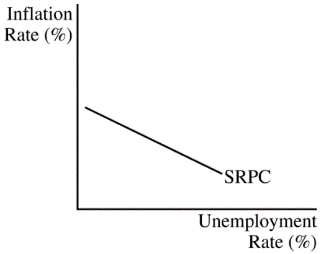
Question 1: Long — 10 points

A — Point 1

State that the actual unemployment rate is 10%. **1 point**

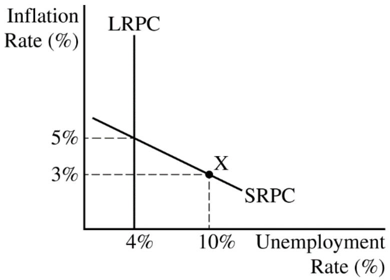
B — Point 2

Draw a correctly labeled graph of the short-run Phillips curve (SRPC). **1 point**



Point 3

The graph must include a vertical long-run Phillips curve (LRPC) at the natural rate of unemployment (4%), the expected inflation rate (5%) at the intersection of the SRPC and the LRPC, and a point labeled X on the SRPC to the right of the LRPC at the actual unemployment rate (10%) and the actual inflation rate (3%). **1 point**



C — Point 4

State an increase in government spending, a decrease in taxes, or an increase in transfer payments. **1 point**

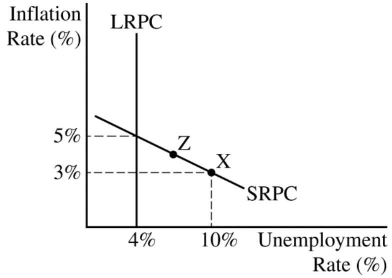
AP Macroeconomics: **2025 Set 2**

D (i) — Point 5

State that the government budget will move into deficit and explain that government outlays exceed revenue. **1 point**

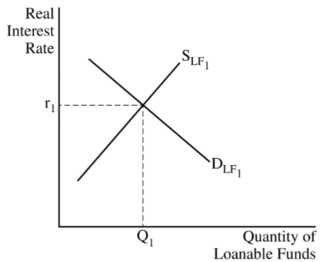
(ii) — Point 6

On the graph from part B, show a point labeled Z on the SRPC to the left of point X. **1 point**



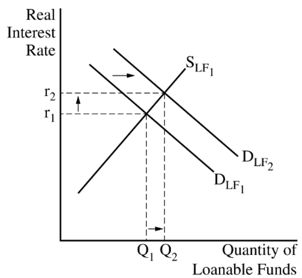
(iii) — Point 7

Draw a correctly labeled graph of the loanable funds market. **1 point**

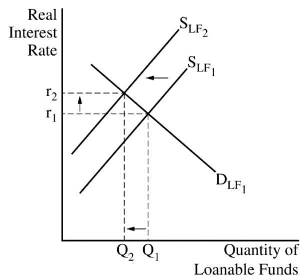


Point 8

The graph must show an increase in the demand for loanable funds (or a decrease in the supply of loanable funds), resulting in an increase in the equilibrium real interest rate. **1 point**



OR



E — Point 9

State that Barrikos' capital and financial account (CFA) will move into surplus and explain that international investors will seek higher returns on financial capital in Barrikos, which will increase financial capital inflows into Barrikos. **1 point**

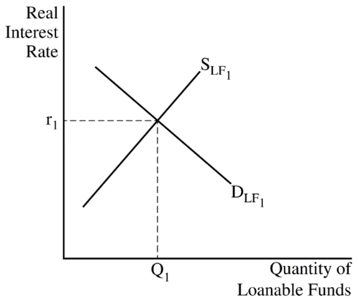
F — Point 10

State that Barrikos' currency will appreciate and explain that demand for the currency will increase (or the supply of the currency will decrease). **1 point**

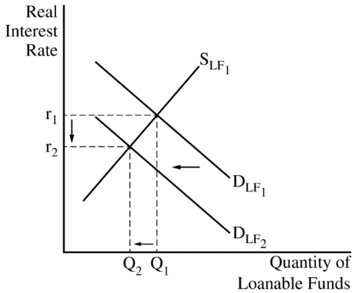
Question 3: Short — 5 points

(a) State increase taxes, decrease government spending, or decrease transfer payments. **1 point**

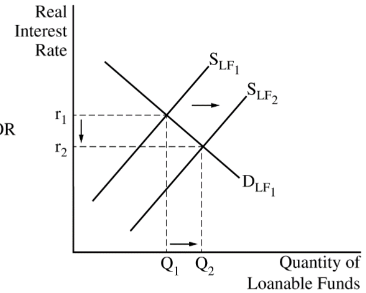
(b) Draw a correctly labeled graph of the loanable funds market. **1 point**



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**



OR



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

Question 3: Short — 5 points

(a) (i) State that the government budget will move into deficit in the short run and explain that tax revenues (T) will decrease and transfer payments (TR) will increase. **1 point**

(ii) State that the government debt will increase. **1 point**

Total for part (a) 2 points

(b) Identify an increase in taxes or a decrease in government spending. **1 point**

(c) State that the actual unemployment rate will increase in the short run and explain that aggregate demand will decrease, which will decrease real output. **1 point**

(d) State that the government's efforts to maintain a balanced budget made Geeland's recession more severe in the short run and explain that in order to maintain a balanced budget, the government had to implement contractionary fiscal policy during a recession. (It is also acceptable to explain that the government's efforts to maintain a balanced budget will decrease real output or aggregate demand and that unemployment will increase.) **1 point**

Total for question 3 5 points

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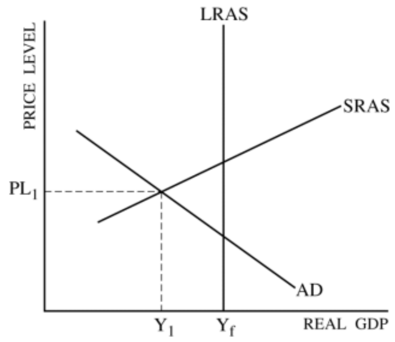
2015 SCORING GUIDELINES

Question 1

10 points (2+1+2+3+2)

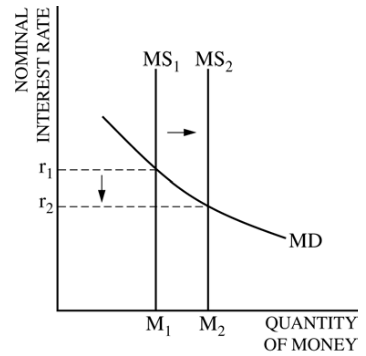


(a) 2 points:

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

(b) 1 point:

- One point is earned for stating that the Federal Reserve should target a lower federal funds rate.



(c) 2 points:

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

2015 SCORING GUIDELINES

Question 1 (continued)

(d) 3 points:
- One point is earned for calculating the minimum required change in government spending: $60 billion ($300/5=$60).
- One point is earned for stating that the minimum required change in taxes will be greater than the minimum required change in government spending.
- One point is earned for explaining that the tax multiplier (mpc/mps = 0.8/0.2 = 4) is smaller than the government spending multiplier (1/mps = 1/0.2 = 5) because part of the initial increase in disposable income caused by the decrease in income tax will be saved rather than spent.

(e) 2 points:
- One point is earned for stating that aggregate demand will increase and for explaining that lower income tax rates will increase disposable income and/or consumption and investment.
- One point is earned for stating that long-run aggregate supply will stay the same because lowering income taxes will increase consumption and/or investment, or there is no change in inputs.
  OR
  One point is earned for stating that long-run aggregate supply will increase in the long run because lowering taxes will increase savings and investment in physical capital, or because of increased incentives to work.
  OR
  One point is earned for stating that long-run aggregate supply will decrease in the long run because lowering taxes leads to a crowding out of private investment.

2015 SCORING GUIDELINES

Question 2

5 points (1+1+2+1)

(a) 1 point:
- One point is earned for stating that Country Y has an absolute advantage in producing solar panels.

(b) 1 point:
- One point is earned for calculating the opportunity cost of a furnace for Country Y: 2 solar panels per furnace.

(c) 2 points:
- One point is earned for stating that Country X has the comparative advantage in producing furnaces.
- One point is earned for explaining that Country X has a lower opportunity cost of producing furnaces than Country Y.

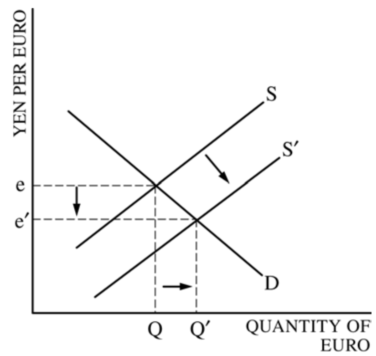
(d) 1 point:
- One point is earned for stating that Country X should produce solar panels domestically.

2015 SCORING GUIDELINES

Question 3

6 points (2+3+1)

(a) 2 points:
- One point is earned for stating that the real interest rate in Japan will increase in the short run because the supply of loanable funds will decrease or the demand for loanable funds will increase.
- One point is earned for stating that private domestic investment in plant and equipment in Japan will decrease.



(b) 3 points:
- One point is earned for drawing a correctly labeled graph of the foreign exchange market for the euro.
- One point is earned for showing that the supply curve for euros shifts to the right and for concluding that the yen price of the euro decreases.
- One point is earned for explaining that the European purchases of Japanese financial assets will increase due to the relatively higher rate of return in Japan.

(c) 1 point:
- One point is earned for stating that European Central Bank should buy euros.