AP Macroeconomics
2000 Student Samples

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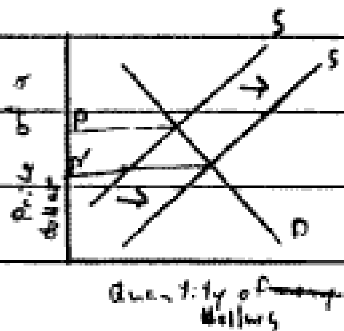
2MAC CC

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

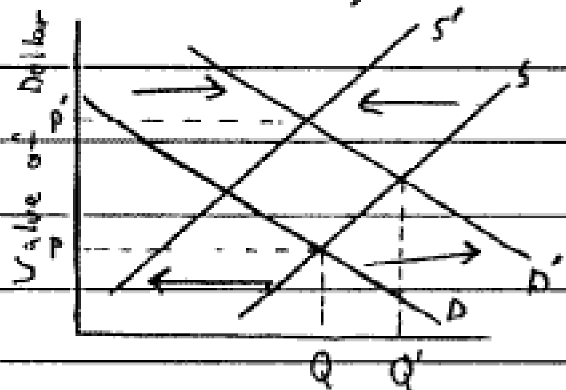
Question 2

2a) i) An increase in U.S. demand for French good 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 suply 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 investers to desire US dollars and the demand curve for dollars to shift right. ~~Against a constant~~ At the same time U.S. investors will be 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 quanity of dollars, is unpredictable.

2MAC LL

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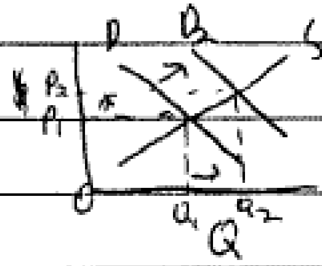
#2.



a. i. This increase in demand will cause the supply of dollars to decrease. This is because the shift from D1 → D2 caused P1 ↑ P2 and Q ↑ Q2. Overal, the quantity of us dollars leaving the US has increased.

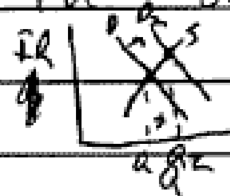
ii. The value of the dollar is decreasing. As you can see in the graph the amount of dollars needed to buy a foreign good is increasing P1 ↑ P2. This means the value is going down.

b. i. Increased interest rates encurage foreigners to investment in the us. They will buy gov't 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 will increase.

~~Because~~ Shift D1 ↑ D2

Q1 ↑ Q2



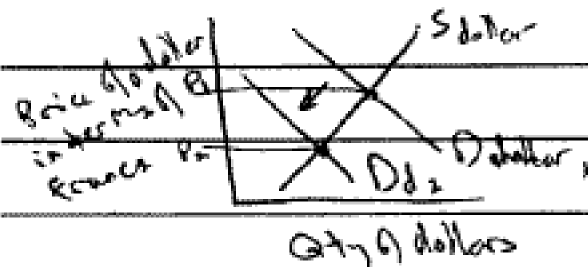
2 MAC JJ

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) 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.

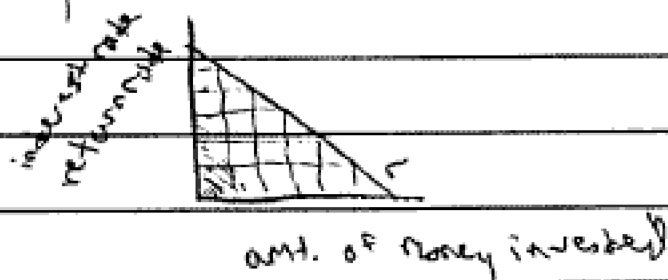
ii) The international value of the dollar will fall as the demand for dollars falls. The demand for dollars will fall because there is an increased demand for francs so more French goods can be bought.



S dollar = Supply of dollars
D dollar, = demand for dollars
D dollar2 = demand for dollars when demand for French goods increases
P1 = price of a dollar (in terms of francs)
P2 = price of dollar when French goods in demand

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

b) i) An increase in interest rate 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.