

No formula sheet is supplied. The arithmetic is limited to a handful of identities and the multiplier; the real recall load is the four graphs and the ability to trace a policy through them in the right order. That ordering – money market, then aggregate demand, then the loanable funds or foreign exchange market – is what the free-response actually scores. 无公式表; 重点是四大模型图与政策传导顺序。

The identities and calculations

Expenditure approach 支出法 — $GDP = C + I + G + (X - M)$. Transfer payments and used-goods sales are excluded because nothing new was produced.

Real versus nominal 实际与名义 — $Real\ GDP = nominal\ GDP \div (price\ index \div 100)$. Only real GDP measures output; a rise in nominal GDP may be entirely inflation.

Inflation and unemployment rates 通胀率与失业率 — Inflation is the percentage change in the price index. Unemployment is $unemployed \div labour\ force \times 100$, where the labour force is the employed plus those actively seeking work.

The spending multiplier 支出乘数 — $1/(1 - MPC)$ or equivalently $1/MPS$ in the simple model. The TAX multiplier is smaller by one and negative: $-MPC/(1 - MPC)$, because part of a tax cut is saved before it is ever spent.

Money creation 货币创造 — The money multiplier is $1/reserve\ requirement$; maximum change in the money supply is the excess reserves times that multiplier. It is a maximum, and leakages reduce it.

Real interest rate 实际利率 — $nominal\ rate - expected\ inflation$. Unexpected inflation transfers wealth from lenders to borrowers, and that sentence is a frequent short answer.

Quantity theory 货币数量论 — $MV = PQ$. With velocity and output constant, money growth translates into inflation.

The four graphs, and what must be labelled

AD-AS with short-run and long-run aggregate supply, full-employment output marked, and the recessionary or inflationary gap shown as a horizontal distance from it.

The money market: a vertical money supply set by the central bank, a downward-sloping money demand, and the nominal interest rate on the vertical axis.

The loanable funds market: supply from savings, demand from investment, with the REAL interest rate on the vertical axis. Confusing this axis with the money market's nominal rate is a standard lost point.

The foreign exchange market for a named currency, with the exchange rate expressed in the other currency and both curves labelled for that specific currency.

Also required: the Phillips curve in short and long run, and the production possibilities curve.

Tracing a policy in the correct order

Expansionary monetary policy — Central bank buys bonds, so the money supply shifts right, so the nominal interest rate falls, so investment and interest-sensitive consumption rise, so aggregate demand shifts right, so real output and the price level rise. Every arrow in that chain is a scoring opportunity.

Expansionary fiscal policy — Government spending or tax cuts shift aggregate demand right by the multiplier. Then the government borrows, which shifts loanable funds demand right, raising the real interest rate and CROWDING OUT some private investment – the second half is what distinguishes a full answer.

The international link — A higher domestic real interest rate attracts financial inflows, so demand for the currency rises, so it appreciates, so exports fall and imports rise, so net exports fall. This chain appears in most recent free-response sets.

The long run — Starting above full employment, wages and other input prices eventually rise, shifting short-run aggregate supply left until output returns to potential at a higher price level. Say why: input prices are flexible in the long run.

Scoring habits

Answer with direction AND reason: “the interest rate falls BECAUSE the money supply increased” scores where “the interest rate falls” alone may not.

Label the vertical axis of every graph with the correct variable – nominal interest rate, real interest rate, price level or exchange rate. Using the wrong one voids the graph even if its shape is right.

When asked about the effect on a specific quantity, state whether it increases, decreases, or stays the same, and say if the answer is indeterminate and why. “Indeterminate, because the two shifts move price in opposite directions” is a full-credit answer.