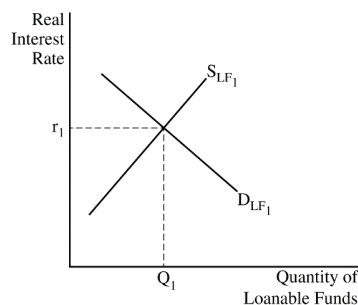
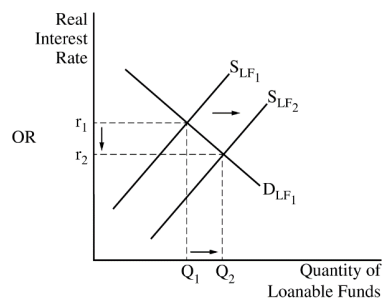
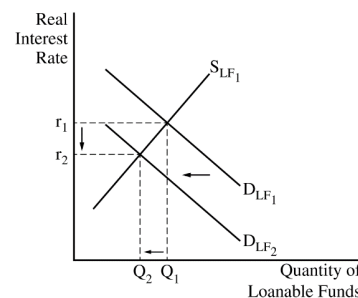


Question 3: Short**5 points**

- (a) State increase taxes, decrease government spending, or decrease transfer payments. **1 point**
- (b) Draw a correctly labeled graph of the loanable funds market. **1 point**



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

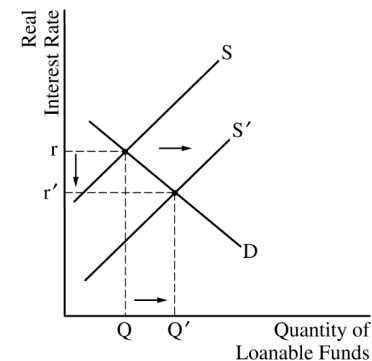
**Total for part (b) 2 points**

- (c) (i) State that aggregate demand will increase and explain that interest-sensitive spending (consumption, investment, or net exports) will increase. **1 point**
- (ii) State that potential real output will increase and explain that the decrease in the real interest rate means the cost of borrowing has decreased, which increases investment spending on plant and equipment and increases capital formation. **1 point**

Total for part (c) 2 points**Total for question 3 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).