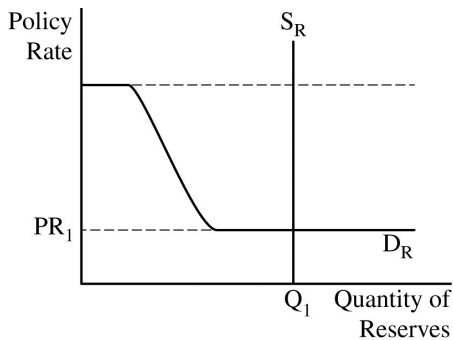
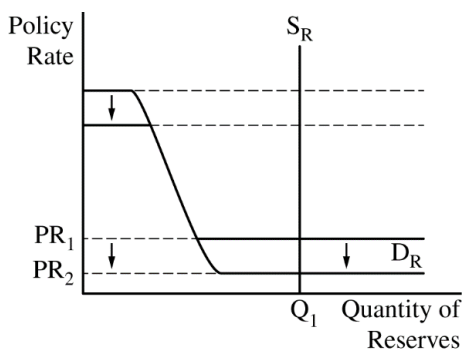


Question 2: Short**5 points**

- | | | |
|---------------------|--|----------------|
| A
Point 1 | State that the central bank of Country L would buy bonds. | 1 point |
| B
Point 2 | State that the central bank of Country A would decrease its administered interest rates or decrease interest on reserves. | 1 point |
| C
Point 3 | 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 |

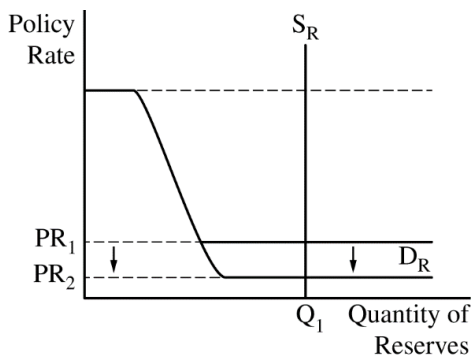


- | | | |
|----------------|--|----------------|
| Point 4 | The graph must show a decrease in the administered interest rates, resulting in a decrease in the policy rate. | 1 point |
|----------------|--|----------------|



OR

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



D	State that short-run aggregate supply will increase until it reaches full employment and	1 point
Point 5	explain that the increase in short-run aggregate supply in the long run will be caused by a decrease in input prices (e.g., nominal wages) and/or inflationary expectations.	

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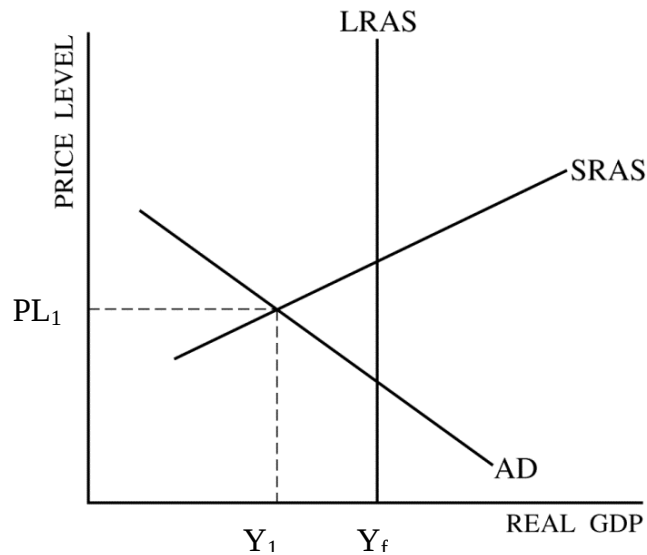
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Question 1

11 Points (2+2+1+2+2+2)

2 points:

- One point is earned for drawing a correctly labeled graph showing an equilibrium with AD, SRAS, Y_1 , and PL_1 labeled.
- One point is earned for drawing a vertical LRAS curve at Y_f to the right of the intersection of AD and SRAS.

2 points:

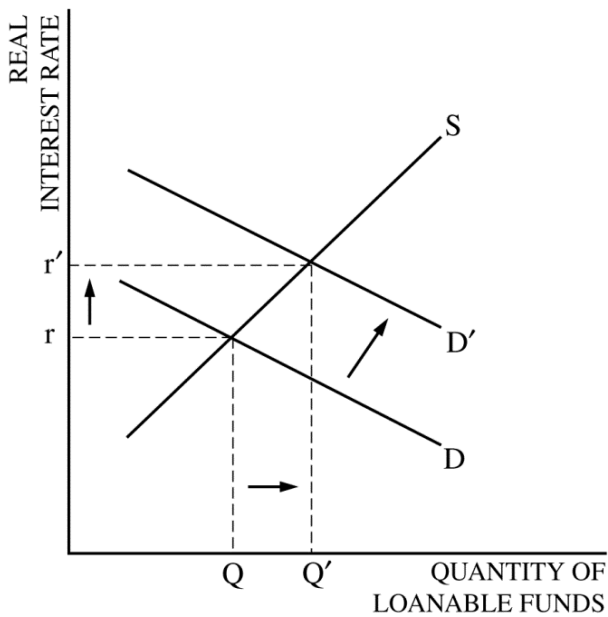
- One point is earned for stating that cyclical unemployment will decrease.
- One point is earned for stating that the natural rate of unemployment will not change.

1 point:

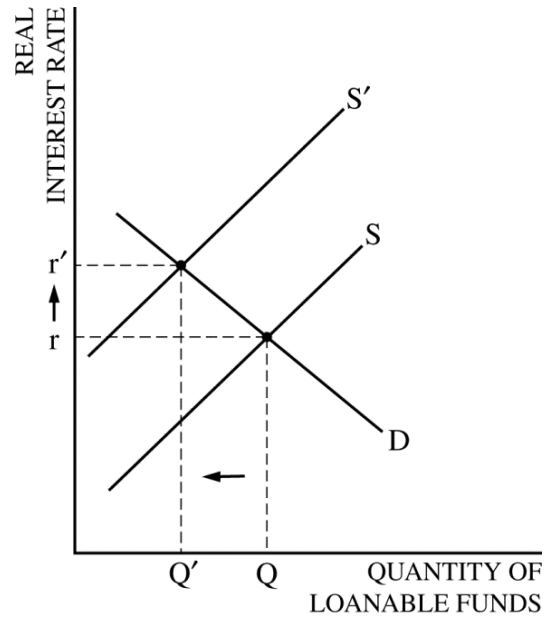
- One point is earned for calculating the maximum change in real GDP:
 $\text{Change in GDP} = (1/0.25) \times \$100 \text{ billion} = \$400 \text{ billion}.$

2014 SCORING GUIDELINES

Question 1 continued



OR



2 points:

- One point is earned for drawing a correctly labeled loanable funds market graph.
- One point is earned for shifting the demand curve to the right (or shifting the supply curve to the left) and showing an increase in the real interest rate.

2 points:

- One point is earned for stating that the economic growth rate will fall.
- One point is earned for explaining that the higher real interest rate will slow down capital formation.

2 points:

- One point is earned for stating that real gross domestic product will increase.
- One point is earned for explaining that the expansionary effect of the increase in government spending outweighs the contractionary effect of the increase in taxes of the same size. (Or students may explain by calculating the net increase in GDP, \$100 billion, or stating the tax multiplier is smaller than the spending multiplier.)

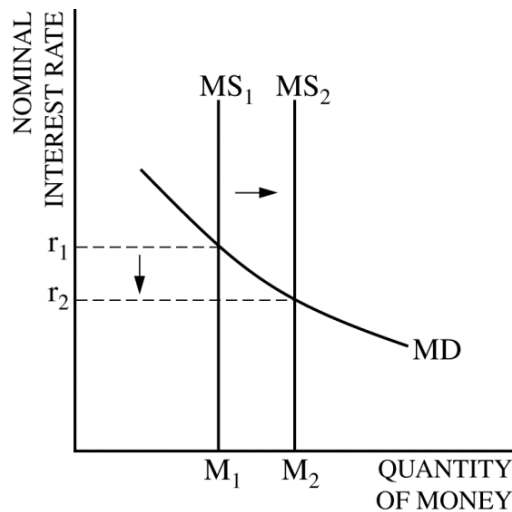
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Question 2

6 points (2+2+1+1)

2 points:

- One point is earned for stating that the Federal Reserve will buy government bonds.
- One point is earned for stating that the price of government bonds will increase.



2 points:

- One point is earned for drawing a correctly labeled graph of the money market.
- One point is earned for shifting the money supply curve to the right and showing a decrease in the nominal interest rate.

1 point:

- One point is earned for stating that the Federal Reserve purchase will not initially affect commercial banks' required reserves.

1 point:

- One point is earned for defining the discount rate as the interest rate that the Federal Reserve charges banks for borrowing from its discount window.

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Question 3

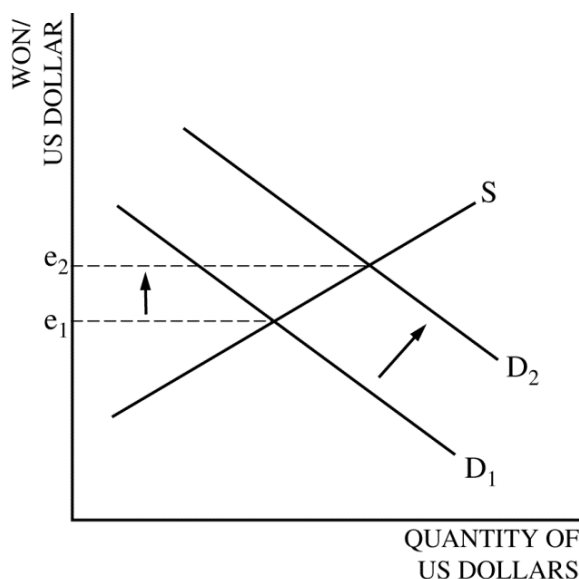
5 points (1+2+2)

1 point:

- One point is earned for stating that United States exports to South Korea will increase.

2 points:

- One point is earned for stating that the United States current account will be in surplus.
- One point is earned for stating that the United States gross domestic product will increase and explaining that higher U.S. exports increase AD (or that production increases to meet the increased export demand from South Korea).



2 points:

- One point is earned for drawing a correctly labeled graph of the foreign exchange market for the U.S. dollar.
- One point is earned for shifting the demand curve for the dollar to the right (and/or shifting the supply curve to the left) and showing an increase in the won price per dollar.