

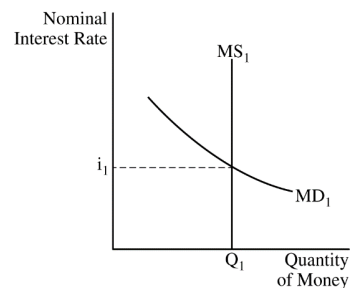
Question 2: Short

5 points

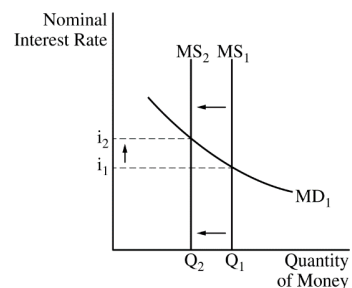
- (a) Calculate the maximum change in the money supply as a decrease of \$500,000 and show your work. **1 point**

$$\text{Change in MS} = \text{Bond Sale} \times \text{Money Multiplier} = -\$100,000 \times \frac{1}{0.2} = -\$500,000$$

- (b) Draw a correctly labeled graph of the money market. **1 point**



- For the second point, the graph must show a leftward shift in the money supply curve, resulting in a higher nominal interest rate. **1 point**

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

- (c) State that nominal gross domestic product will decrease and explain that according to the quantity theory of money ($MV=PY$), a decrease in the money supply will decrease nominal gross domestic product for a given velocity. **1 point**

- (d) State that the price level decreases. **1 point**

Total for question 2 5 points

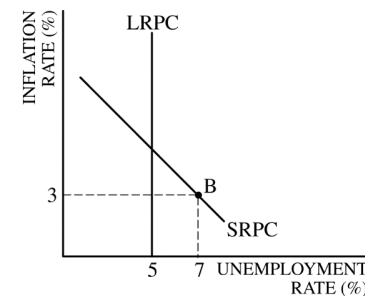
2017

AP Macroeconomics

Scoring Guidelines

2017 SCORING GUIDELINES

Question 1

9 points (2 + 2 + 1 + 2 + 1 + 1)

(a) 2 points:

- One point is earned for drawing a correctly labeled graph of a downward-sloping short-run Phillips curve (SRPC).
- One point is earned for showing a correctly labeled vertical long-run Phillips curve (LRPC) at the natural rate of unemployment, 5%, and for showing point B on the SRPC to the right of LRPC at the actual unemployment rate, 7%, and the inflation rate, 3%.

(b) 2 points:

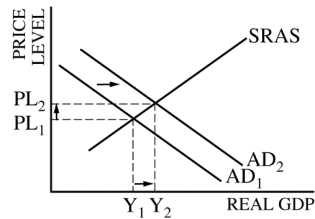
- One point is earned for stating that the short-run aggregate supply (SRAS) curve will shift to the right in the long run and for explaining that nominal wages will fall in response to high unemployment.
- One point is earned for stating that LRPC will remain unchanged.

(c) 1 point:

- One point is earned for stating that the government should either increase its expenditures (or purchases) or decrease taxes.

2017 SCORING GUIDELINES

Question 1 (continued)



(d) 2 points:

- One point is earned for drawing a correctly labeled graph showing a downward-sloping AD curve, upward-sloping SRAS curve, the equilibrium price level, and the equilibrium real GDP.
- One point is earned for showing a rightward shift of the AD curve and for showing an increase in both the price level and real GDP.

(e) 1 point:

- One point is earned for stating that the supply of country X's currency will increase and for explaining that spending on imports will increase as a result of the increase in real GDP.

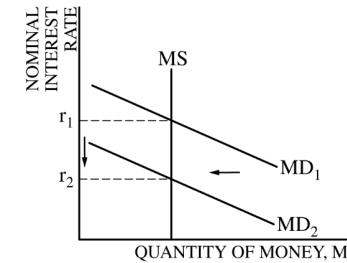
(f) 1 point:

- One point is earned for stating that country X's currency will depreciate.

2017 SCORING GUIDELINES

Question 2

6 points (2 + 2 + 1 + 1)



(a) 2 points:

- One point is earned for drawing a correctly labeled graph of the money market.
- One point is earned for showing a leftward shift in the money demand curve, resulting in a lower nominal interest rate.

(b) 2 points:

- One point is earned for stating that the price of previously issued bonds will increase.
- One point is earned for stating that both the price level and real income will increase and for explaining that the lower interest rate will increase consumption, investment, and/or net exports (interest-sensitive spending), which increases aggregate demand.

(c) 1 point:

- One point is earned for stating that the velocity of money will increase.

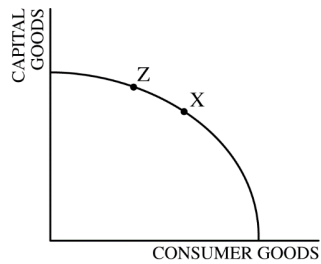
(d) 1 point:

- One point is earned for stating that the central bank would sell bonds.

2017 SCORING GUIDELINES

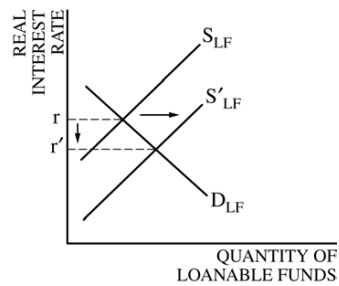
Question 3

5 points (1 + 2 + 1 + 1)



(a) 1 point:

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



(b) 2 points:

- One point is earned for drawing a correctly labeled graph of the loanable funds market.
- One point is earned for showing a rightward shift of the supply curve and a decrease in the real interest rate.

(c) 1 point:

- One point is earned for showing point Z to the left of point X on the curve.

(d) 1 point:

- One point is earned for stating that the long-run aggregate supply (LRAS) curve will shift to the right and for explaining that capital accumulation will increase.