The College Board

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Question 1

10 Points (2 + 2 + 2 + 2 + 2)

(a) 2 points:
• One point is earned for a correctly labeled AD/AS graph with vertical LRAS at $Y_F$.
• One point is earned for showing equilibrium output and price level to the left of $Y_F$.

(b) 2 points:
• One point is earned for showing a rightward shift of the AD curve.
• One point is earned for showing the new equilibrium output and price level.

(c) 2 points:
• One point is earned for a correctly labeled graph of the short-run Phillips curve.
• One point is earned for correctly labeling points A and B on the SRPC that indicate a leftward movement along the SRPC.

(d) 2 points:
• One point is earned for stating that the real interest rate will rise.
• One point is earned for the explanation that government borrowing increases the demand for loanable funds.
(e) 2 points:

- One point is earned for a correctly labeled production possibilities curve.
- One point is earned for labeling points C and D, showing a movement toward the curve and an increase in military goods.
Question 2

7 points \( (1 + 2 + 3 + 1) \)

(a) 1 point:
- One point is earned for stating that bank loans will decrease.

(b) 2 points:
- One point is earned for a correctly labeled graph of the money market.
- One point is earned for showing a leftward shift of the MS curve and an increase in the nominal interest rate.

(c) 3 points:
- One point is earned for stating that the price level will fall.
- One point is earned for stating that the real interest rate will rise.
- One point is earned for the explanation that with an increase in the nominal interest rate and a decrease in the price level, the real interest rate increases.

(d) 1 point:
- One point is earned for stating that the ono will appreciate, because the increase in the demand for Sewell’s financial assets causes an increase in the demand for the ono.
Question 3

4 points \((1 + 1 + 1 + 1)\)

(a) 1 point:
- One point is earned for stating that real GDP will fall and the price level will rise, because the increase in the price of oil raises input costs and causes the short-run aggregate supply curve to shift to the left.

(b) 1 point:
- One point is earned for stating that real GDP will rise and the price level will fall, because the increase in labor productivity reduces unit input costs and causes the short-run aggregate supply curve to shift to the right.

(c) 1 point:
- One point is earned for stating that real GDP will rise and the price level will rise, because the increase in spending causes the aggregate demand curve to shift to the right.

(d) 1 point:
- One point is earned for stating that real GDP will rise and the price level will rise, because the depreciation of the currency will cause net exports to rise and the aggregate demand curve to shift to the right.