AP® Macroeconomics
2011 Scoring Guidelines

The College Board

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Question 1

11 Points \((2 + 2 + 1 + 4 + 2)\)

(a) 2 points:
- One point is earned for a correctly labeled graph of the short-run Phillips curve (SRPC).
- One point is earned for showing a vertical long-run Phillips curve (LRPC) and the point A to the right of the LRPC on the SRPC.

(b) 2 points:
- One point is earned for a correctly labeled graph of AD/AS showing the equilibrium output, \(Y_e\), and price level, \(P_L_e\).
- One point is earned for showing \(Y_f\) to the right of \(Y_e\).

(c) 1 point:
- One point is earned for showing a leftward shift of the AD curve and indicating \(Y_2\) and \(P_L_2\).
(d) 4 points:
• One point is earned for stating that the Federal Reserve should buy bonds.
• One point is earned for a correctly labeled graph of the money market.
• One point is earned for showing a rightward shift of the money supply curve, resulting in a lower nominal interest rate.
• One point is earned for concluding that the price level will increase because the Federal Reserve action increases interest-sensitive spending (e.g., investment and consumption) and aggregate demand.

(e) 2 points:
• One point is earned for stating that the short-run aggregate supply will increase because wages and other input prices will decrease.
• One point is earned for stating that the natural rate of unemployment remains unchanged.
6 points \((3 + 3)\)

(a) (i) 1 point:
- One point is earned for drawing a correctly labeled graph of the loanable funds market and showing a rightward shift of the supply curve and the change in the real interest rate.

(ii) 2 points:
- One point is earned for stating that the decrease in the real interest rate caused interest-sensitive spending to increase.
- One point is earned for stating that the increase in aggregate demand increases output, which causes an increase in employment.
(b)  (i)  2 points:
• One point is earned for a correctly labeled graph of the foreign exchange market for the Canadian dollar.
• One point is earned for showing a rightward shift of the demand curve and/or a leftward shift of the supply curve and for showing an appreciation of the Canadian dollar.

(ii)  1 point:
• One point is earned for stating that Canadian exports to Mexico will decrease because the appreciation of the Canadian dollar makes Canadian products more expensive for Mexican consumers.
6 points \((1 + 2 + 1 + 1 + 1)\)

(a) 1 point:
- One point is earned for calculating the correct required reserve ratio of 0.2.

(b) 2 points:
- One point is earned for stating that the excess reserves will increase by $5,000.
- One point is earned for stating that the change in demand deposits is zero.

(c) 1 point:
- One point is earned for calculating the increase in the money supply:
  \(5 \times $5,000 = $25,000\).

(d) 1 point:
- One point is earned for stating that the price of bonds will increase because the purchase of bonds increases the money supply, which decreases the interest rate.

(e) 1 point:
- One point is earned for stating that the cash deposit will not immediately change the money supply.