

AP[®] MACROECONOMICS
2006 SCORING GUIDELINES (Form B)

Question 3

7 points (4 + 1 + 2)

(a) 4 points:

- One point is earned for stating that demand for Canadian dollars will decrease.
- One point is earned for explaining that Korean demand for Canadian goods will decrease.
- One point is earned for stating that demand for Canadian dollars will fall.
- One point is earned for explaining that Korean demand for Canadian financial assets will decrease.

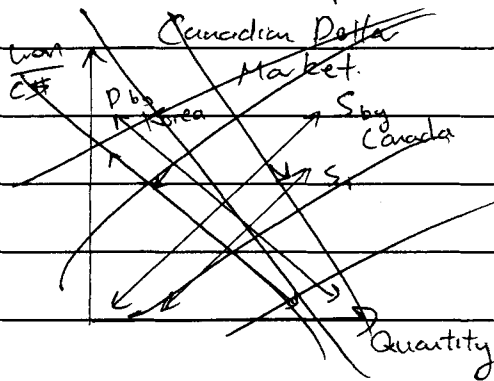
(b) 1 point:

- One point is earned for concluding that Canadian dollars will depreciate.

(c) 2 points:

- One point is earned for stating that Canadian exports to Korea will increase.
- One point is earned for explaining that Koreans will find Canadian goods relatively cheaper.

~~(a) (i) ~~Be~~ High relative inflation in Canada will result in Canadian products becoming relatively more expensive than Korean products. Consequently, the supply of Canadian money will increase as Canadians buy more Korean goods as they appear cheaper. Korean demand for Canadian currency will fall, as they will buy less Canadian imports.~~



a) (i) Demand for the Canadian dollar will fall due to higher relative inflation in Canada. Canadian goods will become comparatively more expensive to Koreans, who will buy fewer imports from Canada. This reduces the demand for Canadian money.

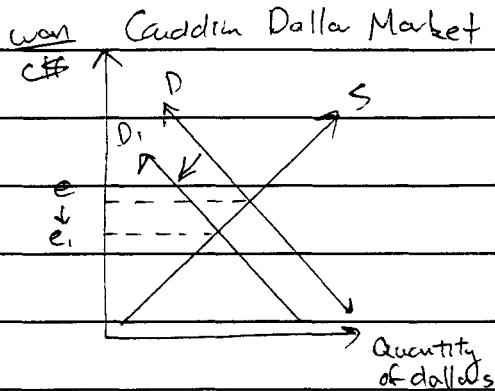
(ii) Demand will fall, since South Korean investors will note that the returns on their ~~can~~ investments in Canada are falling relative to those in Korea. ~~As they send less of their money i.~~ As they choose to keep less money in Canada, demand for dollars falls.

3.

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

3A₂

b) Because of falling demand for dollars, the Canadian dollar depreciates. ($e \rightarrow e_1$)



(c) Because the ~~can~~ Canadian dollar has depreciated, the same amount of Korean Won can purchase more Canadian Dollars. Thus, ~~Canadian~~ Canadian products appear cheaper to Korean consumers, who will purchase more Canadian goods. Canadian exports to South Korea will rise due to the depreciation of the Dollar.

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

3B

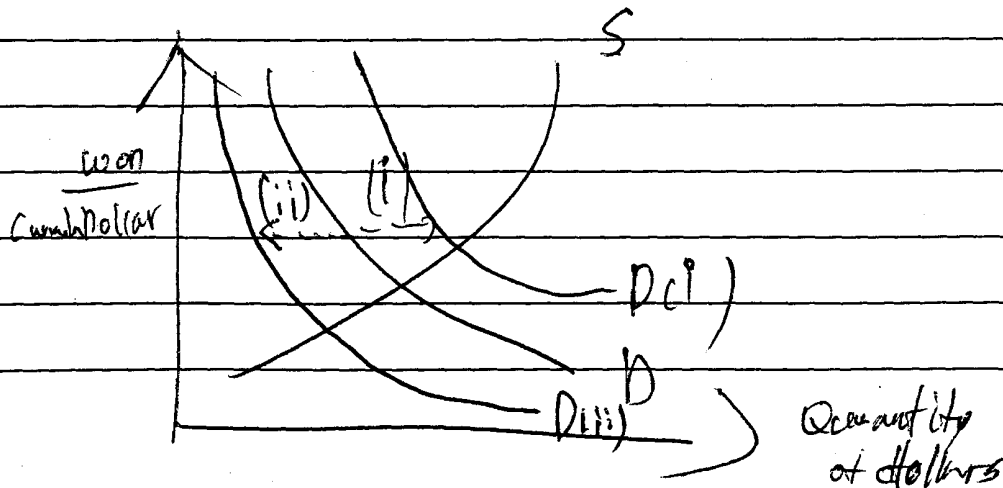
(i) Money supply would increase because government spent $\$1000$ to bank.

(ii) Money demand will not change.

3. (a) (i) when Canada's inflation rate is higher, ~~Canadian dollar depreciates~~. to buy same output, Korea need ~~buy~~ more Canadian dollar, which leads demand curve to shift right.
a- (i) when real interest rate in Canada falls, demand for Canadian dollar would decrease.

(b) when demand for dollar falls, dollar's value will be depreciated.

(c) export will increase because the relative price would decrease.



3.

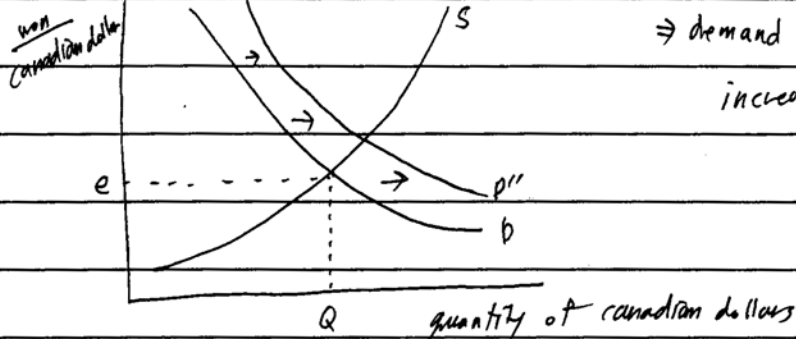
Write in the box the number of the question you are answering on this page as it is designated in the examination.

3C

(a) i)

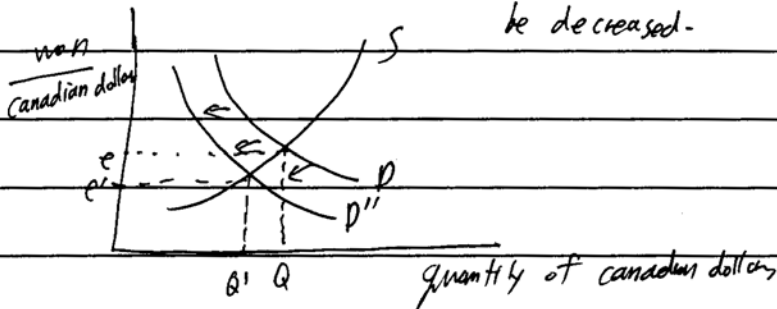
If the inflation rate in Canada is higher than it is in South Korea

⇒ demand of Canadian dollar will be increased.



ii) If the real interest rates in Canada fall relative to real interest rates in South Korea, ⇒ ~~supply~~ demand of Canadian dollar will

be decreased.



(b) won / Canadian dollar ~~is representative~~ represents the value of the Canadian dollar. In the case (a)(ii), won / Canadian dollar falls e to e' , so the value of Canadian dollar is decreased.

(c) since the value of Canadian dollar is decreased, Canadian exports to South Korea will decrease.

AP[®] MACROECONOMICS
2006 SCORING COMMENTARY (Form B)

Question 3

Sample: 3A

Score: 7

The student received full credit.

Sample: 3B

Score: 4

This student lost the 2 points in (a)(i) for the demand change and its explanation. The second point in (a)(ii) was missed because there is no explanation for the decrease in demand for the Canadian dollar. The remainder of the answers were correct.

Sample: 3C

Score: 2

This student earned 1 point for indicating that the demand for the Canadian dollar will decrease in part (a)(ii), and 1 point for stating that the value of the Canadian dollar will fall in part (b).