AP® Macroeconomics
2005 Scoring Commentary

The College Board: Connecting Students to College Success

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Question 1

Overview

The question tested the students' understanding of aggregate analysis, including aggregate demand, aggregate supply, shifts of aggregate demand, and monetary policy. The first part of the question required students to understand the concept of equilibrium and full employment. The second part of the question asked students to demonstrate and explain how the output and price level of the United States would be affected by a recession in Japan, a major trading partner of the United States. In part (c) students were asked to identify an open market operation to curb the recession in the United States produced by the recession in Japan. Parts (d) and (e) tested the students' understanding of the real interest rate.

Sample: 1A
Score: 12

The response lost 1 point in part (e) because the student concludes that the real interest rate is increasing after decreasing the nominal rate in part (c)(ii).

Sample: 1B
Score: 9

The response lost 1 point in part (a) because the student does not indicate the full employment level of output with either a long-run aggregate supply curve or a vertical portion of an aggregate supply curve. One point was lost in part (c) because the student does not recognize the connection between investment and aggregate demand. In part (d) the student lost 1 point for not correctly defining the real rate of interest. In part (e) 1 point was lost because the student does not clearly state that the real interest rate will fall.

Sample: 1C
Score: 6

The student lost all 5 points in part (c). One point was lost in part (d) because the student does not correctly define the real rate of interest. In part (e) the student lost 1 point for not stating that the real interest rate will rise.

Question 2

Overview

This question tested students' understanding of how an increase in the government deficit affects the real interest rate through the loanable funds market, and how changes in real interest rates affect economic growth and the international value of a currency. Students were asked to explain that an increased government deficit will increase real interest rates, and that an increase in real interest rates will reduce the rate of economic growth because it reduces the capital stock (or growth of the capital stock). An increase in the real interest rate of a nation will also produce a net inflow of financial capital, increasing the demand for the nation's currency, which increases the value of the nation's currency on the foreign exchange market.

Sample: 2A
Score: 8

The student received full credit.

Sample: 2B
Score: 6

The student lost 1 point in part (c) for failing to link the decline in investment to a decline in the capital stock. One point was lost in part (d) because the student does not provide a correct or complete explanation of why the demand for the dollar increases.

Sample: 2C
Score: 3

The student earned 1 point in part (a) for correctly stating that the real interest rate will increase. The point in part (b) was earned. The student earned 1 point in part (d) by concluding that the value of the currency goes down, given that the demand for the currency decreases.

Question 3

Overview

The question tested the students' understanding of the short-run Phillips curve and the long-run Phillips curve. Students were asked to construct a short-run Phillips curve based on data given in the question and demonstrate understanding of what could cause the short-run Phillips curve to shift. They were then asked to draw a long-run Phillips curve and demonstrate understanding of its interpretation.

Sample: 3A
Score: 6

The student received full credit.

Sample: 3B
Score: 4

The student lost 1 point for not drawing a vertical long-run Phillips curve in part (c) and 1 point for incorrectly concluding that there is an inverse relationship between inflation and unemployment in the long run in part (d).

Sample: 3C
Score: 3

The student lost 1 point in part (b) for failing to give a correct reason for the leftward shift in the short-run AS curve; 1 point in part (c) for not drawing a vertical long-run Phillips curve; and 1 point in part (d) for incorrectly concluding that there is an inverse relationship between inflation and unemployment in the long run.