The College Board

The College Board is a not-for-profit membership association whose mission is to connect students to college success and opportunity. Founded in 1900, the College Board is composed of more than 5,700 schools, colleges, universities and other educational organizations. Each year, the College Board serves seven million students and their parents, 23,000 high schools, and 3,800 colleges through major programs and services in college readiness, college admission, guidance, assessment, financial aid and enrollment. Among its widely recognized programs are the SAT®, the PSAT/NMSQT®, the Advanced Placement Program® (AP®), SpringBoard® and ACCUPLACER®. The College Board is committed to the principles of excellence and equity, and that commitment is embodied in all of its programs, services, activities and concerns.

© 2011 The College Board. College Board, ACCUPLACER, Advanced Placement Program, AP, AP Central, SAT, SpringBoard and the acorn logo are registered trademarks of the College Board. Admitted Class Evaluation Service is a trademark owned by the College Board. PSAT/NMSQT is a registered trademark of the College Board and National Merit Scholarship Corporation. All other products and services may be trademarks of their respective owners. Permission to use copyrighted College Board materials may be requested online at: www.collegeboard.com/inquiry/cbpermit.html.

Visit the College Board on the Web: www.collegeboard.org.
AP Central is the official online home for the AP Program: apcentral.collegeboard.com.
Question 1

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

(a) 2 points:
- One point is earned for drawing a correctly labeled graph of AD and SRAS and showing PL_E.
- One point is earned for showing a vertical long-run aggregate supply curve (LRAS) at \(Y_E\).

(b) 1 point:
- One point is earned for showing a leftward shift of the AD curve and showing the new equilibrium price level, PL_1, and output, \(Y_1\).

(c) 3 points:
- One point is earned for a correctly labeled graph of a downward-sloping short-run Phillips curve.
- One point is earned for drawing a vertical long-run Phillips curve and showing point A at the intersection of LRPC and SRPC.
- One point is earned for showing point B to the right of point A on the SRPC.

(d) 1 point:
- One point is earned for stating that transfer payments will increase because more people will apply for government benefits.
(e) 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 demand curve and/or a leftward shift of the supply curve and for showing an increase in the real interest rate.

(f) 1 point:
- One point is earned for stating that the short-run aggregate supply curve will shift to the right because wages and other input costs will fall.
Question 2

5 points (2 + 3)

(a) 2 points:
- One point is earned for stating that aggregate demand in Singapore will increase and for explaining that the depreciating Singaporean dollar increases Singapore’s exports to European Union countries because the price of those exports — in terms of euros — decreases.
- One point is earned for stating that employment in Singapore will increase because Singapore’s real GDP increases and it takes more labor to produce more goods and services.

(b) 3 points:
- One point is earned for stating that the Singaporean central bank should sell euros.
- One point is earned for stating that the Singaporean central bank should sell government bonds.
- One point is earned for explaining that the sale of government bonds raises the interest rate in Singapore and increases the demand for Singaporean dollars for financial investment purposes.
Question 3

5 points (2 + 1 + 1 + 1)

(a) 2 points:
- One point is earned for calculating the nominal GDP for 2010 as $145 (= 20 + 100 + 25).
- One point is earned for calculating the real GDP in 2010 as $100 (= 20 + 60 + 20).

(b) 1 point:
- One point is earned for calculating the inflation rate as 10 percent (= 5/50).

(c) 1 point:
- One point is earned for stating that the real wage will be lower.

(d) 1 point:
- One point is earned for stating that Sara will benefit from the unexpected inflation because her fixed loan payments have less value.