



AP Macroeconomics 2000 Student Samples

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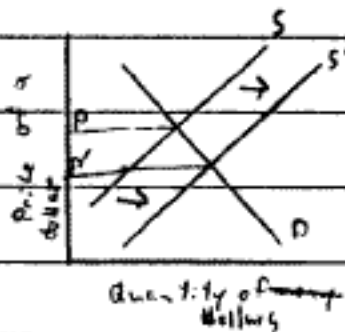
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Write in the box the number of the question you are answering on this page as it is designated in the examination.

Question 2

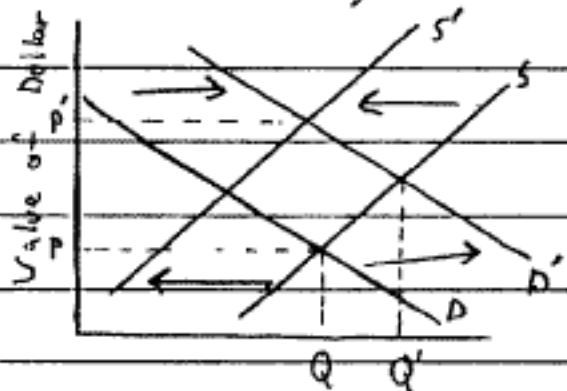
2a) i) An increase in U.S. demand for French goods will cause Americans to purchase francs with dollars. American purchases of francs will flood the international market with dollars, which is an increase in supply.

ii) The increased supply of dollars will cause the supply curve to shift from S to S' and the price of a dollar to fall from P to P' .



b) i) An increase in real US interest rates will cause French investors to ~~not~~ desire US dollars and the demand curve for dollars to shift right.

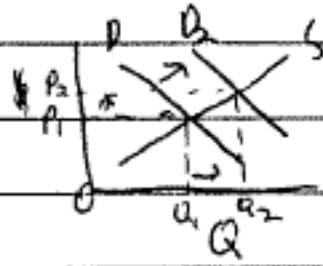
Against a constant A_t the same time U.S. investors will be ~~not~~ purchasing securities and the supply of dollars will be reduced (shift left). The graph illustrates how price will increase from P to P' as demand shifts from D to D' and supply from S to S' .



ii) As a direct result of the increase in rates dollars available in the market will increase from Q to Q' (see graph with part i) but the final quantity of dollars, is unpredictable.

Write in the box the number of the question you are answering on this page as it is designated in the examination.

#2



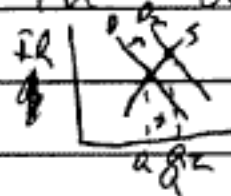
a. i. This increase in demand will cause the supply of dollars to decrease. This is because the shift from $D_1 \rightarrow D_2$ caused $P_1 \rightarrow P_2$ and $Q_1 \rightarrow Q_2$. Overall, the quantity of us dollars leaving the US has increased.

ii. The value of the dollar is decreasing. As you can see in the graph the amount of dollars needed to buy a foreign good is increasing $P_1 \rightarrow P_2$. This means the value is going down.

b. i. Increased interest rates encourage foreigners to invest in the US. They will buy gov's securities. This increase demand for the US dollar will increase its value on the foreign exchange market.

ii. Because of the increase in demand, the ~~Qs~~ Qs will increase.

~~Reasons~~ Shift $D_1 \rightarrow D_2$
 $Q_1 \rightarrow Q_2$

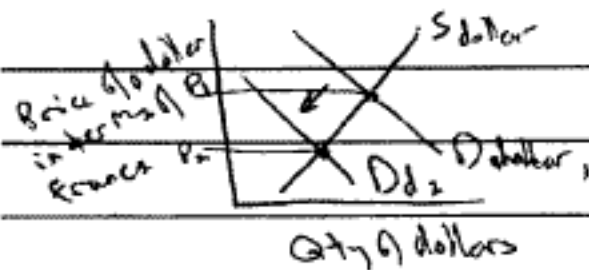


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2

a) i) Such changes in demand for dollars and francs have no affect on the Money supply, which is determined by the Federal Reserve. Unless they wish to use monetary policy to change the economy, Supply of dollars will not shift.

ii) The international value of the dollar will fall as the demand for dollars falls. The demand for dollars will fall because there is an increased demand for francs so more French goods can be bought.



S_{dollar} = Supply of dollars

D_{dollar_1} = demand for dollars

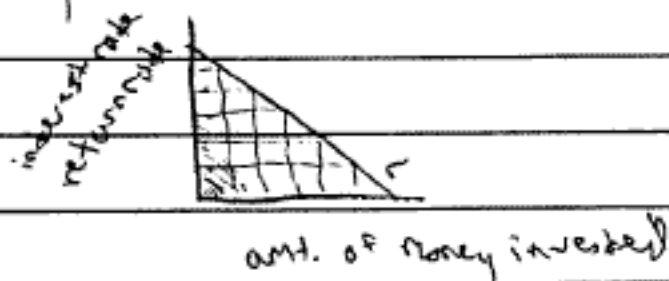
D_{dollar_2} = demand for dollars when demand for French goods increases

Money will only be invested if expected return exceeds the interest rate

P_1 = price of a dollar (in terms of francs)

P_2 = price of dollar when French goods in demand

b) i) An increase in interest rates will decrease investment because less investment will be profitable (able to make more money than would be able to get by lending out money at that interest rate). If there are only two countries and it is less profitable to invest in the US, it will be more profitable to invest in France. The value of the dollar will fall as the demand for dollars fall as both the value and demand for francs rises.



ii) The quantity of dollars supplied will not be affected as this is determined only by Monetary policy which is determined by the Fed.