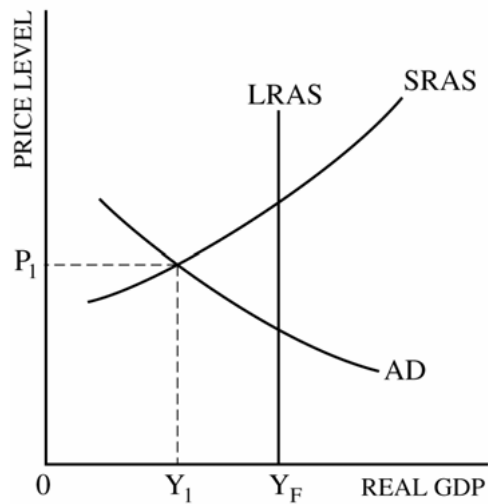


AP[®] MACROECONOMICS
2006 SCORING GUIDELINES (Form B)

Question 1

11 points (3 + 4 + 2 + 2)



(a) 3 points:

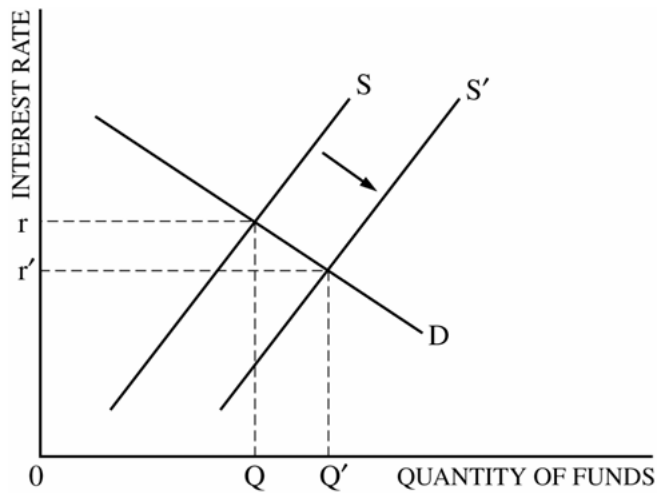
- One point is earned for a correctly labeled graph.
- One point is earned for a vertical LRAS at full employment.
- One point is earned for showing the current output and price level.

(b) 4 points:

- One point is earned for shifting SRAS curve to the right.
- One point is earned for explaining that wages decrease, lowering the cost of production.
- One point is earned for concluding that employment will increase.
- One point is earned for explaining that real output is rising.

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2006 SCORING GUIDELINES (Form B)

Question 1 (continued)



(c) 2 points:

- One point is earned for a correctly labeled graph.
- One point is earned for a rightward shift of the supply curve causing the interest rate to fall.

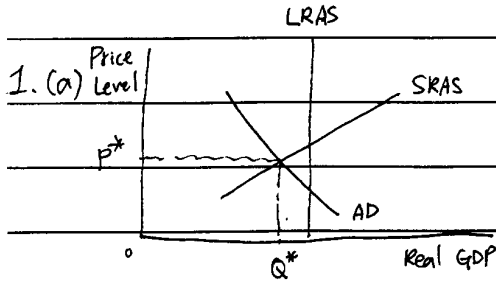
(d) 2 points:

- One point is earned for stating that LRAS will shift to the right.
- One point is earned for explaining that lower real rates increase investment, which increases the capital stock.

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

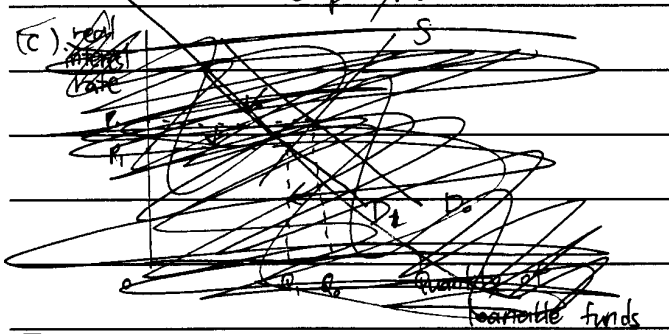
1.

1A1



Long run AS curve is vertical line, meaning full employment. Current output is Q^* and price level is P^* . Short run AS curve intersects with AD curve.

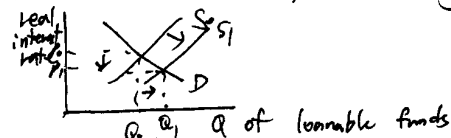
(b) According to classical economists, even if no policy action is taken, prices and wages eventually falls, resulting in reduced input costs. Thus, ~~Aggregate Supply~~ short-run aggregate supply curve shifts to the right, ^(SRAS increases) resulting in decrease in price level and increase in real GDP. Because real GDP rises, ~~employment~~ employment also increases to the full employment.



If government imposes tax, individuals reduce consumption and save more because it is more expensive to buy the same product than before.

~~Thus, the aggregate demand, which consists of consumption, Government spending, Investment and Net export, reduces, resulting in leftward shift of AD curve. So real interest rate falls.~~

People save more, so loanable funds increases, resulting in decrease supply of \downarrow in real interest rate.



1.

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

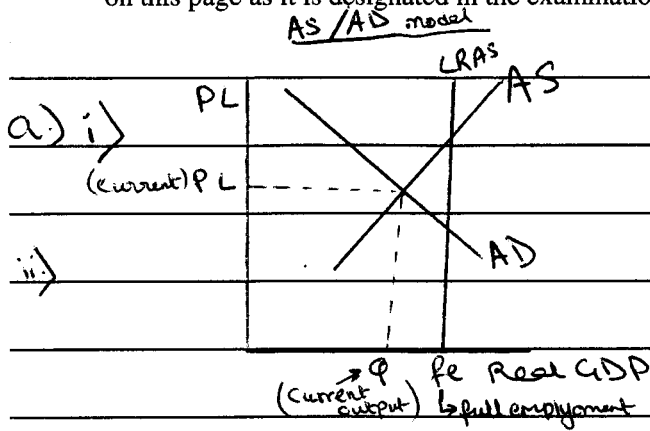
1A₂

(d) If real interest rate falls, individuals can easily lend money, so they invest more. Investment on capital, machines or resources causes aggregate supply to increase in the long run.

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

Question 1.

1B₁



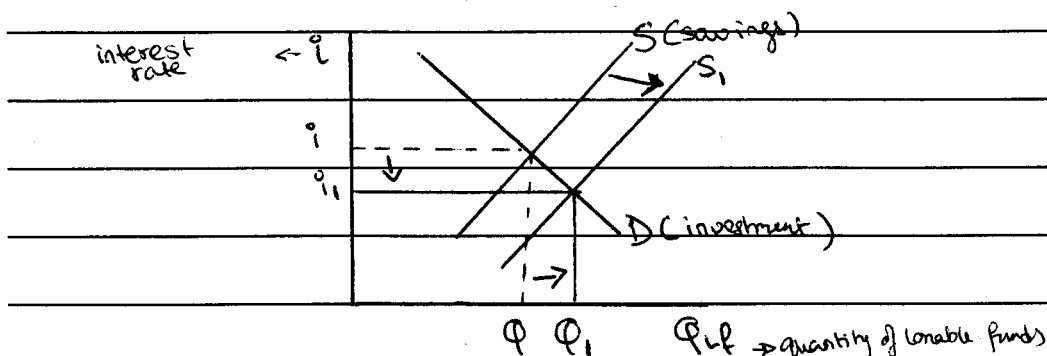
a) i) If the economy is operating at less than the full employment level, that means that the economy is in a recession. Therefore

government spending is required to bring us at that level.

b) i) if ~~prices~~ prices and wages are flexible, ~~then~~ then in an economy like this, the prices will go down, so the short run supply of labor will increase, and therefore employment will increase.

c) If the government implements a special tax to encourage savings, then savings in the loanable funds market will increase, thus the ~~interest~~ interest rate will fall.

loanable funds market



Question 1

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

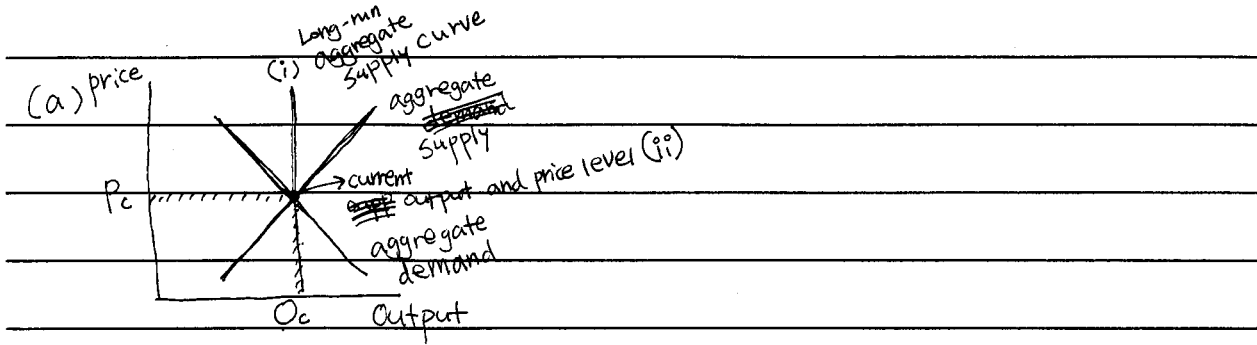
1B2

d) In the long run, aggregate supply is not effected because long run aggregate supply is effected by investment. Investment in economic sense means borrowing, however long run aggregate supply is effected by investment because if investment increases, capital stock increases, and increase in capital stock results in long run growth. Savings has nothing to do with the long run growth. It is not a factor of moving the long run supply curve anywhere. Only capital stock, technology and labor shifts the long run aggregate supply in the long run.

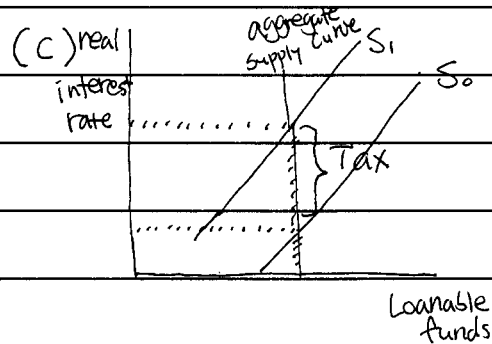
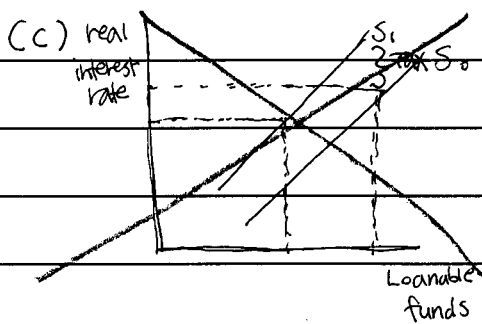
Write in the box the number of the question you are answering on this page as it is designated in the examination.

1.

1C



(b) (i) If it is assumed that policy makers take no policy action and that prices and wages are flexible, Short-run aggregate supply will shift to the right on the graph.
 (ii) Employment will increase or decrease without any policy action. irregularly,



(d) ~~It is~~ It is shown that aggregate supply curve directly ~~in the~~ influences the ~~interest rate~~ real interest rate and loanable funds in the long run. As the real interest rate increases by the shift of the supply curve, amount of tax rate also increases, but ~~it~~ ~~remains same~~ loanable funds doesn't change.

AP[®] MACROECONOMICS
2006 SCORING COMMENTARY (Form B)

Question 1

Sample: 1A

Score: 11

The student received full credit.

Sample: 1B

Score: 6

This student does well with the aggregate demand/aggregate supply graph in part (a) and earned all 3 points.

In part (b) the student does not indicate what will happen to short-run aggregate supply, nor specify the wage decrease that shifts SRAS. (Note that the question states that wages are flexible, so the statement to this effect in the answer is simply a restatement of the information in the question.) The point for an increase in employment was earned, but not the explanation point for saying that real output is rising.

Part (c) was correct and earned 2 points. Part (d) was incorrect because the answer states that LRAS is unaffected, and there is no stated link between lower interest rates and higher levels of investment, capital, and LRAS.

Sample: 1C

Score: 3

This student received the first point in part (a) for a correct basic AS/AD graph. The second point was missed because the equilibrium is not below full employment output. The third point was earned for indicating the current output and price level.

The first point in part (b) was earned for stating that SRAS shifts to the right. No points were earned in part (c) because there is no demand curve drawn for loanable funds and the shift of supply is in the wrong direction. The remaining answers were incorrect.