

2012 AP[®] MACROECONOMICS FREE-RESPONSE QUESTIONS

2. The following is a simplified balance sheet for Mi Tierra Bank in the United States.

| Mi Tierra Bank | | | |
|-------------------|----------|-----------------|-----------|
| Assets | | Liabilities | |
| Required reserves | \$10,000 | Demand deposits | \$100,000 |
| Excess reserves | \$5,000 | | |
| Loans | \$85,000 | Owner's equity | \$ 0 |

- (a) What is the reserve requirement?
- (b) Assume that Luis withdraws \$5,000 in cash from his checking account at Mi Tierra Bank.
- (i) By how much will Mi Tierra Bank's reserves change based on Luis' withdrawal?
 - (ii) What is the initial effect of the withdrawal on the M1 measure of money supply? Explain.
 - (iii) As a result of the withdrawal, what is the new value of excess reserves on the balance sheet of Mi Tierra Bank based on the reserve requirement from part (a) ?
- (c) Assume that the next day John withdraws from Mi Tierra Bank an amount that exceeds the bank's excess reserves. Assuming that no loans are called in, how can Mi Tierra Bank cover its required reserves?
3. Assume the economy of Andersonland is in a long-run equilibrium with full employment. In the short run, nominal wages are fixed.
- (a) Draw a correctly labeled graph of short-run aggregate supply, long-run aggregate supply, and aggregate demand. Show each of the following.
- (i) Equilibrium output, labeled Y_1
 - (ii) Equilibrium price level, labeled PL_1
- (b) Assume that there is an increase in exports from Andersonland. On your graph in part (a), show the effect of higher exports on the equilibrium in the short run, labeling the new equilibrium output and price level Y_2 and PL_2 , respectively.
- (c) Based on your answer in part (b), what is the impact of higher exports on real wages in the short run? Explain.
- (d) As a result of the increase in exports, export-oriented industries in Andersonland increase expenditures on new container ships and equipment.
- (i) What component of aggregate demand will change?
 - (ii) What is the impact on the long-run aggregate supply? Explain.

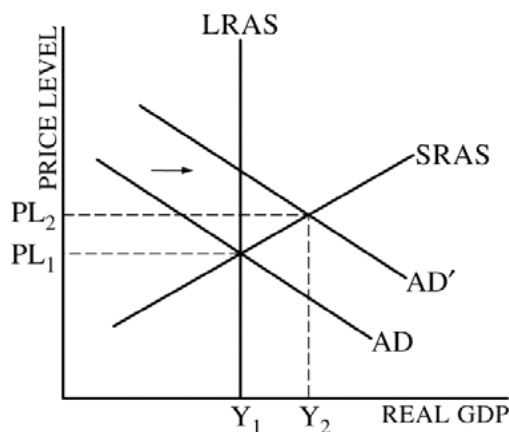
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END OF EXAM

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2012 SCORING GUIDELINES**

Question 3

6 points (2 + 1 + 1 + 2)



- (a) 2 points:
- One point is earned for drawing a correctly labeled graph and showing the AD and SRAS curves and PL_1 .
 - One point is earned for showing a vertical LRAS curve at the output Y_1 through the intersection of the SRAS and AD curves.
- (b) 1 point:
- One point is earned for showing a rightward shift of the aggregate demand curve and showing Y_2 and PL_2 .
- (c) 1 point:
- One point is earned for stating that real wages will fall because the price level has increased and the nominal wages are fixed in the short run.
- (d) 2 points:
- One point is earned for stating that the investment component of AD will change.
 - One point is earned for stating that the long-run aggregate supply curve will shift to the right because the capital stock has increased.