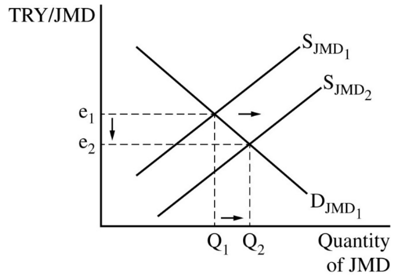
(a)	Calculate the nominal GDP in Maltrose in year 2 as $210 and show your work.	**1 point**
	$\text{Nominal GDP}_{\text{Year 2}} = (\$13 \times 10) + (\$4 \times 20) = \$210$	
(b)	Calculate the GDP deflator in Maltrose in year 2 as 105 and show your work.	**1 point**
	$\text{GDP Deflator}_{\text{Year 2}} = \frac{\text{Nominal GDP}_{\text{Year 2}}}{\text{Real GDP}_{\text{Year 2}}} \times 100 = \frac{\$210}{(\$10\times10)+(\$5\times20)} \times 100 = 105$	
(c)	State that the inflation rate from year 1 to year 2 was 5%.	**1 point**
(d) (i)	State that people living on a fixed income were worse off.	**1 point**
(ii)	State that borrowers with fixed-interest-rate loans were better off because the real value of their debt decreased by more than they expected or because the real interest rate was lower than expected.	**1 point**
	Total for part (d)	**2 points**
	Total for question 2	**5 points**

Question 3: Short — 5 points

(a)	State an increase in government spending, a decrease in taxes, or an increase in transfer payments.	**1 point**
(b)	State that Jamaica's net exports will decrease and explain that Jamaican demand for international goods will increase as a result of the increase in Jamaica's real income, which will increase Jamaican imports.	**1 point**
(c)	Draw a correctly labeled graph of the foreign exchange market for the Jamaican dollar.	**1 point**



	For the second point, the graph must show an increase in the supply of the Jamaican dollar, resulting in a depreciation of the Jamaican dollar.	**1 point**



	Total for part (c)	**2 points**
(d)	State that Jamaica's capital and financial account (CFA) will move into surplus and explain that the current account (CA) moved into deficit and the balance of payments must balance (CA+CFA=0).	**1 point**
	Total for question 3	**5 points**