

AP Macroeconomics	Common Mistakes
<i>Most points on this exam sit on a graph, and most lost points are a missing label or a long-run curve that is not vertical. Everything below is a rule the readers apply.</i>	
The graphs – where most points are won and lost	
✗ Drawing a graph with unlabelled axes.	
✓ Label both axes, every curve, and the equilibrium point, using the standard abbreviations.	
The guidelines award graph points for specific labelled features; an unlabelled curve earns nothing.	SG 3 years
✗ Drawing the shift and not marking the new equilibrium.	
✓ Show the shift AND the resulting change, with arrows and new labels.	
The second point is almost always for the RESULT of the shift, stated on the graph.	SG 3 years
✗ Drawing a long-run curve that slopes.	
✓ A long-run aggregate supply curve, and a long-run Phillips curve, are VERTICAL.	
The guidelines state the curve must be vertical, at full-employment output or the natural rate of unemployment.	SG 3 years
✗ Placing the long-run curve wherever the new equilibrium falls.	
✓ Put it at full-employment output, and label that output – the gap between it and the current equilibrium is the point.	
The guidelines specify the curve’s position relative to the current output, and the label Y_F .	SG 3 years
✗ Answering a graph question in prose alone.	
✓ Draw it. Then say in words what the graph shows.	
The drawing and the explanation are separately scored, and a description cannot earn the graph points.	SG 2 years
✗ Writing ‘it increases’ with no direction on the graph.	
✓ Say which curve moves, which way, and what happens to price and quantity.	
Each of those is a component the readers look for by name.	SG 3 years
■ Where a question says ‘using a correctly labeled graph’, the labels are part of the requirement – not decoration.	
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2 · Economic Indicators and the Business Cycle

✗ Counting an intermediate good, or a transfer payment, in GDP.

✓ GDP counts FINAL goods and services produced within the country in the period.

Each exclusion is a standard multiple-choice discriminator.

GDP

CED 2.2

✗ Calling someone without a job unemployed.

✓ They must be actively seeking work to be in the labour force.

The definition decides the rate, and discouraged workers are the standard trap.

CED 2.4

✗ Comparing nominal GDP across years.

✓ Use REAL GDP – nominal changes include price changes.

The distinction is the reason the deflator exists.

GDP

CED 2.3

3 · National Income and Price Determination

✗ Shifting aggregate demand for a change in the price level.

✓ A price-level change is a MOVEMENT ALONG the curve; only the other determinants shift it.

This is the same along-versus-shift distinction as in microeconomics, and it decides the whole answer.

CED 3.5

✗ Using the spending multiplier where the tax multiplier applies.

✓ The tax multiplier is smaller and has the opposite sign, because part of a tax cut is saved.

The two are computed from the same MPC and give different answers.

CED 3.8

4 · Financial Sector

✗ Shifting the money supply curve when the central bank changes the policy rate.

✓ Show what the guidelines ask for: a change in the administered rates producing a change in the policy rate.

The guidelines describe both routes; the graph must match the mechanism the question names.

SG 2 years

✗ Confusing the loanable funds market with the money market.

✓ Loanable funds sets the REAL interest rate; the money market sets the NOMINAL rate.

The axes differ, and using the wrong graph loses every point on it.

CED 4.6

5 · Long-Run Consequences of Stabilization Policies

- ✗ Saying expansionary policy raises output in the long run.
- ✓ In the long run output returns to Y_F and only the price level is higher.
The long-run neutrality result is what the vertical curve encodes.

CED 5.2

- ✗ Placing the short-run Phillips curve without an expected inflation rate.
- ✓ Label the expected inflation rate and the natural rate of unemployment.
The guidelines require both labels for the point.

SG 2 years

6 · Open Economy – International Trade and Finance

- ✗ Saying a stronger currency helps exporters.
- ✓ An appreciation makes exports dearer abroad and imports cheaper at home.
The direction is the whole content of the question.

CED 6.5

- ✗ Confusing the current account with the financial account.
- ✓ They move in opposite directions: a current-account deficit is matched by a financial-account surplus.
The identity is examinable and makes the sign of one follow from the other.

CED 6.6

- Where a question chains parts – a policy, its effect on the graph, then on a second market – carry your own answer forward. Later points are awarded on consistency.

SG 2 years

1 · Basic Economic Concepts

- ✗ Explaining a production possibilities curve’s shape by saying resources are limited.
- ✓ It bows outward because resources are not equally suited to both goods, so opportunity cost rises.
The shape encodes increasing opportunity cost, which is the concept being tested.

CED 1.2

- ✗ Saying a point inside the curve is impossible.
- ✓ It is attainable but INEFFICIENT – resources are unemployed or misallocated.
Inside, on and outside the curve each mean something different, and the question always names one.

CED 1.3

- ✗ Treating an increase in the labour force as a movement along the curve.
- ✓ More resources shift the whole curve outward.
The along-versus-shift distinction runs through the entire course.

CED 1.3

2 · Economic Indicators and the Business Cycle

- ✗ Calling any rise in prices inflation.
- ✓ Inflation is a sustained rise in the GENERAL price level, measured by a price index.
A single price change is a relative price change, which does the opposite work in the model.

CED 2.5

- ✗ Ignoring the base year when using a price index.
- ✓ An index is relative to its base; a value of 120 means 20% above the base year.
The base is what makes the number interpretable, and calculations depend on it.

CED 2.6

3 · National Income and Price Determination

- ✗ Saying a recessionary gap means output is above full employment.
- ✓ A recessionary gap is output BELOW Y_F ; an inflationary gap is above it.
Naming the gap wrongly reverses every policy recommendation that follows.

CED 3.6

- ✗ Recommending a policy without saying which tool and which direction.
- ✓ Name it precisely: ‘increase government spending’, ‘lower the policy rate’.
The readers score the specific action, not the intention behind it.

CED 3.9

4 · Financial Sector

- ✗ Saying a bank can lend all of its deposits.
- ✓ It must hold reserves; the rest can be lent, and the money multiplier follows from that fraction.
The reserve requirement is what limits the expansion, and the question always supplies it.

CED 4.5

- ✗ Confusing the nominal and real interest rate in a calculation.
- ✓ Real is approximately nominal minus expected inflation.
The Fisher relation is examinable and decides which rate a decision depends on.

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CED 4.7

- ✗

Saying a country should produce a good because it can make more of it.
- ✓

Compare opportunity costs – that is what comparative advantage means.

Absolute and comparative advantage give different answers, and trade follows the second.

CED 6.1
- ✗

Analysing an exchange-rate change without saying which currency’s market you are drawing.
- ✓

Label the market – the demand for and supply of that currency – before shifting anything.

Every appreciation is also a depreciation of something, so the market must be named.

CED 6.4