Question 1

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

(a) 2 points:
- One point is earned for drawing a correctly labeled graph of AD and SRAS and showing PL_E.
- One point is earned for showing a vertical long-run aggregate supply curve (LRAS) at \(Y_E\).

(b) 1 point:
- One point is earned for showing a leftward shift of the AD curve and showing the new equilibrium price level, PL_1, and output, \(Y_1\).

(c) 3 points:
- One point is earned for a correctly labeled graph of a downward-sloping short-run Phillips curve.
- One point is earned for drawing a vertical long-run Phillips curve and showing point A at the intersection of LRPC and SRPC.
- One point is earned for showing point B to the right of point A on the SRPC.

(d) 1 point:
- One point is earned for stating that transfer payments will increase because more people will apply for government benefits.

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(e) 2 points:
- One point is earned for drawing a correctly labeled graph of the loanable funds market.
- One point is earned for showing a rightward shift of the demand curve and/or a leftward shift of the supply curve and for showing an increase in the real interest rate.

(f) 1 point:
- One point is earned for stating that the short-run aggregate supply curve will shift to the right because wages and other input costs will fall.
b) Aggregate demand curve shifts to the left.

d) Government transfer payments will increase because the fall in consumer confidence makes real GDP decrease, so people's income decrease and unemployment increase, so more people need transfer payment and transfer payment will increase.

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f) The short run aggregate supply curve will shift to the right. It's because as a result of fall in consumer confidence, AD curve shift to the left and the price level decrease. So workers who are not employed will accept a lower wage and that will make the cost of production decrease; so the supply curve will shift to the right.
Write in the box the number of the question you are answering on this page as it is designated in the exam.

1. B

(a) PL

(b) PL

(c) TVF

(d) Consumer confidence will fall and this will increase government transfer payments in Meekland because government has to transfer more of payments and pay more.

(f) Short-run aggregate supply curve shift to the left because there are not enough consumers to buy their products and there aren't any changes in fiscal and monetary policies.
Write in the box the number of the question you are answering on this page as it is designated in the exam.

(d) If consumer confidence fall, there will be recession. So the government transfer payments will decrease.

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(f) In the long run, the short-run aggregate supply curve will remain unchanged as a result of the fall in consumer confidence. Because if consumer confidence fall, there will be recession.
Sample: 1A  
Score: 10

The student answers all parts of the question correctly and so earned all 10 points.

Sample: 1B  
Score: 7

The student earned both points in part (a) and 1 point in part (b). The student received 2 points in part (c): 1 point for a correctly labeled graph of the short-run Phillips curve and 1 point for the long-run Phillips curve and for placing point A at the intersection of the two curves. The student lost the point in part (d) because the explanation for why the government transfers increase is insufficient. The student earned both points in part (e) for a correctly labeled graph of the loanable funds market and for correctly showing a rightward shift of the demand curve.

Sample: 1C  
Score: 2

In part (a) the student earned 1 point for a correctly labeled graph and 1 point for a vertical long-run aggregate supply curve at full employment.