

2007 AP[®] MACROECONOMICS FREE-RESPONSE QUESTIONS

2. In recent years, the Federal Reserve has made targeting the federal funds rate a main focus of its monetary policy.
- (a) Define the federal funds rate.
 - (b) If the Federal Reserve wants to lower the federal funds rate, what open-market operation would be appropriate?
 - (c) Assume that the open-market operation that you indicated in part (b) is equal to \$10 million. If the required reserve ratio is 0.2, calculate the maximum change in loans throughout the banking system.
 - (d) Indicate the effect of the open-market operation that you indicated in part (b) on the nominal interest rate.
 - (e) Assume that the Federal Reserve's action results in some inflation. What would be the impact of the open-market operation on the real rate of interest? Explain.
3. Indicate whether each of the following is counted in the United States gross domestic product for the year 2006. Explain each of your answers.
- (a) The value of a used textbook sold through an online auction in 2006
 - (b) Rent paid in 2006 by residents in an apartment building built in 2000
 - (c) Commissions earned in 2006 by a stockbroker
 - (d) The value of automobiles produced in 2006 entirely in South Korea by a firm fully owned by United States citizens

STOP

END OF EXAM

**AP[®] MACROECONOMICS
2007 SCORING GUIDELINES**

Question 3

8 points (2 + 2 + 2 + 2)

(a) 2 points:

- One point is earned for stating that the value of the textbook is not included.
- One point is earned for explaining that a used item has already been counted in a previous year, or is not part of 2006 production.

(b) 2 points:

- One point is earned for stating that the rent payment is included.
- One point is earned for explaining that the payment is for service provided in 2006.

(c) 2 points:

- One point is earned for stating that the commissions are included.
- One point is earned for explaining that the commissions represent income for providing service in 2006.

(d) 2 points:

- One point is earned for stating that the value is not included in the U.S. GDP.
- One point is earned for explaining that U.S. GDP does not include production outside of the U.S.