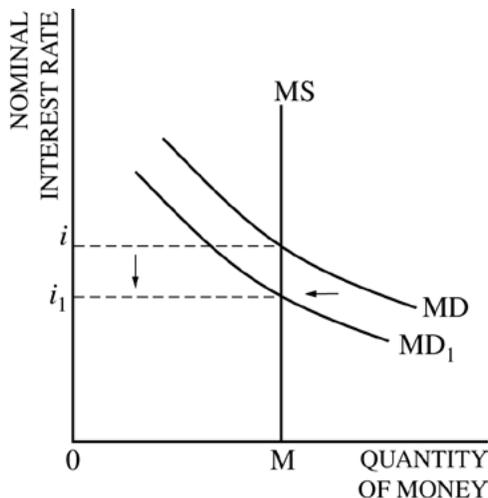


**AP[®] MACROECONOMICS
2010 SCORING GUIDELINES**

Question 2

6 points (2 + 1 + 2 + 1)



(a) 2 points:

- One point is earned for a correctly labeled graph of the money market.
- One point is earned for showing a downward shift of the money demand curve and showing a decrease in the nominal interest rate using arrows, labels or dotted lines.

(b) 1 point:

- One point is earned for stating that bond prices will rise in the short run.

(c) 2 points:

- One point is earned for stating that the price level will rise.
- One point is earned for the explanation that the price level increases because aggregate demand increases, and aggregate demand increases because interest-sensitive spending (investment, consumption or net exports) increases.

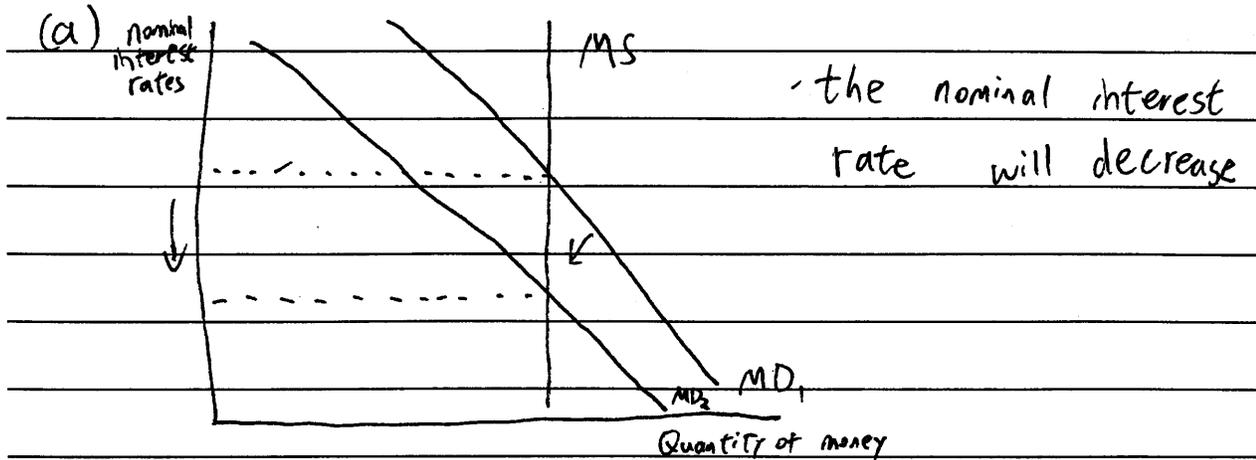
(d) 1 point:

- One point is earned for stating that the Fed could sell bonds to decrease the money supply and raise the interest rate back to the original level.

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

2

2A



(b) Due to the lower interest rate, ~~the~~ bond prices in the short run will increase, as ~~the~~ demand for bonds increase.

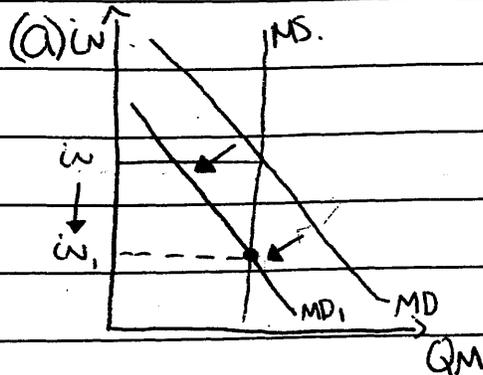
(c) The lower interest rates will encourage consumption and investment, which increases aggregate demand. As a result, the increase in aggregate demand will establish a new short run equilibrium at a higher price level. ~~level.~~

(d) ~~The Fed~~ To raise the interest rates back up to the level before the drop in credit card fees, the ~~the~~ Federal ~~the~~ Reserve can reduce the money supply by selling bonds. By releasing bonds and taking in money, the Federal Reserve shifts the Money Supply ~~to~~ line to the left, raising the nominal interest rate once again.

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

2.

2B



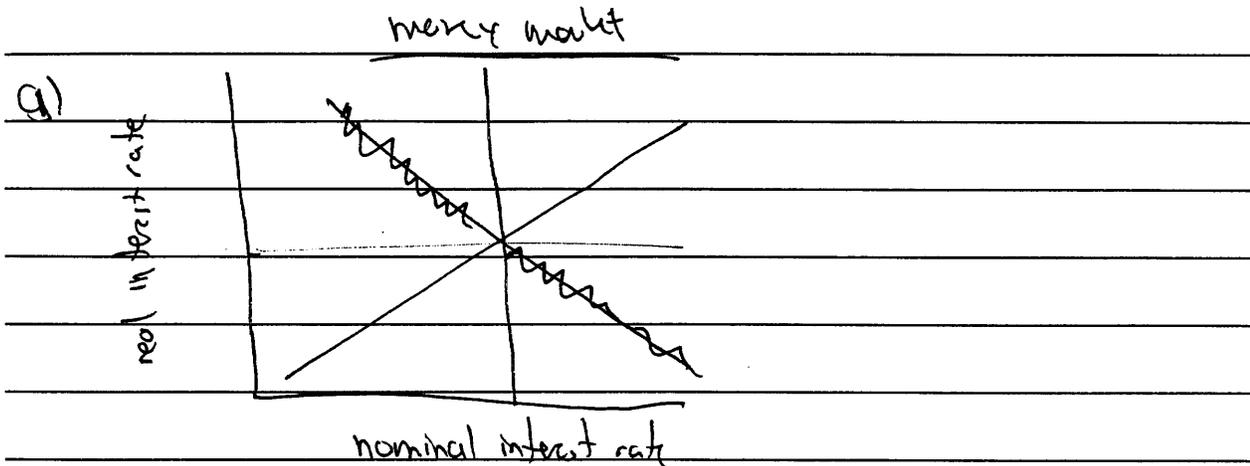
(b) We know that bond prices and interest rates are inversely proportional so as the nominal interest rates go down, bond prices increase.

(c) With less money demand, there will be an increase in supply and due to this price level in the short-run will decrease.

(d) buying bonds this is expansionary so the level of nominal interest rates would go back to its original level.

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

2 20



b) In the short run bond prices would go ~~down~~ ^{UP}

c) In the short run price level would go ~~up~~ ^{down} because since there is a lower demand for money, the price level of money would go down

d) ~~Answer~~ The federal reserve could buy bonds from the government to keep nominal interest rate constant

AP[®] MACROECONOMICS
2010 SCORING COMMENTARY

Question 2

Overview

This question tested students' understanding of the money market, the influence of interest rates on other elements of the economy and the open-market tools of the Federal Reserve. Part (a) asked students to draw and manipulate the graph of the money market. Part (b) determined whether students understood the relationship between the interest rate and bond prices. Part (c) tested for an understanding of the relationship between the interest rate and the aggregate price level. Part (d) asked students to select the appropriate open-market operation to counteract a decrease in the interest rate.

Sample: 2A
Score: 6

The student earned all 6 points for this question.

Sample: 2B
Score: 3

The student earned 2 points in part (a) for a correctly labeled graph of the money market and for showing a downward shift of the money demand curve and a decrease in the nominal interest rate. The student earned 1 point in part (b) for stating that the bond prices will increase.

Sample: 2C
Score: 1

The student earned 1 point in part (b) for stating that the “bond prices would go up” in the short run.