

01	☐ A	☐ B	☐ C	☐ D	☐ E
02	☐ A	☐ B	☐ C	☐ D	☐ E
03	☐ A	☐ B	☒ C	☐ D	☐ E
04	☐ A	☐ B	☒ C	☐ D	☐ E
05	☐ A	☐ B	☐ C	☐ D	☐ E
06	☐ A	☐ B	☐ C	☒ D	☐ E
07	☐ A	☒ B	☐ C	☐ D	☐ E
08	☐ A	☐ B	☒ C	☐ D	☐ E
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27	☐ A	☐ B	☐ C	☒ D	☐ E
28	☐ A	☐ B	☐ C	☐ D	☒ E
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30	☐ A	☐ B	☐ C	☐ D	☒ E
31	☐ A	☒ B	☐ C	☐ D	☐ E
32	☐ A	☐ B	☒ C	☐ D	☐ E
33	☐ A	☒ B	☐ C	☐ D	☐ E
34	☐ A	☐ B	☒ C	☐ D	☐ E
35	☐ A	☐ B	☒ C	☐ D	☐ E
36	☐ A	☐ B	☐ C	☐ D	☒ E
37	☐ A	☒ B	☐ C	☐ D	☐ E
38	☐ A	☐ B	☐ C	☒ D	☐ E
39	☒ A	☐ B	☐ C	☐ D	☐ E

PRACTICE QUESTIONS

College Board AP - United Kingdom

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QUESTIONS

9

FORMAT

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Before you begin

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9 practice questions for College Board AP - United Kingdom **APMAE**, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

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QUESTION 1 MULTIPLE CHOICE

A government decides to spend an additional £200 million on new hospitals. Which of the following are explicit opportunity costs of this decision? (Choose two.)

- ☒ **A** The other goods and services that the £200 million could have funded
- ☒ **B** The tax revenue that must be raised to finance the new hospitals
- ☐ **C** The enjoyment the citizens would have received from private healthcare
- ☐ **D** The construction costs of the new hospital buildings

ANSWER A - B

WHY Opportunity cost is what must be given up to obtain something else. The £200 million could have funded other public goods (A) and requires foregone private spending through taxation (B). The enjoyment of private healthcare is an implicit/psychic cost, not an explicit opportunity cost, and the construction cost is the actual cost of the chosen option, not the cost of the next-best alternative.

QUESTION 2 MULTIPLE CHOICE

Which of the following are counted in the calculation of Gross Domestic Product (GDP) using the expenditure approach? (Choose two.)

- ☒ **A** A household purchases a newly built home
- ☐ **B** A consumer buys a used car from another consumer
- ☒ **C** Government purchases of fighter jets from a domestic manufacturer
- ☐ **D** A homemaker's unpaid childcare services for the family

ANSWER A - C

WHY GDP using the expenditure approach sums $C + I + G + NX$. New residential construction is counted as residential investment (I) (A), and government purchases of domestically produced goods (G) are included (C). Sales of used goods are not counted because they were already counted when originally produced (B), and unpaid household production is excluded from GDP because it is not a market transaction (D).

QUESTION 3

SINGLE CHOICE

If the Consumer Price Index (CPI) rises from 250 to 275 in a single year, the inflation rate over that year is closest to:

- ☐ A 9.1%
- ☒ B 10.0%
- ☐ C 20.0%
- ☐ D 25.0%

ANSWER B

WHY Inflation rate = $(\text{New CPI} - \text{Old CPI}) / \text{Old CPI} \times 100 = (275 - 250) / 250 \times 100 = 25 / 250 \times 100 = 10.0\%$.

QUESTION 4

SINGLE CHOICE

An increase in business optimism shifts the aggregate demand curve to the right. In the short run, if the economy begins at full-employment equilibrium, the most likely result is:

- ☐ A A lower price level and lower real output
- ☒ B A higher price level and higher real output
- ☐ C No change in the price level or real output
- ☐ D A lower price level and higher real output

ANSWER B

WHY A rightward shift of AD, starting from full employment, moves the economy up along the upward-sloping short-run aggregate supply curve, producing both a higher price level and higher real output (above potential in the short run).

QUESTION 5

SINGLE CHOICE

Which of the following best describes an expansionary fiscal policy action by the federal government?

- ☐ A Decreasing government spending and increasing taxes
- ☒ B Increasing government spending and decreasing taxes
- ☐ C Selling government securities in the open market
- ☐ D Increasing the discount rate

ANSWER B

WHY Expansionary fiscal policy increases aggregate demand through increased government spending (G) and/or decreased taxes (T). Selling securities and raising the discount rate are monetary policy tools used for contractionary purposes.

QUESTION 6

SINGLE CHOICE

When the central bank buys government bonds in the open market, the most immediate effect is:

- ☐ A A decrease in bank reserves and a decrease in the money supply
- ☒ B An increase in bank reserves and an increase in the money supply
- ☐ C An increase in the discount rate
- ☐ D A decrease in required reserve ratios

ANSWER B

WHY An open-market purchase injects reserves into the banking system, increasing bank reserves and the monetary base, which expands the money supply through the money multiplier. Changes to the discount rate and reserve requirements are separate monetary policy tools.

QUESTION 7

SINGLE CHOICE

If the domestic currency appreciates relative to a foreign currency, holding other factors constant, domestic consumers will most likely:

- ☐ A Import fewer foreign goods
- ☒ B Import more foreign goods
- ☐ C Export more goods to the foreign country
- ☐ D Pay more in domestic currency for foreign goods

ANSWER B

WHY An appreciation of the domestic currency makes foreign goods cheaper in domestic-currency terms, increasing imports. It simultaneously makes domestic goods more expensive to foreigners, decreasing exports.

QUESTION 8

SINGLE CHOICE

The money multiplier is equal to:

- ☐ A The required reserve ratio divided by 1
- ☒ B 1 divided by the required reserve ratio
- ☐ C The currency deposit ratio divided by bank reserves
- ☐ D Bank reserves multiplied by deposits

ANSWER B

WHY The simple money multiplier is calculated as $1 / \text{reserve ratio}$. A lower reserve ratio produces a larger multiplier, allowing banks to create more deposits from a given amount of reserves.

QUESTION 9

SINGLE CHOICE

Which of the following is most likely to increase an economy's long-run aggregate supply?

- ☐ A A temporary increase in consumer spending
- ☒ B An increase in the capital stock through investment in new machinery
- ☐ C A central bank purchase of government bonds
- ☐ D An increase in the minimum wage that raises production costs

ANSWER B

WHY Long-run aggregate supply is determined by real factors: the quantity of resources and productivity. Investment that expands the capital stock increases potential output and shifts LRAS to the right. Temporary demand-side changes (A, C) shift AD, and higher production costs (D) shift SRAS left.