

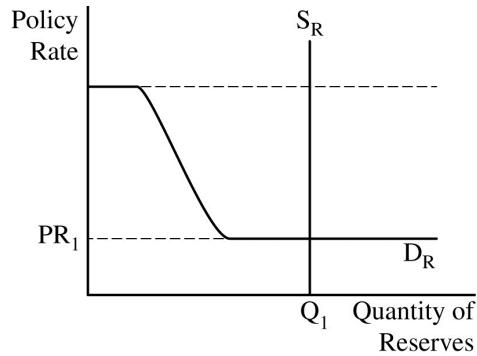
Question 2: Short**5 points**

A State that the central bank would increase its administered interest rates or increase interest on reserves. **1 point**

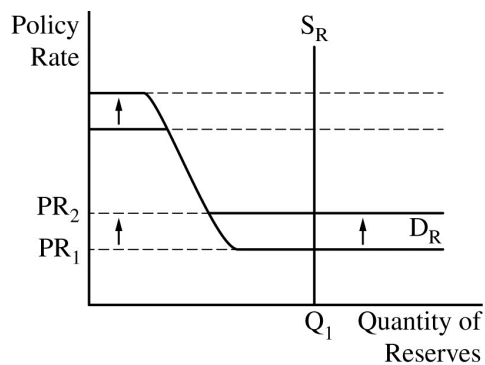
Point 1

B 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**

Point 2

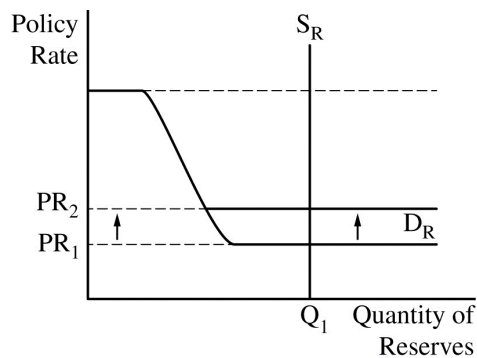


Point 3 The graph must show an increase in the administered interest rates, resulting in an increase in the policy rate. **1 point**



OR

The graph must show an increase in the lower bound of the demand curve for reserves, resulting in an increase in the policy rate.



C	(i)	State that the price of previously issued bonds will decrease.	1 point
Point 4			
	(ii)	State that the price level will decrease and explain that the increase in interest rates will decrease interest-sensitive spending (consumption, investment, or net exports), which will decrease aggregate demand.	1 point
Point 5			

2018**AP** CollegeBoard

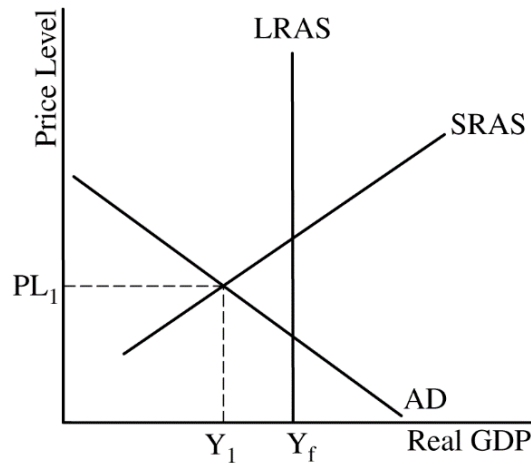
AP Macroeconomics

Scoring Guidelines

2018 SCORING GUIDELINES

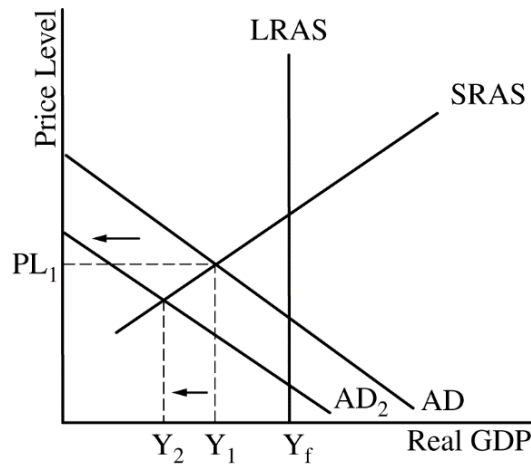
Question 1

10 points (2 + 3 + 2 + 3)



(a) 2 points:

- One point is earned for drawing a correctly labeled graph for aggregate demand (AD) and short-run aggregate supply (SRAS), showing PL_1 and Y_1 at the intersection of AD and SRAS.
- One point is earned for drawing a vertical LRAS curve to the right of Y_1 .

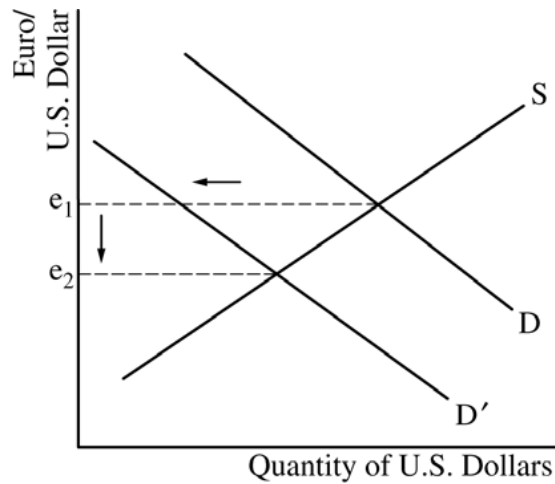


(b) 3 points:

- One point is earned for stating that United States exports will decrease and for explaining that the fall in income in the euro zone reduces the demand for United States goods.
- One point is earned for showing a leftward shift of the aggregate demand (AD) curve and showing lower United States real output on the graph.
- One point is earned for stating that unemployment in the U.S. will increase.

2018 SCORING GUIDELINES

Question 1 (continued)



(c) 2 points:

- One point is earned for stating that the euro will appreciate against the U.S. dollar because the supply of euros decreases OR because the dollar depreciates against the euro, the euro must appreciate.
- One point is earned for drawing a correctly labeled graph of the foreign exchange market for dollars and for showing a leftward shift in the demand curve for the dollar, which would result in a depreciation of the dollar.

(d) 3 points:

- One point is earned for stating that the U.S. aggregate demand will increase.
- One point is earned for stating that the U.S. price level will increase.
- One point is earned for stating that the change in the interest rate is indeterminate and for explaining that the combination of expansionary fiscal and monetary policies has opposite effects on interest rates (the expansionary fiscal policy will increase the interest rate, as government borrows to finance its spending, and the expansionary monetary policy will increase the money supply and decrease the interest rate).

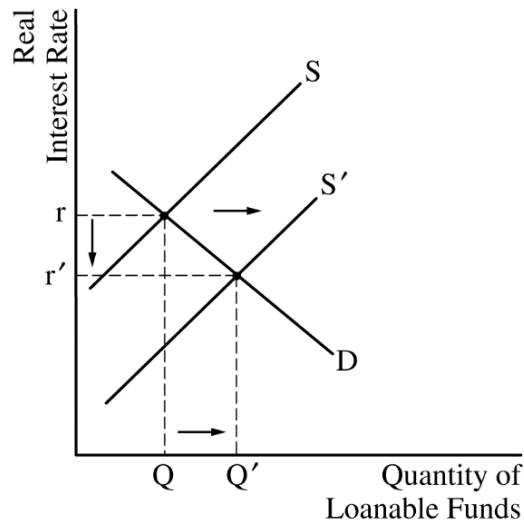
2018 SCORING GUIDELINES

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).

2018 SCORING GUIDELINES**Question 3****5 Points (1 + 1 + 1 + 2)**

(a) 1 point:

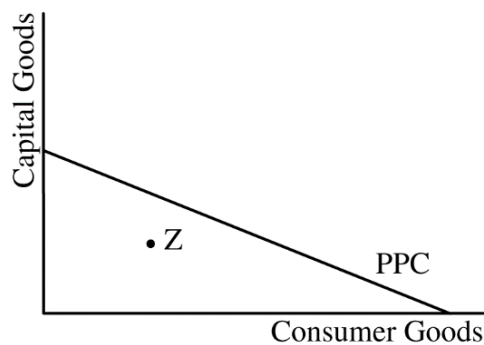
- One point is earned for stating that neither country has a comparative advantage in producing consumer goods and for explaining that the opportunity cost of producing 1 unit of consumer goods is the same for both countries (which is $\frac{1}{2}$ a unit of capital goods).

(b) 1 point:

- One point is earned for correctly calculating the unemployment rate as 10 percent ($20,000/200,000 \times 100 = 10\%$).

(c) 1 point:

- One point is earned for correctly calculating the labor force participation rate as 66.67 percent ($200,000/300,000 \times 100 = 66.67\%$).



(d) 2 points:

- One point is earned for drawing a correctly labeled graph of the production possibilities curve (PPC).
- One point is earned for correctly showing point Z below the PPC.