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# AP<sup>®</sup> Macroeconomics

## Sample Student Responses and Scoring Commentary Set 1

### **Inside:**

#### **Free-Response Question 3**

- Scoring Guidelines**
- Student Samples**
- Scoring Commentary**

**Question 3: Short** **5 points**

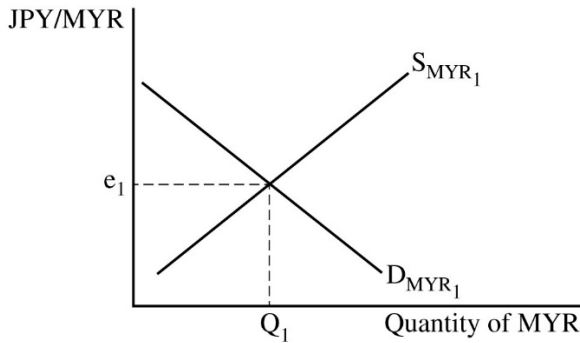
- (a)** State an increase in government spending, a decrease in taxes, or an increase in transfer payments. **1 point**

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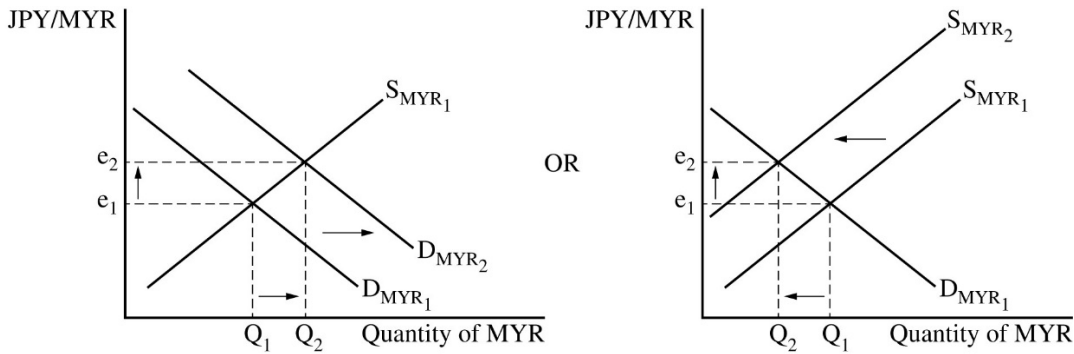
- (b)** State that the real interest rate will increase and explain that government borrowing will increase, which will increase the demand for loanable funds (or decrease the supply of loanable funds). **1 point**

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- (c)** Draw a correctly labeled graph of the foreign exchange market for the ringgit. **1 point**



For the second point, the graph must show an increase in the demand for the ringgit (or a decrease in the supply of the ringgit), resulting in an appreciation of the ringgit. **1 point**



**Total for part (c) 2 points**

- (d)** State that Malaysia’s imports will increase and explain that the appreciation of the ringgit will make Japanese goods relatively less expensive than they were before. **1 point**

**Total for question 3 5 points**

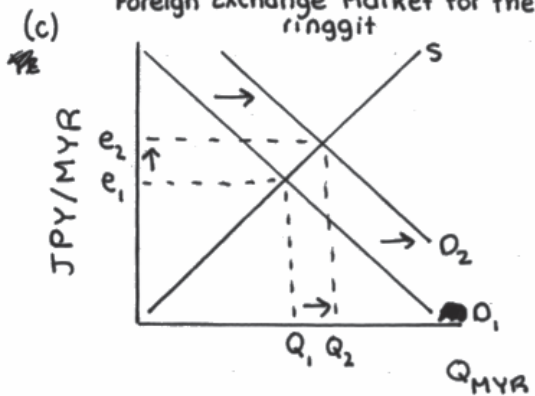
Important: Completely fill in the circle that corresponds to the question you are answering on this page.

Question 1    Question 2    Question 3



Begin your response to each question at the top of a new page.

- (a) Malaysia's government could decrease taxes.
- (b) The government's decrease in taxes will lead ~~to a~~ to a budget deficit which will be financed by an increase in government borrowing, ~~and~~ <sup>so</sup> there is ~~there~~ an increase in the demand for loanable funds resulting in an increase in the real interest rate in Malaysia.



- (d) Malaysia's imports increase. The demand for the ringgit increases, causing the ringgit to appreciate. Foreign goods become less expensive relative to Malaysian goods. Therefore, Malaysians will import more goods ~~from~~ <sup>and services</sup> from abroad. In other words, Malaysian imports increase because the ~~stronger~~ ringgit appreciated in the foreign exchange market, ~~and~~ <sup>and</sup> ~~allowing~~ <sup>and services</sup> ~~Malaysians~~ leading Malaysians to purchase more foreign goods as they are now relatively less expensive compared to domestic goods. ~~and~~

Use a pen with black or dark blue ink only. Do NOT write your name. Do NOT write outside the box.

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● **Important:** Completely fill in the circle that corresponds to the question you are answering on this page.

Question 1

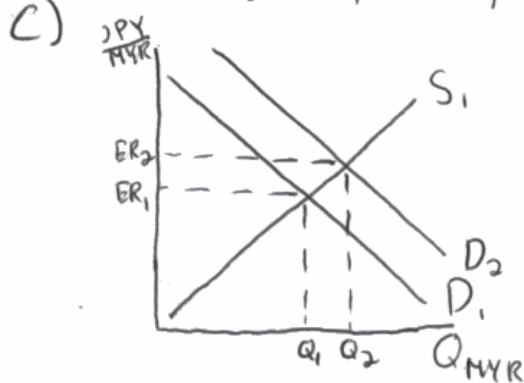
Question 2

Question 3



Begin your response to each question at the top of a new page.

- A) Increase government spending  
 B) Increase, investment spending increases



- D) decrease, less demand for yen when ringgit is more valuable

Page 3

Use a pen with black or dark blue ink only. Do NOT write your name. Do NOT write outside the box.



**Important:** Completely fill in the circle that corresponds to the question you are answering on this page.

Question 1

Question 2

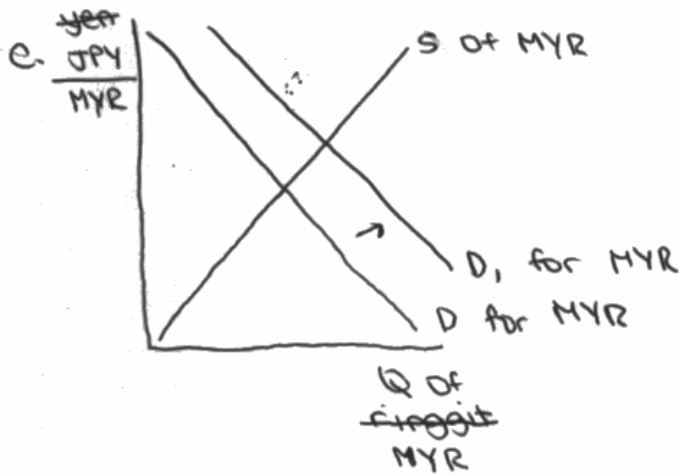
Question 3



Begin your response to each question at the top of a new page.

a. the government could increase their spending

b. The real interest rate would increase because the government would demand more loanable funds. The increase in demand for loanable funds leads to an increase in real interest rate. which is the y axis of the loanable funds graph. because the demand shifts rightwards.



d. Malaysia's imports would increase because the goods from other nations are cheaper than domestic prices.

Use a pen with black or dark blue ink only. Do NOT write your name. Do NOT write outside the box.

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### Question 3

**Note:** Student samples are quoted verbatim and may contain spelling and grammatical errors.

#### Overview

The question examined students' understanding of fiscal policy actions and their impact on the real interest rate and the foreign exchange market.

Students are asked to assume that Malaysia's economy is in a recession and that the government has a balanced budget.

In part (a) students are asked to identify a specific fiscal policy action the government would implement to address the recession.

In part (b) students are asked how the fiscal policy action in part (a) will affect the real interest rate in Malaysia and to explain.

In part (c) students are told to assume that Malaysia and Japan are trading partners with flexible exchange rates. Students are asked to draw a correctly labeled graph of the foreign exchange market for the ringgit relative to the yen and to show the effect of change in the real interest rate identified in part (b) on the international value of the ringgit.

Finally, in part (d), based on the change in the value of the ringgit in part (c), students are asked if Malaysia's imports will increase, decrease, or remain the same and to explain.

#### Sample: 3A

##### Score: 5

The response earned 1 point in part (a) for stating that the government should decrease taxes. The response earned 1 point in part (b) for stating that the real interest rate will increase and explaining that increased government borrowing will increase the demand for loanable funds. The response earned the first point in part (c) for drawing a correctly labeled graph of the foreign exchange market for the ringgit. The response earned the second point in part (c) for correctly shifting the demand curve for the ringgit to the right and showing an appreciation of the ringgit. The response earned 1 point in part (d) for stating that Malaysia's imports will increase and explaining that foreign goods will now be relatively less expensive than they were before.

#### Sample: 3B

##### Score: 3

The response earned 1 point in part (a) for stating that the government should increase spending. The response did not earn the point in part (b) because it does not explain that the increase in the real interest rate is due to an increase in the demand for loanable funds. The response earned the first point in part (c) for drawing a correctly labeled graph of the foreign exchange market for the ringgit. The response earned the second point in part (c) for correctly shifting the demand curve for the ringgit to the right and showing an appreciation of the ringgit. The response did not earn the point in part (d) because it states that Malaysia's imports will decrease.

### Question 3 (continued)

**Sample: 3C**

**Score: 2**

The response earned 1 point in part (a) for stating that the government should increase spending. The response earned 1 point in part (b) for stating that the real interest rate will increase and explaining that the demand for loanable funds will increase. The response did not earn the first point in part (c) because it does not label the equilibrium. The response did not earn the second point in part (c) because it does not show that the increase in the demand for the ringgit leads to an appreciation of the ringgit. The response did not earn the point in part (d) because it does not explain that the increase in Malaysia's imports is due to the fact that Japanese goods will now be relatively less expensive than they were before.