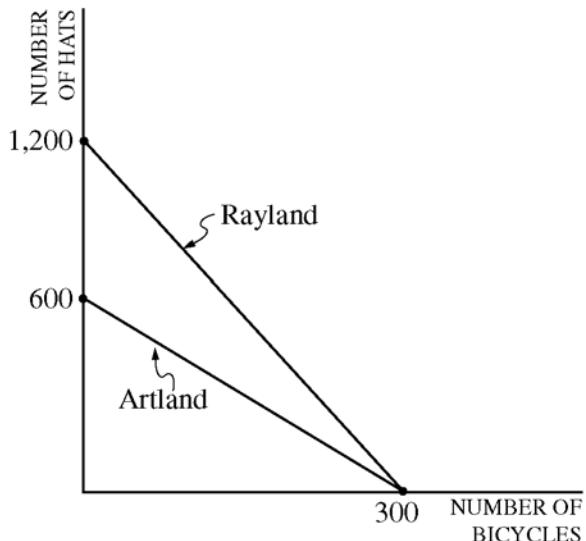


**2008 AP® MACROECONOMICS FREE-RESPONSE QUESTIONS**



3. The diagram above shows the production possibilities curves for two countries: Artland and Rayland. Using equal amounts of resources, Artland can produce 600 hats or 300 bicycles, whereas Rayland can produce 1,200 hats or 300 bicycles.
- Calculate the opportunity cost of a bicycle in Artland.
  - If the two countries specialize and trade, which country will import bicycles? Explain.
  - If the terms of trade are 5 hats for 1 bicycle, would trade be advantageous for each of the following?
    - Artland
    - Rayland
  - If productivity in Artland triples, which country has the comparative advantage in the production of hats?

**STOP**

**END OF EXAM**

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**Question 3**

**6 points** (1 + 2 + 2 + 1)

(a) 1 point:

- One point is earned for stating that the opportunity cost of a bicycle in Artland is  $600/300 = 2$  hats.

(b) 2 points:

- One point is earned for stating that Rayland will import bicycles.
- One point is earned for any one or more of the following explanations:

Rayland has a comparative advantage in hats.  
Rayland has a comparative disadvantage in bicycles.  
Rayland has a lower opportunity cost in hats or higher opportunity cost in bicycles.  
Artland has a comparative advantage in bicycles.  
Artland has a comparative disadvantage in hats.  
Artland has a lower opportunity cost in bicycles or a higher opportunity cost in hats.

(c) 2 points:

- One point is earned for stating that it is advantageous for Artland.
- One point is earned for stating that it is NOT advantageous for Rayland.

(d) 1 point:

- One point is earned for stating that Rayland has a comparative advantage in producing hats.