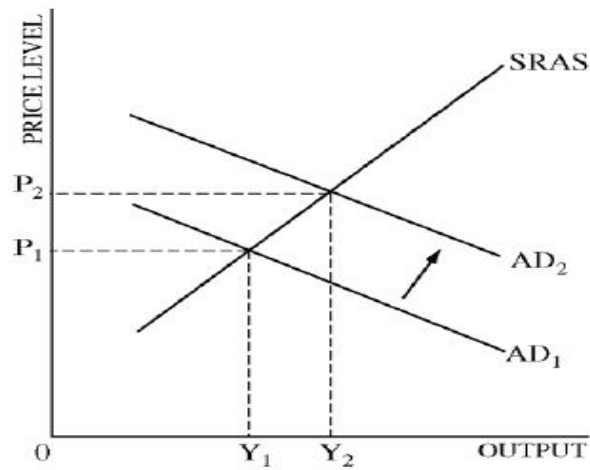
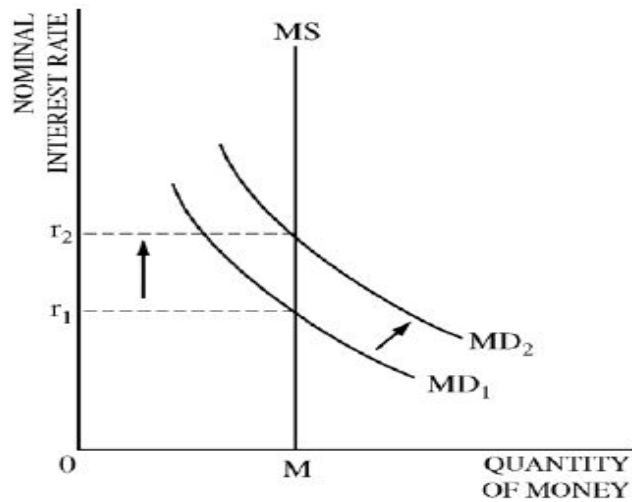


2007B Practice FRQ



(a) 4 points:

- One point is earned for a correctly labeled graph.
- One point is earned for showing a rightward shift in New Zealand's AD curve.
- One point is earned for the explanation that New Zealand's exports to Australia increase.
- One point is earned for concluding that New Zealand's output increases.

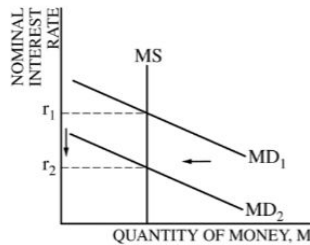


(b) 4 points:

- One point is earned for a correctly labeled graph of the money market.
- One point is earned for showing a rightward shift of the money demand curve.
- One point is earned for the explanation that higher income means more volume of transactions.
- One point is earned for concluding that the nominal interest rate increases.

Question 2

6 points (2 + 2 + 1 + 1)



(a) 2 points:

- One point is earned for drawing a correctly labeled graph of the money market.
- One point is earned for showing a leftward shift in the money demand curve, resulting in a lower nominal interest rate.

(b) 2 points:

- One point is earned for stating that the price of previously issued bonds will increase.
- One point is earned for stating that both the price level and real income will increase and for explaining that the lower interest rate will increase consumption, investment, and/or net exports (interest-sensitive spending), which increases aggregate demand.

(c) 1 point:

- One point is earned for stating that the velocity of money will increase.

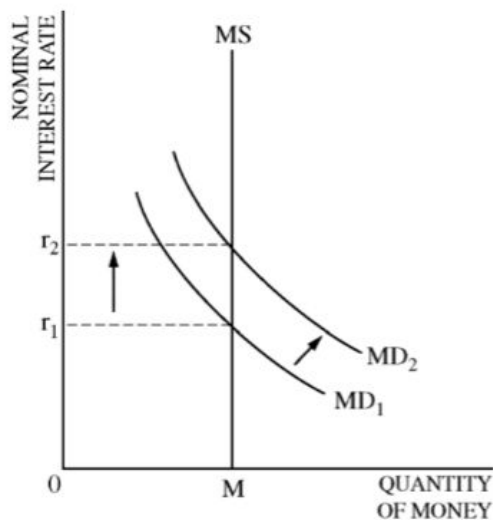
(d) 1 point:

- One point is earned for stating that the central bank would sell bonds.

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Question 1

12 Points (3 + 3 + 2 + 3 + 1)



(a) 3 points:

- One point is earned for a correctly labeled graph of the money market.
- One point is earned for showing a rightward shift of the money demand curve.
- One point is earned for the conclusion that the interest rate rises.