AP® Macroeconomics
1999 Scoring Commentary

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Question 1

As in the past, this long macroeconomic question is aimed at testing students' understanding of aggregate analysis and policy. The question begins by investigating the impact of higher interest rates on investment, the value of the country's currency, and exports. Students frequently did not describe the linkage from higher interest rates to increased demand for the currency to the appreciation of the currency. The importance of capital flows in affecting interest rates should be well explained to students. Students are then asked to link the appreciation of the currency to a reduction in a country's exports. In the second part, students are asked simply to use aggregate analysis to show the impact of reduced investment on real output and the price level. In part (c), students are to identify one expansionary fiscal policy to counter the lowered real output from part (b). The more difficult aspect of part (c) for students was to link higher interest rates (from the expansionary fiscal policy) to lower prices on existing bonds. Alternatively, students could have reached this conclusion by explaining that an increase in the supply of bonds would lower bond prices. In the last part of the question, the students are to identify an expansionary monetary policy. On a correctly labeled graph for the money market, students are then asked to show the impact on nominal interest rates of the expansionary monetary policy. Generally, students responded well to this question; the primary exceptions concerned the link between capital flows and currency value, and the link between expansionary fiscal policy, interest rates, and bond prices.

Question 2

This question asks students to identify two ways of calculating GDP (income and expenditures), and then asks them to explain why each method would yield the same value of GDP. Often, students expressed an intuitive understanding of the equivalence, stating something like "A person's wages determines her expenditures," so they must be equal. In the third part of the question, students are asked to provide a shortcoming of GDP as a measure of real output. Generally, we were looking for exclusions from GDP, such as bartered activities or home production. Finally, the last part of the question considers the relationship between GDP growth and living standards. We were generally disappointed that students did not perform better on this question.

Question 3

In this question, students are asked to analyze the effect of higher real investment on the aggregate demand, the capital stock, long-run aggregate supply, and real output. Additionally, we ask students to show the effect of more capital on the country's production possibilities curve or frontier. We wanted students to demonstrate an understanding of the relationship between net investment, an increase in the capital stock, and increased potential output (or economic growth). Some students confused the capital stock with the value of equities, as determined in the stock market. Also, students frequently did not provide the correct linkage of increased capital to an outward shift in the production possibilities curve.

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