

AP[®] MACROECONOMICS
2011 SCORING GUIDELINES (Form B)

Question 2

5 points (2 + 3)

(a) 2 points:

- One point is earned for stating that aggregate demand in Singapore will increase and for explaining that the depreciating Singaporean dollar increases Singapore's exports to European Union countries because the price of those exports — in terms of euros — decreases.
- One point is earned for stating that employment in Singapore will increase because Singapore's real GDP increases and it takes more labor to produce more goods and services.

(b) 3 points:

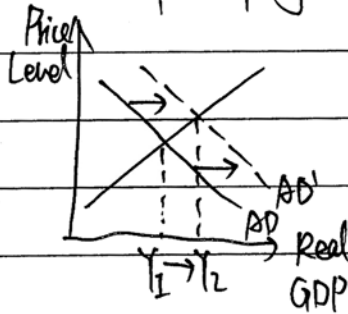
- One point is earned for stating that the Singaporean central bank should sell euros.
- One point is earned for stating that the Singaporean central bank should sell government bonds.
- One point is earned for explaining that the sale of government bonds raises the interest rate in Singapore and increases the demand for Singaporean dollars for financial investment purposes.

2.

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

2. (a) (i) Aggregate demand will increase because Singaporean dollar depreciates relative to euro, making Singaporean goods cheaper and therefore increasing net exports, which is a component of AD.

(ii) The level of employment will increase due to increase in AD.

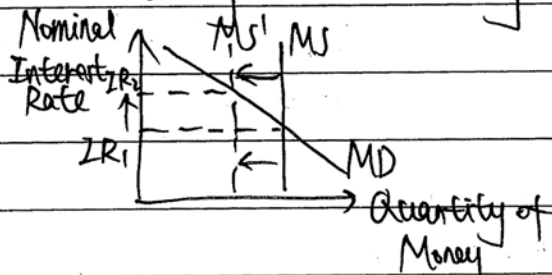


Output rises, increasing the employment level

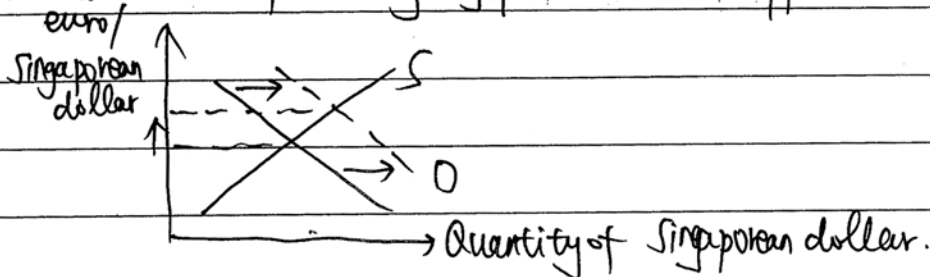
(b) (i) Singaporean central bank should sell euro.

(ii) Singaporean central bank can also sell bonds to achieve the same result.

Because bond selling decreases money supply, increasing the interest rate.



High interest rate attracts foreign investors, increasing demand for Singaporean dollars and therefore making Singaporean dollar appreciate.



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

2B

(a)(i) Aggregate demand will increase, ~~as~~ ~~European~~ It's because European demand for Singapore's products will increase.

~~(ii)~~

(ii) The level of employment will increase

• as real output increases.

(b)(i) Singaporean central bank should sell euros.

~~(ii)~~ Singaporean central bank can ~~buy~~ buy bonds of

~~Singaporean~~ Singaporean money.

(a) (i) Aggregate demand for Singaporean dollars increases because its exchange rate (for euro) increases, so people want to buy more Singaporean dollars - they appreciate.
(ii) the level of employment will rise because there will be more money supply in Singapore.

(b) (i) In order to return the exchange rate to 1 euro = 0.58 Singaporean dollars, Singaporean central bank should sell euros in the foreign exchange market.
(ii) Singaporean central bank instead of selling euros should (could) decrease the discount ratio and reserve ratio.

AP[®] MACROECONOMICS
2011 SCORING COMMENTARY (Form B)

Question 2

Sample: 2A

Score: 5

The student answers all parts of the question correctly and so earned all 5 points.

Sample: 2B

Score: 3

The student lost 2 points in part (b) for stating that the “Singaporean central bank can buy bonds.”

Sample: 2C

Score: 1

The student received 1 point in part (b) for correctly stating that the “Singaporean central bank should sell euros.”