AP® Macroeconomics
2003 Sample Student Responses
Form B

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3. Macroeconomics

Write in the box the number of the question you are answering on this page as it is designated in the examination.

b) i) ↑gov. spending ⇒ AD ⇒ ↑ inflation (PL) and ↓ VE ⇒ movement along the short-run Phillips curve ⇒ no shift in the SRPC

ii) ↓ inflationary expectations ⇒ ↑ AS ⇒ ↓ inflation and ↓ VE ⇒ shift to the left of SRPC
Write in the box the number of the question you are answering on this page as it is designated in the examination.

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3) \( \uparrow \) unemployment insurance benefits \( \rightarrow \)
   encourages \( \uparrow \) unemployed to stay unemployed \( \rightarrow \) \( \uparrow \) natural rate of unemployment
   \( \rightarrow \) \( \uparrow \) long-run Phillips curve to LRPC,

\[
\begin{array}{c|c|c}
\text{infl. rate} & \text{SRPC} & \text{UE} \\
\hline
\text{LRPC}: & \text{NRU} & \text{NRU}, \\
\end{array}
\]
Write in the box the number of the question you are answering on this page as it is designated in the examination.

\[ \text{Country X} \]

\[ \text{Inflation} \]

\[ \text{Unemployment rate} \]

\[ \text{(b) (i) an increase in government spending} \]

\[ \text{movement along Country X's Phillips curve (from A to B). An increase in government spending lowers unemployment. Inflation will also drop.} \]

\[ \text{(ii) A drop in inflationary expectations will shift the Phillips curve to the left. Thus reducing both inflation and unemployment.} \]
(C) The effect of increased unemployment insurance benefits in the long run will not increase or decrease unemployment rates, rather it will only affect inflation rates. This is because in the long run, the Phillips curve is vertical.

The effect of increased unemployment insurance benefits in the long run Phillips curve is that it will shift it to the right. In the long run, the Phillips curve is a downward sloping curve, unlike the convex short-run curve.