AP Macroeconomics
2000 Student Samples

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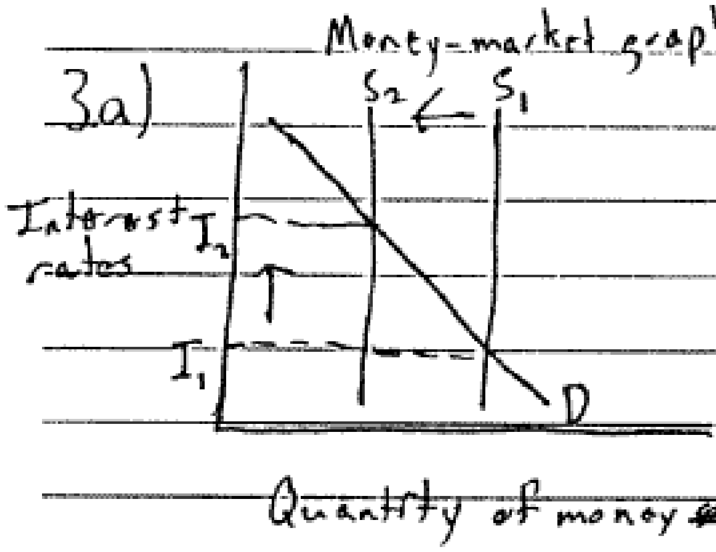
3MAC CC

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

3

3a)



It will increase interest rates

b) Components of aggregate demand ~~(G)~~ are Consumption, Investment and Government Spending.

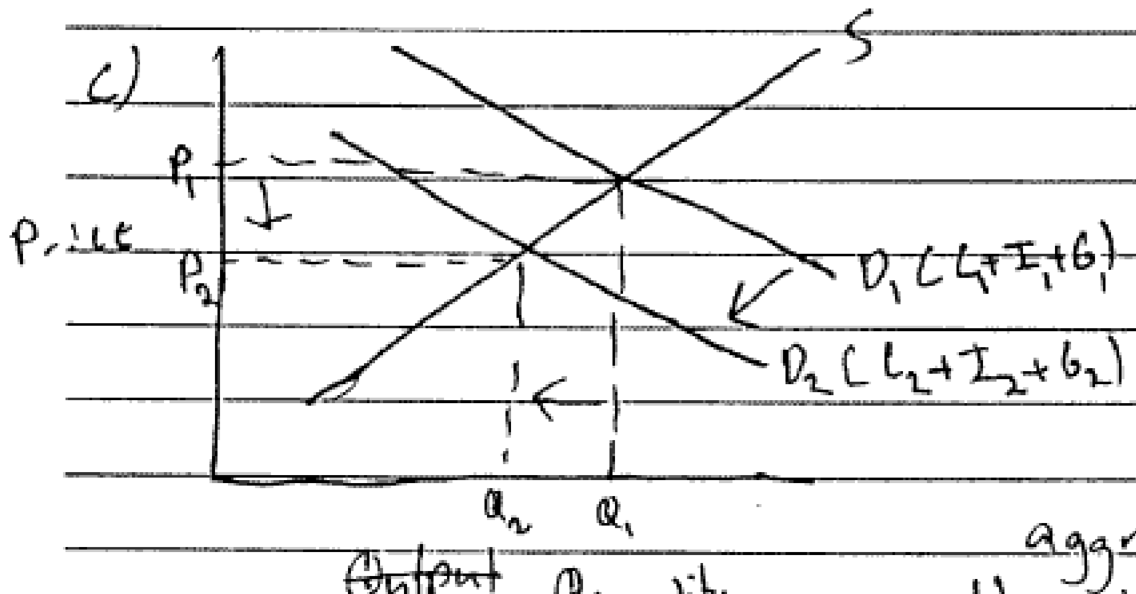
Consumer Spending

It will decrease consumption because consumers will be able to borrow less money for purchasing goods.

It will decrease investment because less ~~proj~~ investments will appear profitable because the expected rate of return will be less the interest rate for more investors.

Interest rates do not affect government spending.

c)



Aggregate demand decreases because of the decreases in consumption and investment.

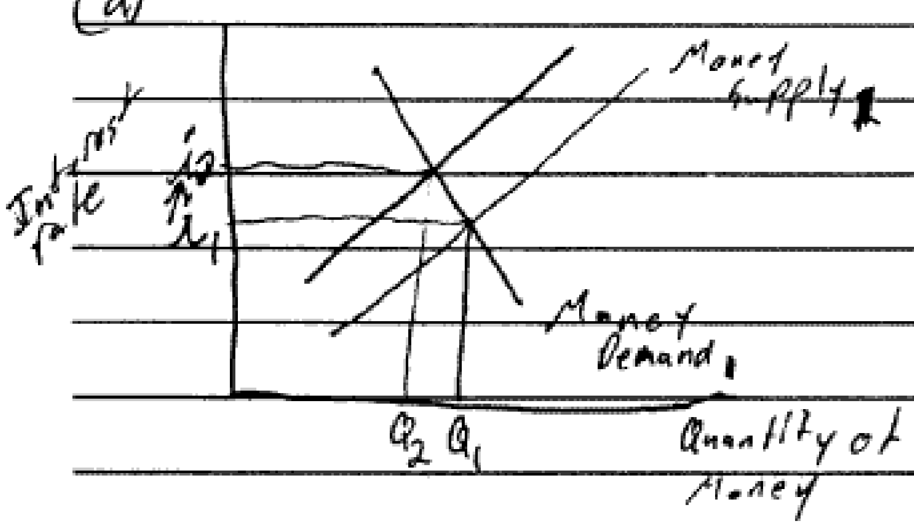
The decrease in aggregate demand decreases the price level and decreases the output.

3MAC NN

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

#3

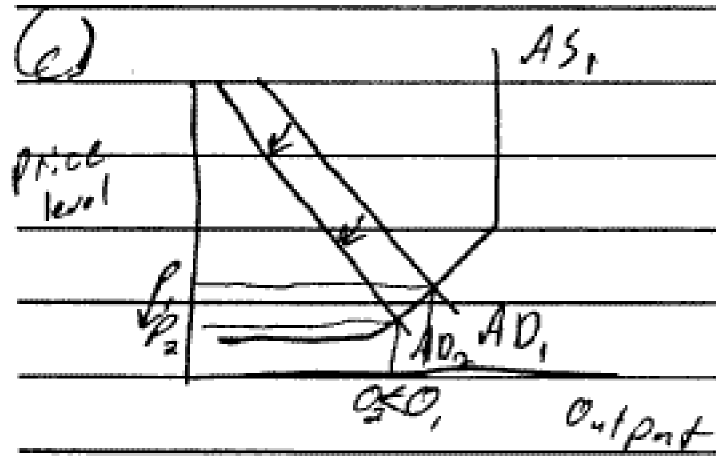
(a)



Interest rates will rise.

(b) C↓, with higher rates of return, people will invest more.
I↓, on the principle i↑ I↓.
G (no change);

(c)



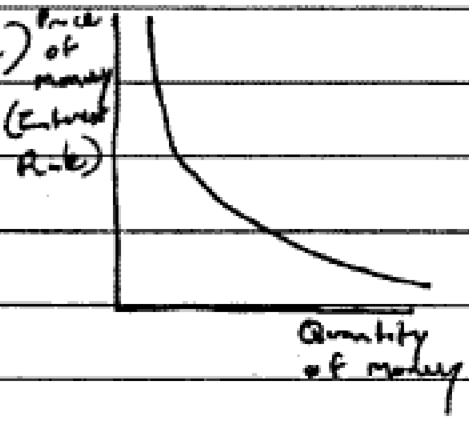
Aggregate demand falls, as identified in (b). This causes (i) output to fall, and (ii) price level to fall.

3

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

3MAC BBB

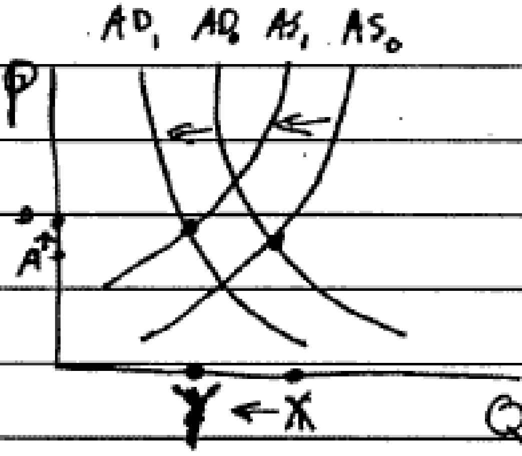
(a)



As the money supply decreases, the price of money, or the interest rate, increases.

(b) The three components of aggregate demand, C+I+G, will be affected by an increase in interest rates. Consumption will decrease as a result of an increased incentive to save (the higher interest rate). Investment will decrease as businesses find it more costly to take out loans and will not invest unless the return rate on the investment is high enough to cover the increased interest rate. The government will not demand as much because the decreased investment leaves little production to consume.

(c)



The decreased consumption will lower demand from AD_0 to AD_1. The decreased investment will lower supply from AS_0 to AS_1. From the graph, it can be seen that the decreased supply and demand will result in decreased output and a higher price level (X to Y and A to B respectively)