

2026



AP[®] Macroeconomics

Free-Response Questions

MACROECONOMICS
SECTION II
TIME – 1 HOUR

Directions:

Section II has 3 questions and lasts 1 hour.

You may use the available paper for scratch work and planning, but only work written in the free-response booklet will be scored. Any work done on scratch paper will not be scored. Label parts (e.g., A, B, C) and sub-parts (e.g., i, ii, iii) as needed. Use a pencil or a pen with black or dark blue ink to write your responses.

Include correctly labeled graphs, if useful or required, in explaining your answers. A correctly labeled graph must have all axes and curves clearly labeled and must show directional changes. If the question prompts you to “Calculate,” you must show how you arrived at your final answer.

A calculator is allowed in this section. You may use a handheld calculator that is approved for this exam or the calculator available in this application.

You may pace yourself as you answer the questions in this section, or you may use these optional timing recommendations:

It is suggested that you spend the first 10 minutes reading all of the questions and planning your answers. Then, it is suggested that you spend about 25 minutes on question 1 and about 12 minutes each on questions 2 and 3.

You can go back and forth between questions in this section until time expires. The clock will turn red when 5 minutes remain—**the proctor will not give you any time updates or warnings.**

Note: This exam was originally administered digitally. It is presented here in a format optimized for teacher and student use in the classroom.

1. The economy of Micanapy is in short-run equilibrium and is experiencing an inflationary gap.

Part A

Draw a correctly labeled graph of the aggregate demand, short-run aggregate supply, and long-run aggregate supply curves for Micanapy, and show each of the following.

- i. The current equilibrium real output and price level, labeled Y_1 and PL_1 , respectively
- ii. The full-employment real output, labeled Y_F

Part B

Assume that policymakers take no action to close the inflationary gap. Explain how Micanapy's economy will self-adjust to full employment in the long run.

Part C

Suppose instead that Micanapy's central bank is considering using monetary policy to close the inflationary gap in the short run. The banking system in Micanapy has limited reserves.

- i. Identify a specific open-market operation that the central bank of Micanapy would implement to close the inflationary gap in the short run.
- ii. Draw a correctly labeled graph of the money market in Micanapy, and show the effect of the open-market operation identified in part C (i) on the nominal interest rate.

Part D

Based solely on the interest rate change shown on your graph in part C (ii), will each of the following increase, decrease, or remain the same in the short run?

- i. International financial capital flows into Micanapy. Explain.
- ii. The price of previously issued bonds in Micanapy
- iii. Private domestic investment spending in Micanapy

Part E

Based solely on the change in private domestic investment spending identified in part D (iii), will the unemployment rate in Micanapy increase, decrease, or remain the same in the short run? Explain.

2. The economy of Foxhound is in short-run equilibrium with the macroeconomic data shown in the table.

Labor force	15,000,000
Number of people not working but looking for work	900,000
Number of people who are retired	200,000
Number of people not working and not looking for work	100,000
Natural rate of unemployment	3%
Actual inflation rate	2%

Part A

How many people are employed in Foxhound?

Part B

Calculate the actual unemployment rate in Foxhound. Show your work.

Part C

Draw a correctly labeled graph of the short-run and long-run Phillips curves for the economy of Foxhound, and label the short-run equilibrium point as X. Plot the relevant numerical values on your graph.

Part D

If some individuals who are counted as employed in Foxhound retire, will the unemployment rate increase, decrease, or remain the same? Explain.

3. Lizland is a small island nation, and its currency is the Lizland crown (LIZ). The economy of Lizland is in short-run macroeconomic equilibrium with a 600 million crown recessionary gap.

Part A

Policymakers in Lizland are considering taking action to close the recessionary gap in the short run.

- i. The central bank of Lizland is considering implementing monetary policy. The banking system of Lizland has ample reserves. Identify a specific monetary policy action the central bank of Lizland would implement to close the recessionary gap in the short run.
- ii. The government of Lizland is also considering changing its spending, and the marginal propensity to consume is 0.75. Calculate the minimum change in government spending and identify the direction of the change required to fully close the 600 million crown recessionary gap in the short run. Show your work.

Part B

Assume that the government of Lizland decides to change its spending as calculated in part A (ii). Based solely on this change, will the price level in Lizland increase, decrease, or remain the same in the short run? Explain.

Part C

The nations of Lizland and Andoh are trading partners with flexible exchange rates. The currency of Andoh is the Andoh note (AND). Draw a correctly labeled graph of the foreign exchange market for the Lizland crown (LIZ). Based solely on the change in the price level in part B, show the change in the international value of the Lizland crown on your graph.

STOP
END OF EXAM