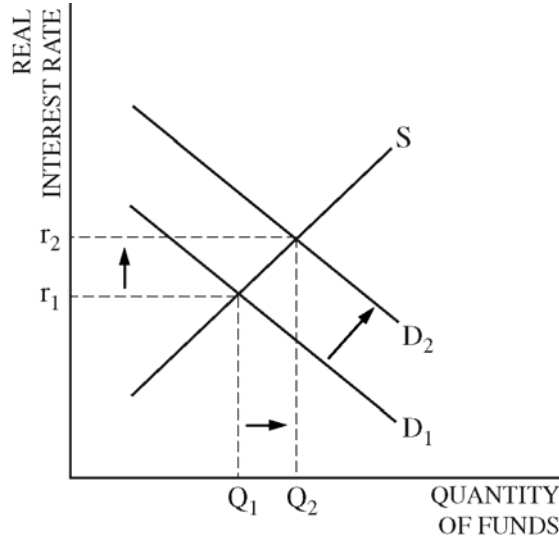


**AP[®] MACROECONOMICS
2007 SCORING GUIDELINES (Form B)**

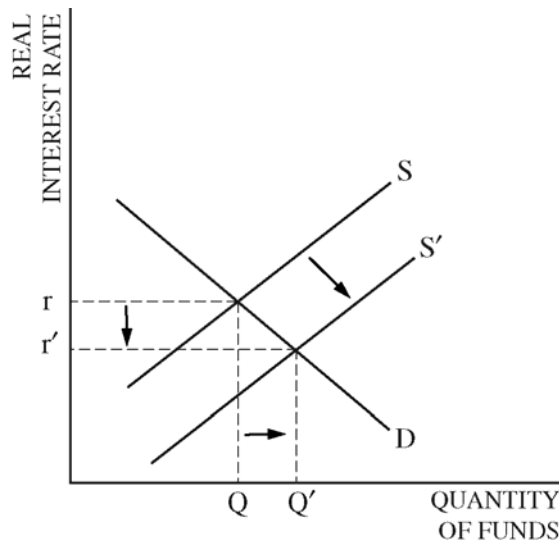
Question 2

7 points (3 + 2 + 2)



(a) 3 points:

- One point is earned for a correctly labeled graph of the loanable funds market.
- One point is earned for shifting the demand for funds curve to the right.
- One point is earned for concluding that the real interest rate rises.



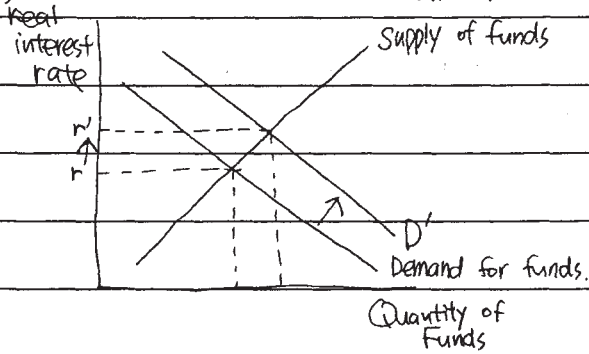
(b) 2 points:

- One point is earned for shifting the supply of funds curve to the right.
- One point is earned for concluding that the real interest rate falls.

(c) 2 points:

- One point is earned for stating that the production possibilities curve (PPC) will shift to the right.
- One point is earned for the explanation that the country's capital stock increases.

(a) Loanable funds market

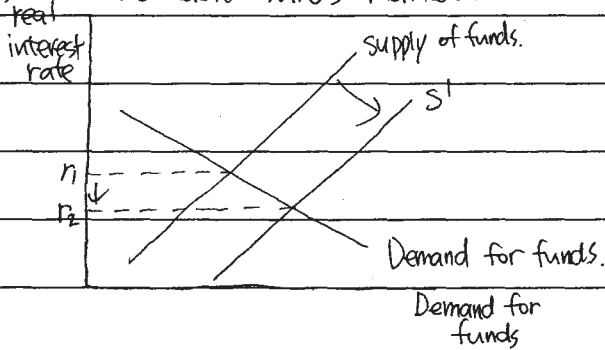


~~The bus~~

The businesses are more willing to ~~buy~~ increase their spending ~~on~~ for machinery because they are granted a tax credit on spending for machinery.

Therefore, the demand for funds will increase. As a result, real interest rate will increase.

(b) Loanable funds market.

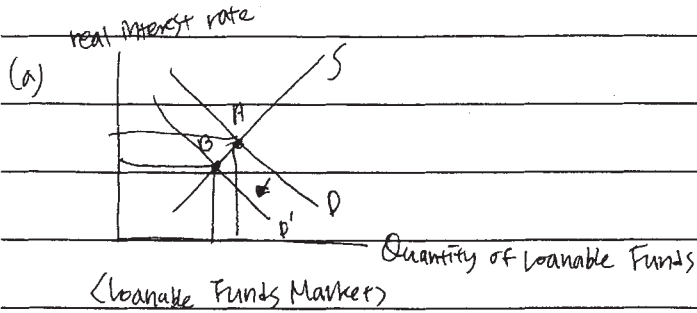


~~People are~~

People will be more willing to ~~save~~ save their money in banks because the tax rate on interest income from household savings is lowered. That means the ~~supply~~ supply in loanable

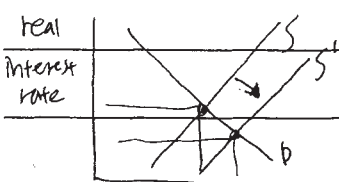
funds market will increase. As a result, the real interest rate will decrease.

(c) ~~The lowered real interest rate will~~ Because of the lowered real interest rate, the investment will increase. The increase in investment will cause increase in capital ~~stocks~~ stocks in the long run. As a result, the country's production possibilities curve will shift out.



⇒ Since, a tax credit is imposed on spending for machinery, businesses would decrease the demand. Therefore, as demand curve shifts to the left, the real interest rate goes down. It makes them to borrow less money. (funds)

(b) Now, the households do not need to pay as much as before when they do savings. The tax rate policy induces more people to save. It makes the supply curve move to the right.

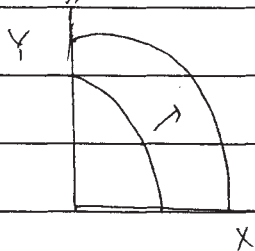


∴ It will bring the lower real interest rate.

Quantity of Loanable Market

(Loanable Funds Market)

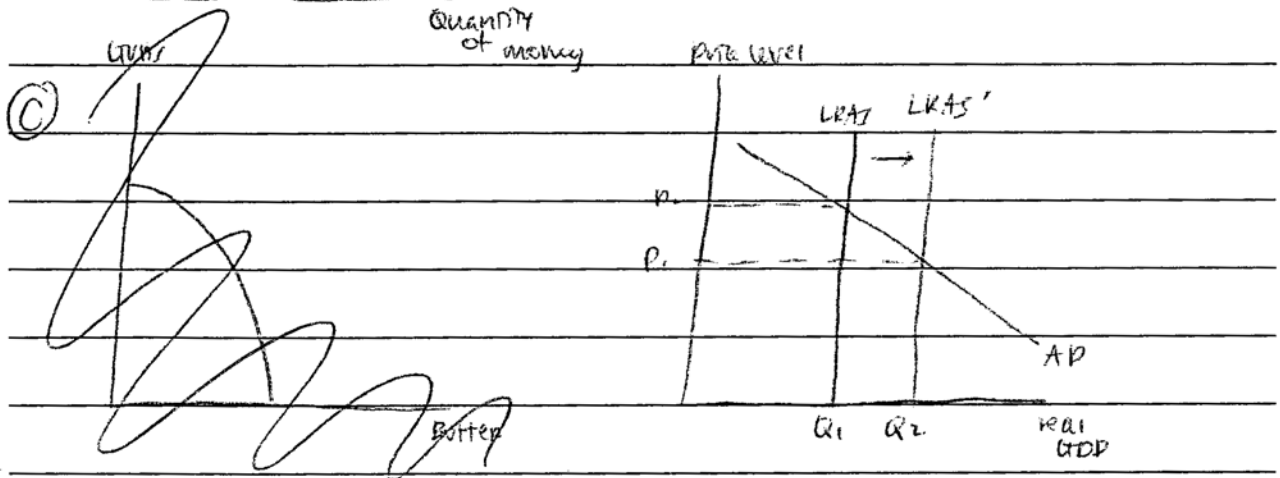
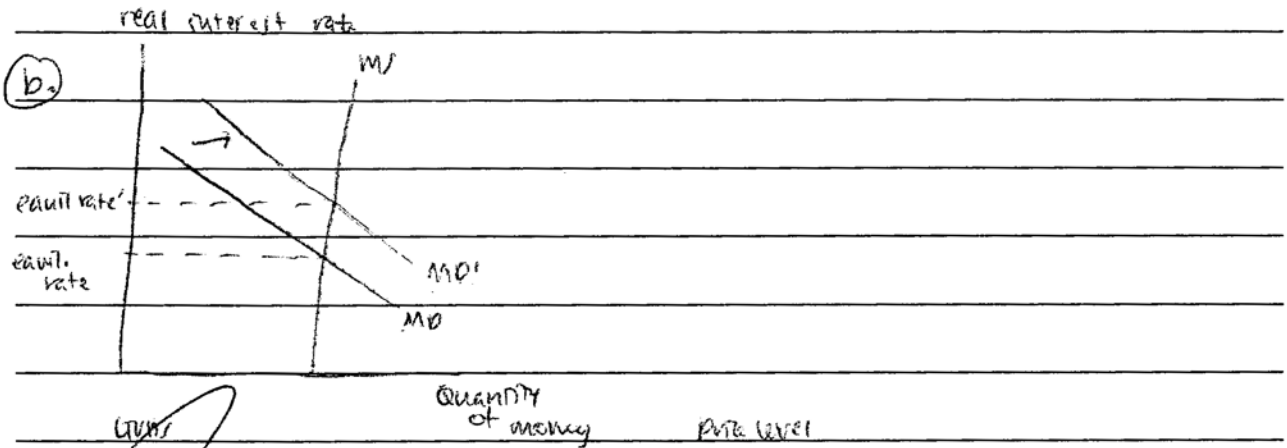
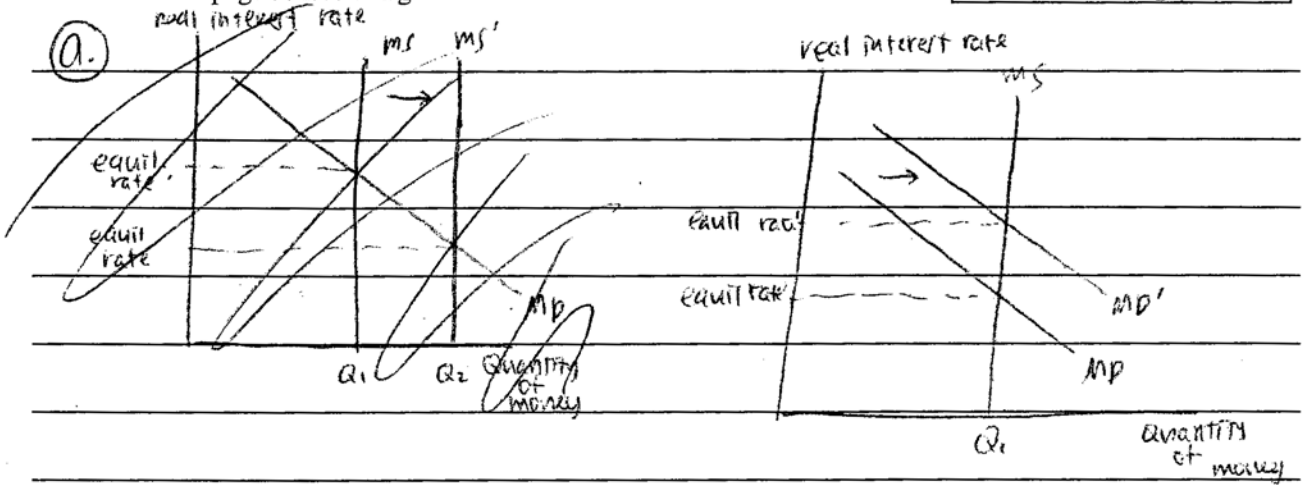
(c) Savings are factors that would make the economic growth.



∴ The whole country's production possibility curve will move outward in the long run. (Shift)

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

Q2 2C



In the long run, the country's production possibilities curve will shift outward due to giving tax credit or lowering tax rate, the money supply will grow meaning more resources available to invest.

AP[®] MACROECONOMICS
2007 SCORING COMMENTARY (Form B)

Question 2

Sample: 2A

Score: 7

The student earned all points in this question.

Sample: 2B

Score: 5

The student lost 1 point in part (a) for an incorrect shift of the demand curve. A consistency point was awarded in part (a) for noting the change in real interest rates. The student lost 1 point in part (c) for failing to provide an adequate explanation.

Sample: 2C

Score: 3

In part (a) the student lost 1 point for the incorrect labeling of the graph but earned the other 2 points for consistency. The student lost 1 point in part (b) for a wrong shift of the demand curve but earned 1 point for the interest rate change, which is consistent with the shift. Part (c) earned no points because the PPC shift is not consistent with the answer in part (b).