



**AP[®] Macro Economics
2004 Sample Student Responses
Form B**

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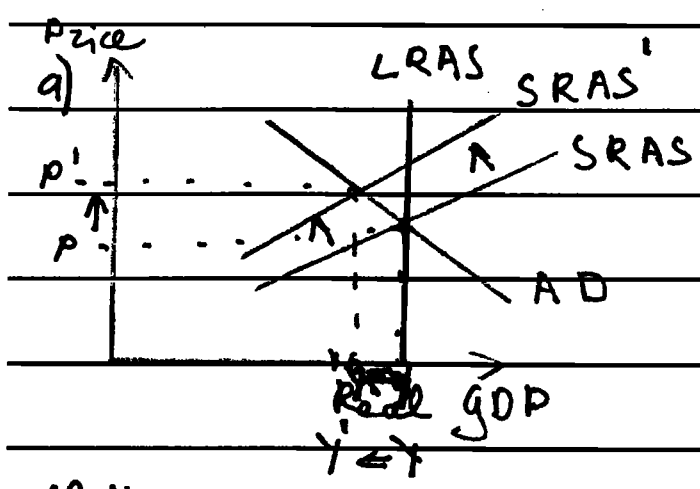
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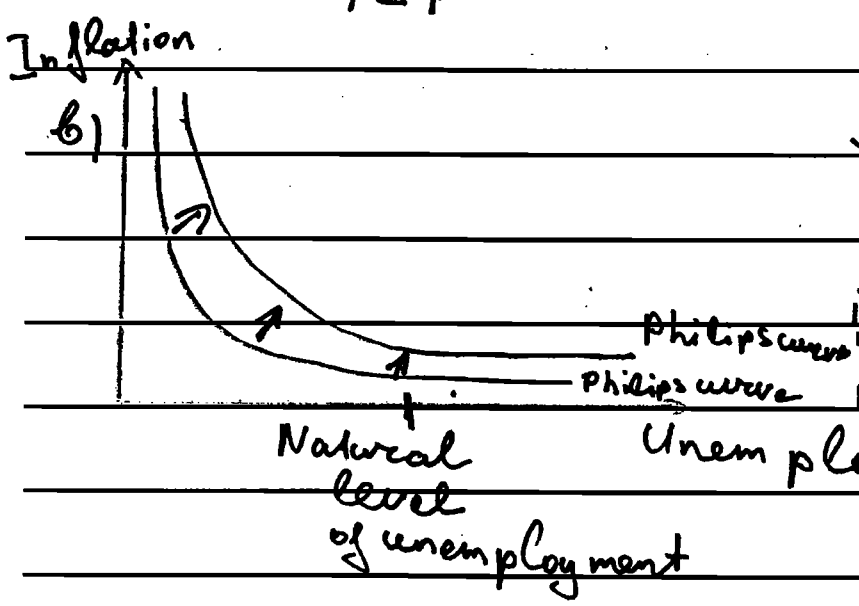
1.



Short run aggregate supply decrease (shifts to the left)

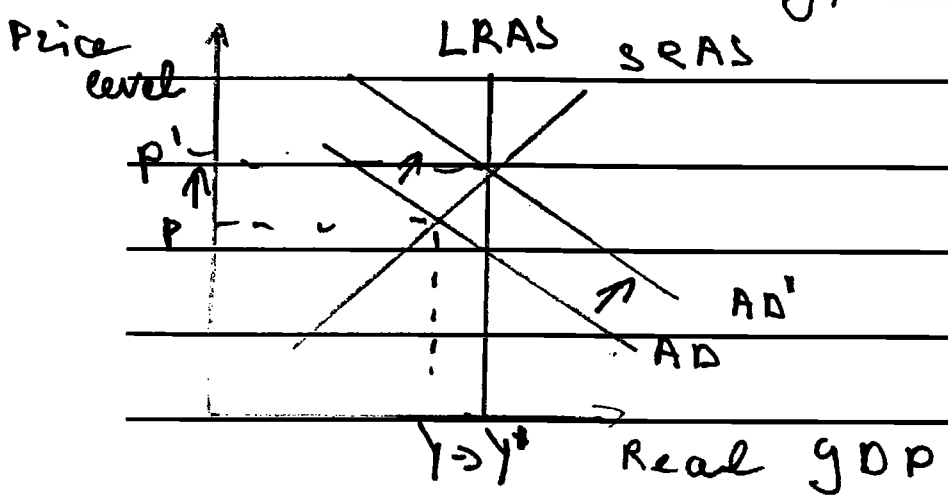
ii) Price increase from p to p'

i) Output decrease from Y to Y'



Short run curve shifts to the right as price level (inflation) increase and unemployment increase (employment decrease)

c) i) By increasing money supply, the central bank lower interest rate. As lower interest rate means higher level of investment. As investment is a part of aggregate demand, when investment increase, aggregate demand increase ($AD = C + I + G$) (shifts to the right)



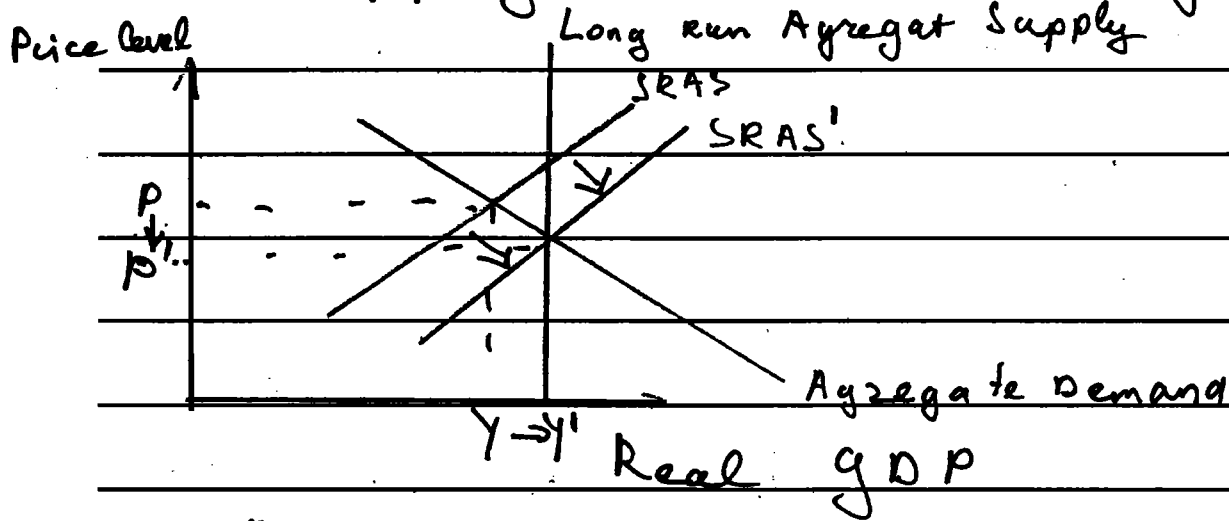
ii) Real output increase from Y to Y'

iii) Price level increase from p to p'

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d) Lower production costs means increase in supply (shifts to the right)

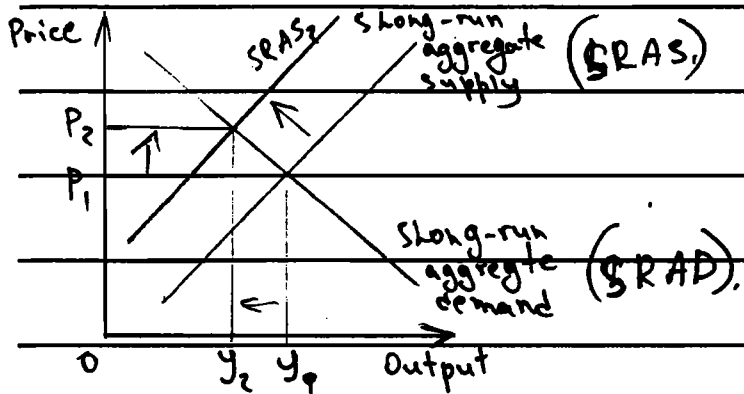


i) Real output increase from Y to Y'

ii) price level decrease from P to P'

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1. 2. i



As the price for oil, an important natural resource, ~~increases~~ which is used for further production, increases the short-run aggregate supply (SRAS) shifts from $SRAS_1$ to $SRAS_2$, or in other words, decreases. As the result of this shift real output (y) decreases from initial equilibrium level of y_1 to new equilibrium level y_2 .

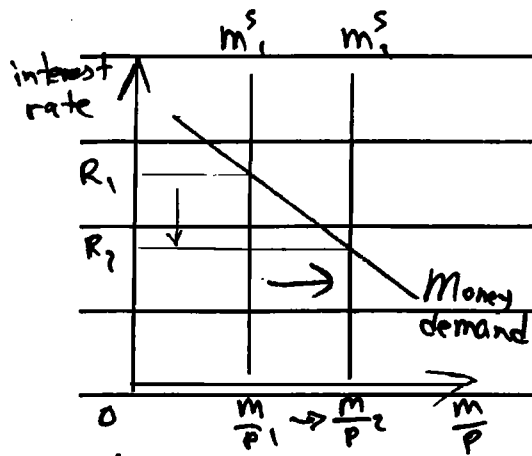
1. 8. ii

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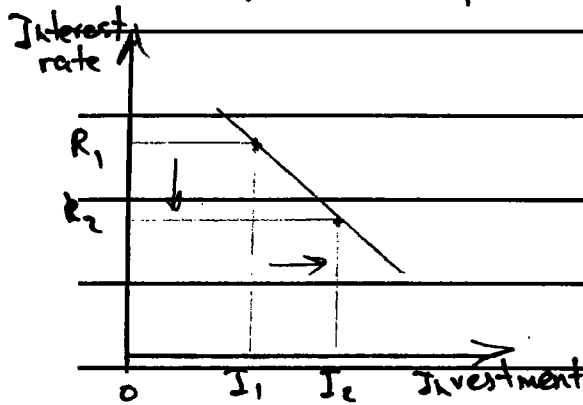
As shown on the graph on the previous page with the decrease of aggregate supply in the short-run, the price level will increase from the initial equilibrium level P_1 to the new equilibrium level P_2 .

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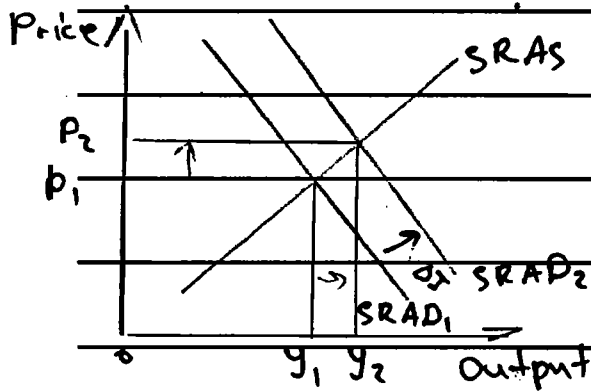
1. C. i.



As the government decides to increase the money supply (M^s) the interest rate will fall from R_1 to R_2 . As the result of decrease in interest rate the investment level will increase from I_1 to I_2 . This increase will lead to the increase in the aggregate demand in short run from $SRAD_1$ to

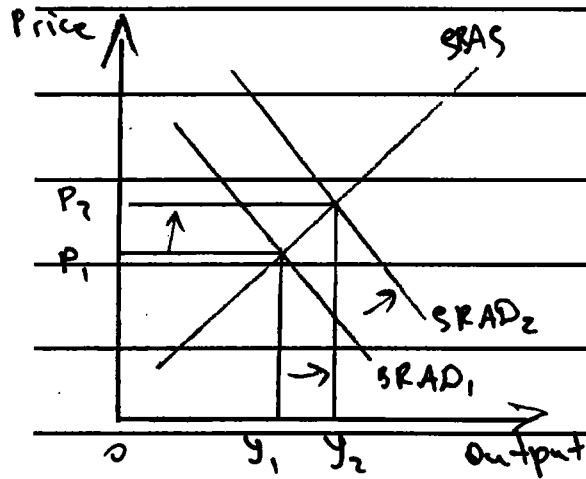


~~short~~ $SRAD_2$ on the level of the increased investment (ΔI)



1. C. ii

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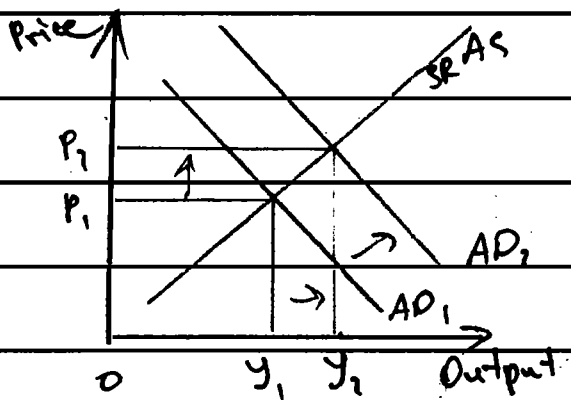


As the increase in investment shifts the AD curve, the real output increases from Y_1 to Y_2 and price level also increases from P_1 to P_2 .

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1. d. i.

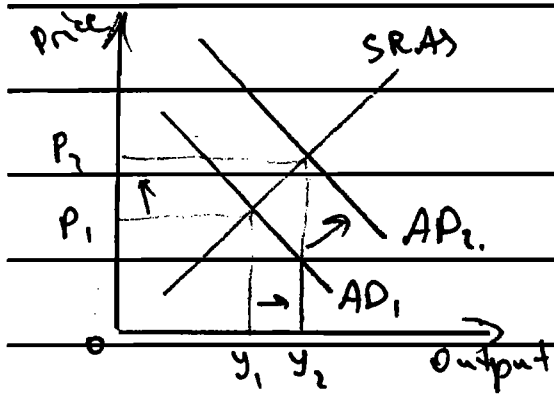
The reduction in business taxes leads to the increase in consumption, which is ~~the~~ one of the components of aggregate demand, so AD curve will shift up from AD_1 to AD_2 .



As it can be seen from the graph, the output level will increase from Y_1 to Y_2 .

1. d. ii

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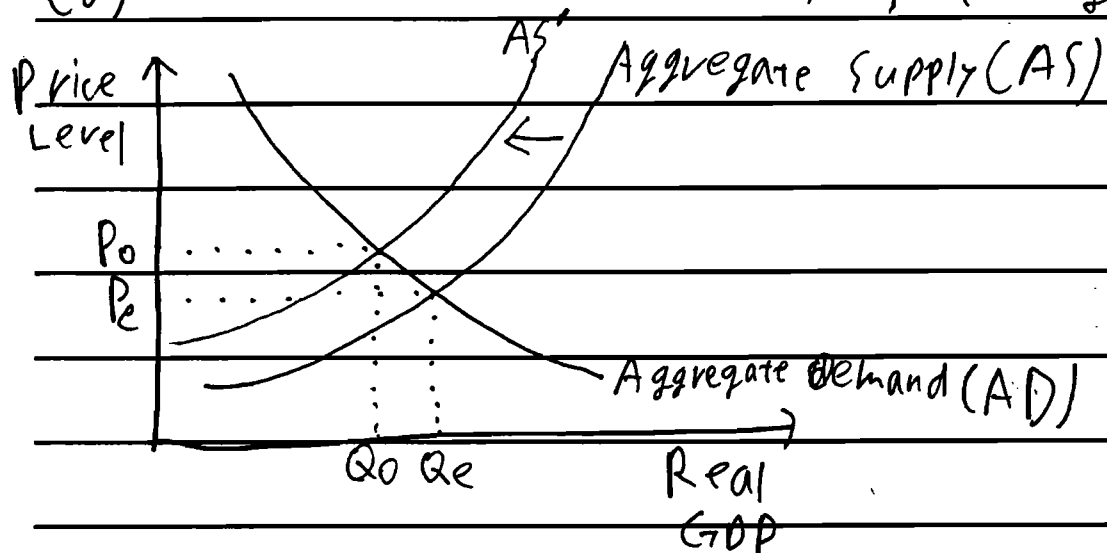
With the increase of AD the price level also increase from P_1 to P_2 .

~~But as long as taxes affect aggregate demand~~

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(a) Since the country's economy is in equilibrium,

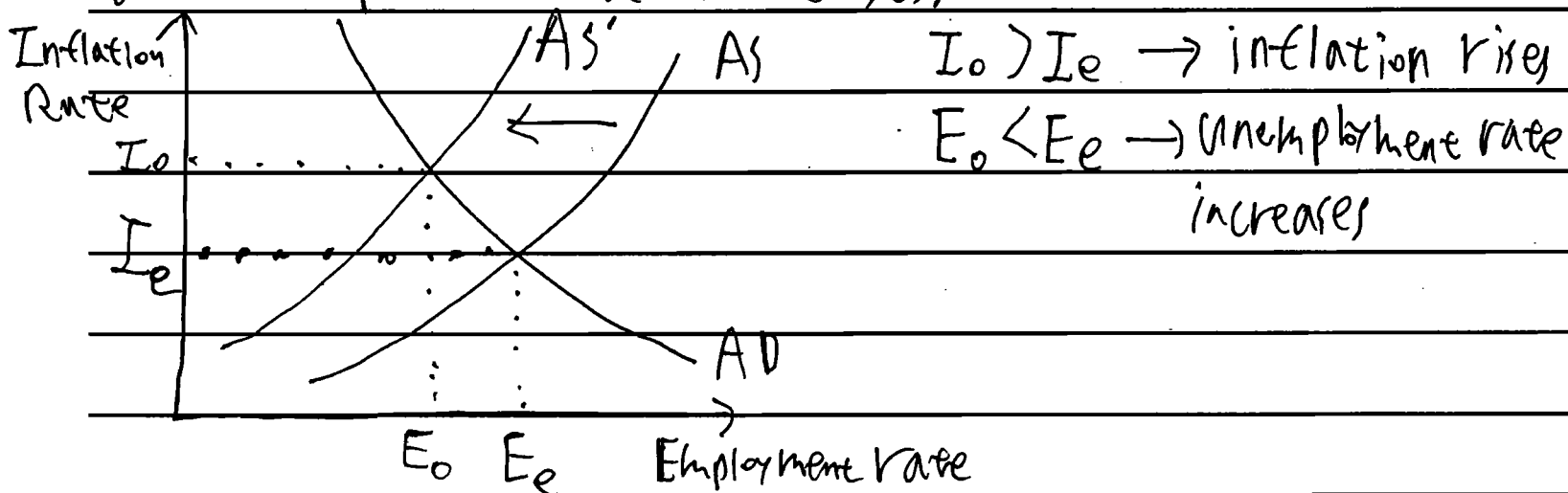


increase in the price of oil makes production cost more, reducing the AS, so the AS graph shifts to the left.

(i) Shift of AS curve moved real GDP from Q_e to Q_0 . Since $Q_0 < Q_e$, real output decreased.

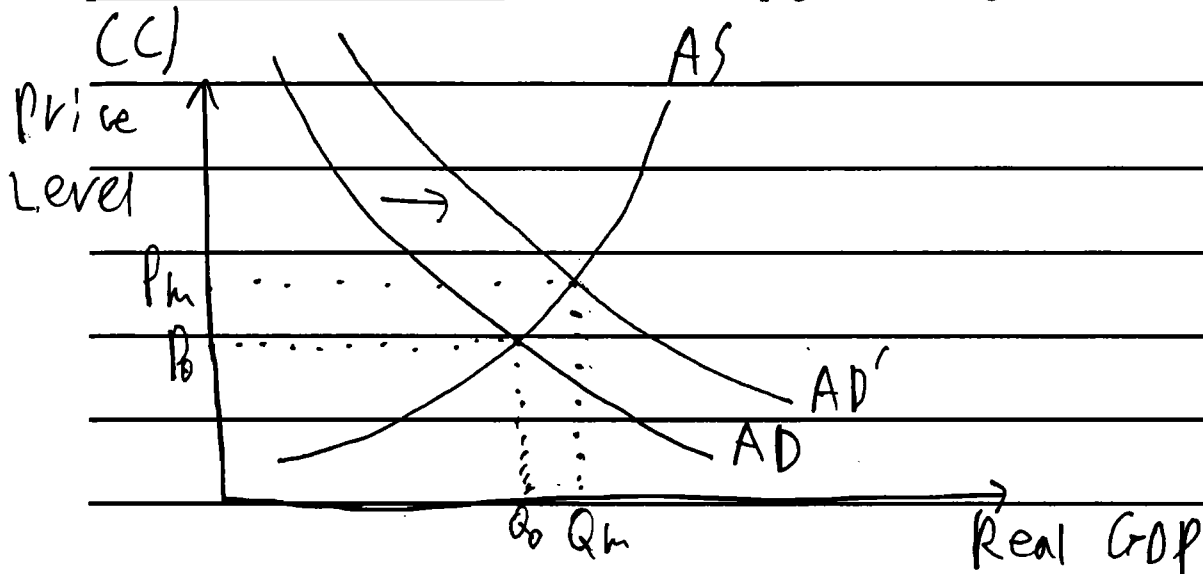
(ii) Shift of AS curve moved price level from P_e to P_0 . Since $P_0 > P_e$, price level increased.

(b) Since the aggregate supply decreases, both inflation rate and unemployment rate increases.



1.

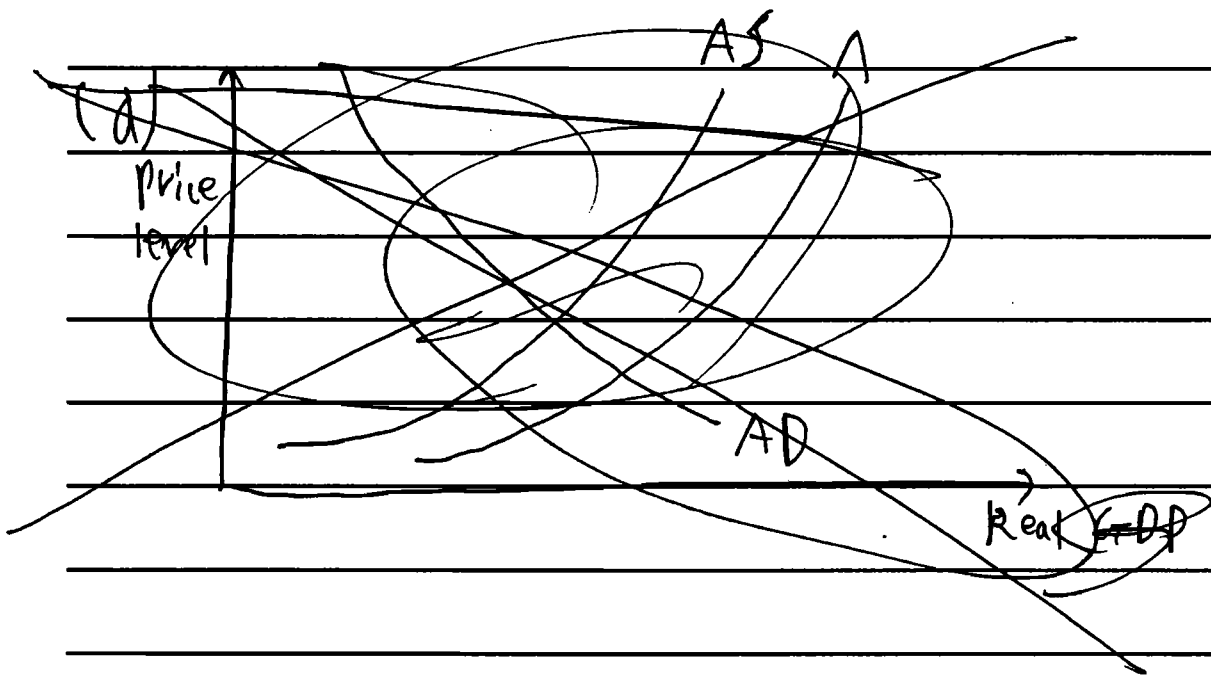
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(i) increase in the money supply will cause ~~price~~ increase in purchasing power, shifting the AD curve to the right.

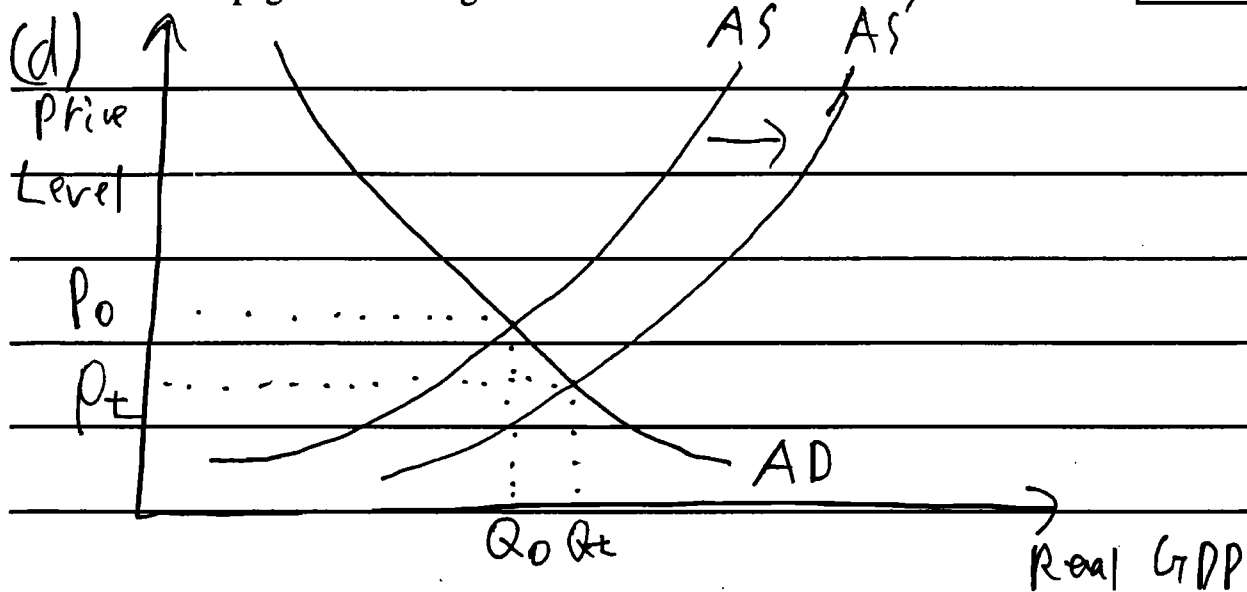
(ii) $Q_m > Q_0$, therefore, real output increases.

$P_m > P_0$, therefore, price level increases.



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1.



reduced business tax decreases cost of production,
moving the AS curve to the right.

(i) $Q_t > Q_0$, therefore, real output increases.

(ii) $P_t < P_0$, therefore, price level decreases.