

AP[®] MACROECONOMICS 2010 SCORING GUIDELINES

Question 3

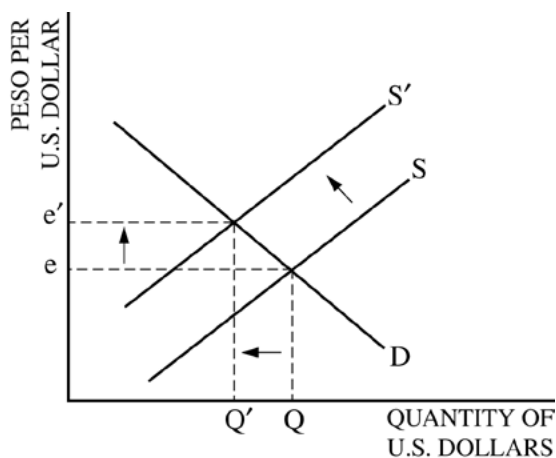
6 points (1 + 1 + 2 + 2)

(a) 1 point:

- One point is earned for stating that Argentina's aggregate demand will fall because the purchase results in increased imports or decreased net exports, which are components of aggregate demand.

(b) 1 point:

- One point is earned for stating that the United States current account will be in surplus or increases because exports are recorded as a credit in the current account.



(c) 2 points:

- One point is earned for a correctly labeled graph of the dollar market.
- One point is earned for showing a leftward shift of the supply curve and indicating that the value of the dollar against the peso increases, using arrows, labels or dotted lines.

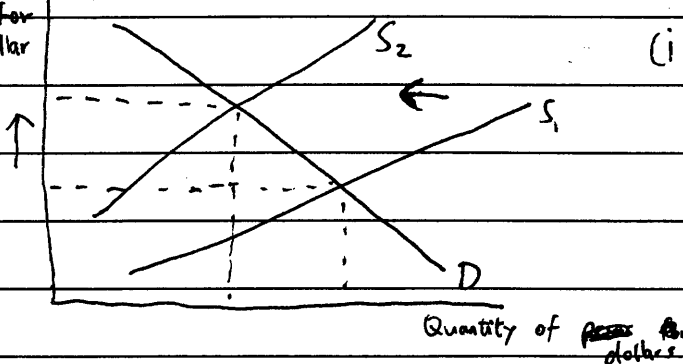
(d) 2 points:

- One point is earned for stating that the peso will depreciate against the dollar.
- One point is earned for explaining that the higher inflation rate in Argentina makes U.S. goods less expensive (or more attractive) than Argentinean goods.

(a) The transaction will increase the value of imports of Argentina, which reduces the value of net exports for the nation and as a result, reduces aggregate demand since net exports is a component of aggregate demand.

(b) The transaction will increase the U.S. account balance by \$10 million, since the current account is calculated by subtracting the value of all imports from the value of exports. ~~The~~ The ~~the~~ transaction will increase exports by \$10 million without affecting ~~the~~ imports, thereby increasing the ~~the~~ current account balance.

(c) Amount of pesos for 1 dollar



(i) The supply of United States dollars decrease.

(ii) The value of United States dollars increase relative to the peso, as more pesos are now required to exchange for one dollar.

(d) Due to the ~~the~~ difference in inflation rates, the value of the peso will drop relative to the

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

3

3A
(2 of 2)

U.S. dollar. Since Argentina has a higher inflation rate, the ~~value of the peso~~ purchasing power of the peso will be falling at a faster rate than that of the dollar. Due to ~~the~~ this discrepancy, the dollar will become more valuable relative to the peso over time.

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

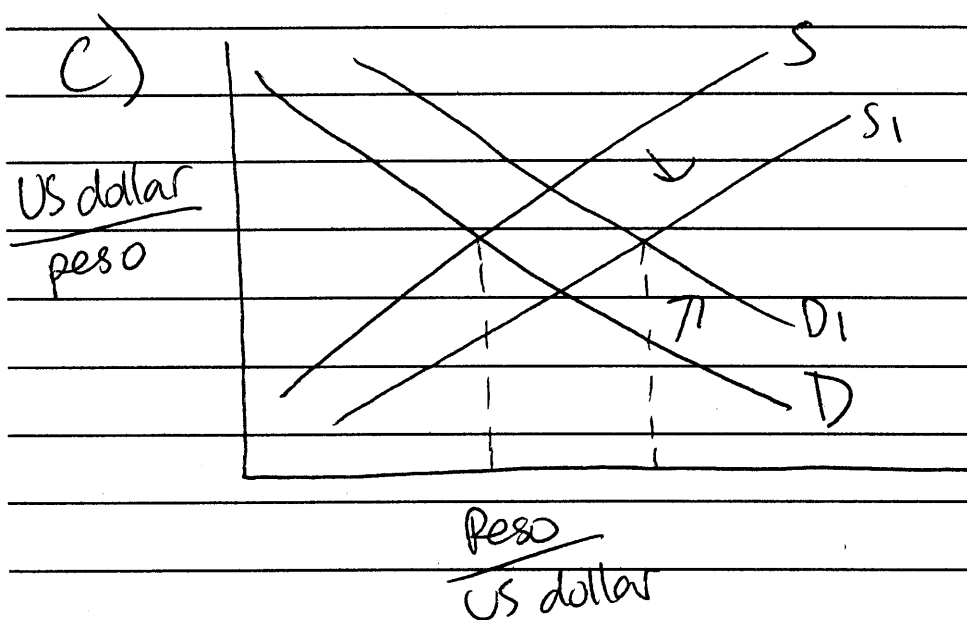
3

3B
1 of 2

A) The transaction above will increase Argentina's imports, which will cause aggregate demand to decrease.

B) The United States current account balance with Argentina will increase.

The U.S. exported goods, which causes the trade balance to be positive/increase.



i) The supply of US dollars decreases

ii) The value of the US dollar increases, the dollar appreciates.

3

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

3B
2 of 2

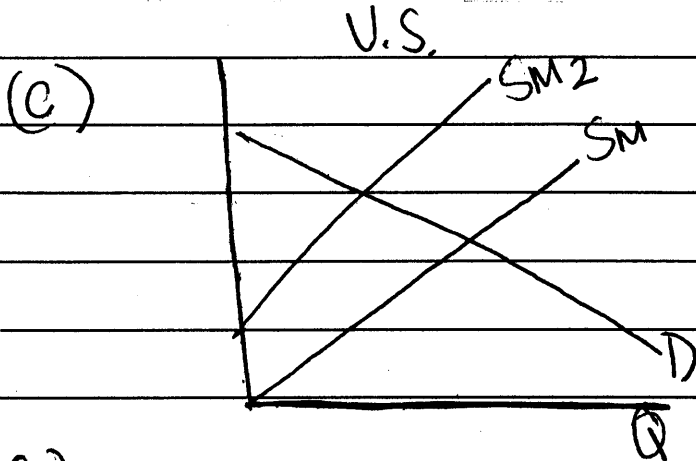
D) The value of the peso relative to the U.S. dollar will decrease, the peso will depreciate. When the inflation rate is higher in Argentina, ~~the~~ ^{each} peso will buy less. When the inflation rate is lower in the U.S., each dollar will buy more.

(a) Argentina's AD ↑

because they are spending.

(spending = econ. growth.
economic growth = ↑GDP → ↑AD)

(b) The U.S. current account balance is now at \$10 million because that is how much the U.S. received for the sale.



(i) Supply of U.S. dollar increases.

(ii) Dollar value appreciates and the peso depreciates.

(d) Since the inflation rate is higher in Argentina, the value of the dollar is less. More money is needed to back up/equal the original value.

**AP[®] MACROECONOMICS
2010 SCORING COMMENTARY**

Question 3

Overview

This question tested students' ability to work with the foreign exchange market and their understanding of the effects of international trade.

Sample: 3A

Score: 5

The student lost 1 point in part (d) for failing to explain that the decline in the value of the peso relative to the dollar is due to the change in the relative prices of U.S. and Argentinean goods caused by the differing inflation rates.

Sample: 3B

Score: 3

In part (c) the student lost 1 point for incorrectly labeling the axes in the graph and 1 point for incorrectly shifting the dollar supply and demand curves to the right. The student also lost 1 point in part (d) for an incorrect explanation of why the peso will decrease in value relative to the dollar.

Sample: 3C

Score: 1

The student earned 1 point in part (b) for stating that the "current account balance is ... \$10 million."