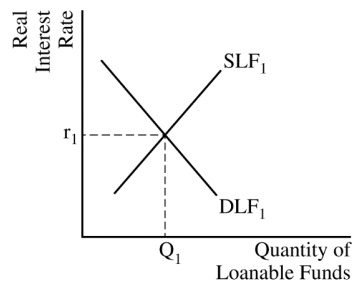
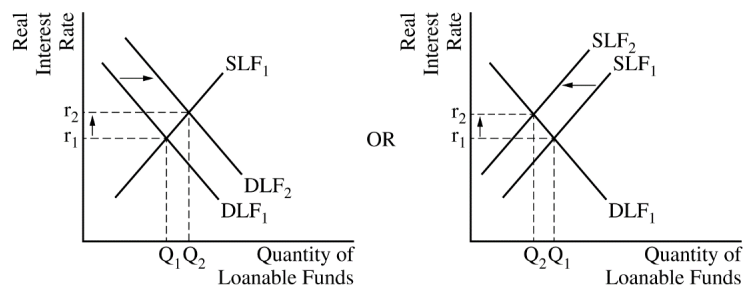


Question 2: Short**5 points**

- (a) State that the country could implement one of the following fiscal policy actions: increase government spending, increase transfer payments, or decrease taxes. **1 point**
- (b) Draw a correctly labeled graph of the loanable funds market. **1 point**



For the second point, the graph must show a rightward shift in the demand for loanable funds curve (or a leftward shift in the supply of loanable funds curve), resulting in an increase in the equilibrium real interest rate. **1 point**

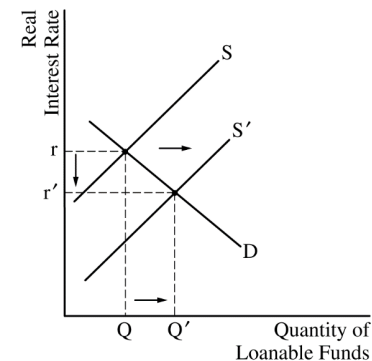
**Total for part (b) 2 points**

- (c) (i) State that net exports will decrease and explain that the increase in the real interest rate will increase the demand for the country's currency, which will cause the country's currency to appreciate and make domestic goods relatively more expensive than foreign goods, thereby decreasing exports. **1 point**
- (ii) State that the stock of physical capital will decrease and explain that the increase in the real interest rate will discourage investment spending in physical capital. **1 point**

Total for part (c) 2 points**Total for question 2 5 points****AP® MACROECONOMICS
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).