2019

AP® CollegeBoard

AP® Macroeconomics

Sample Student Responses and Scoring Commentary Set 2

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Free Response Question 2

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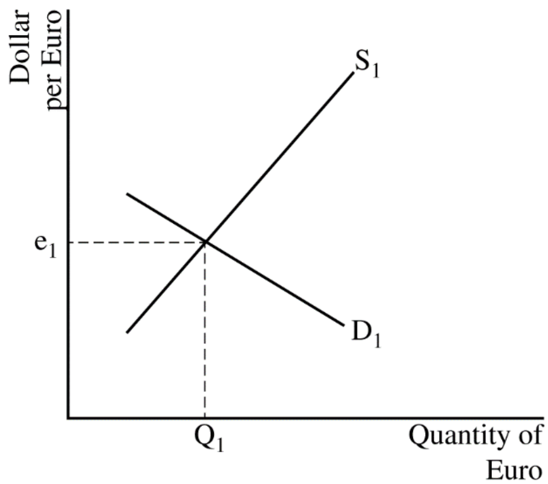
Question 2

5 points (1 + 2 + 2)

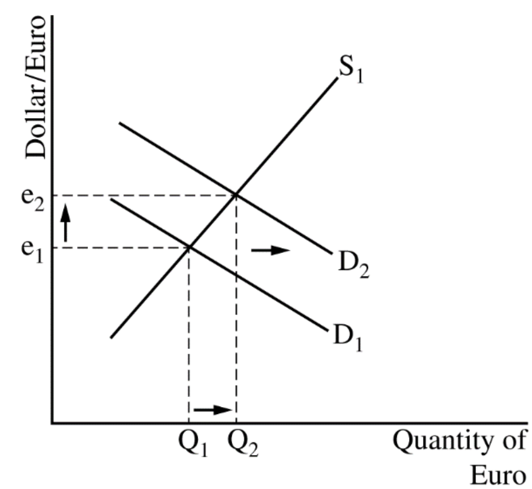
(a) 1 point

- One point is earned for stating that the U.S. current account will be in deficit and for explaining that an increase in the U.S. real GDP increases the U.S.'s demand for European goods and services, which increases imports.

(b) 2 points



- One point is earned for drawing a correctly labeled graph of the foreign exchange market for the euro.



- One point is earned for shifting the demand curve for the euro to the right and showing an increase in the value of the euro relative to the U.S. dollar.

Question 2 (continued)

(c) 2 points

- One point is earned for stating that the demand for the dollar will decrease and for explaining that capital flows from the European Union to the U.S. will decrease.

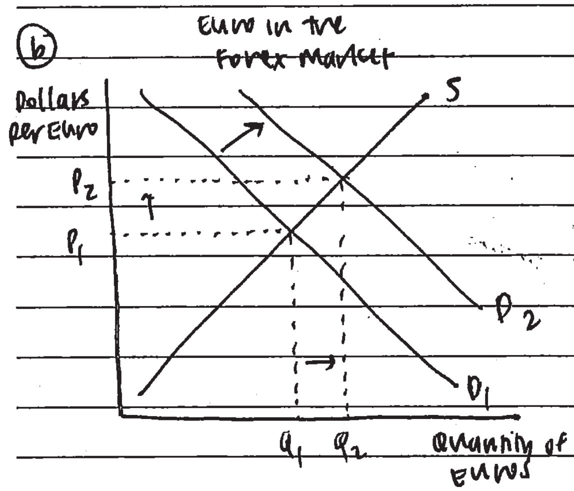
- One point is earned for stating that the dollar will depreciate.

2A

ANSWER PAGE FOR QUESTION 2

(a) it will cause an account deficit, because more income increases demand for imports from other countries as people can afford more. This means imports increase but exports stay the same, thus creating a deficit.

(b)



An increase in US income will increase demand for the Euro, thus causing it to appreciate.

(c) i) increased interest rates in the European Union means they also increase relative to US interest rates. Thus, capital flows to the EU away from the US and demand for the US dollar decreases.

ii) The US dollar depreciates and loses value relative to the Euro.

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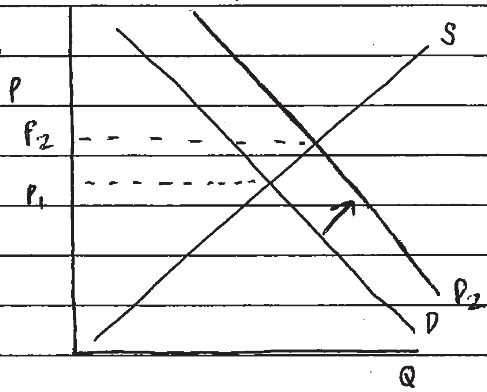
2B

ANSWER PAGE FOR QUESTION 2

a) Deficit, because when real income increases and Americans feel wealthier, they will buy more goods overseas causing a current account deficit.

b) $/€



c) When interest rates increase in the European Union, the euro will appreciate. Because the euro is now worth more, Europeans will want to buy US goods, increasing the demand for US dollars.

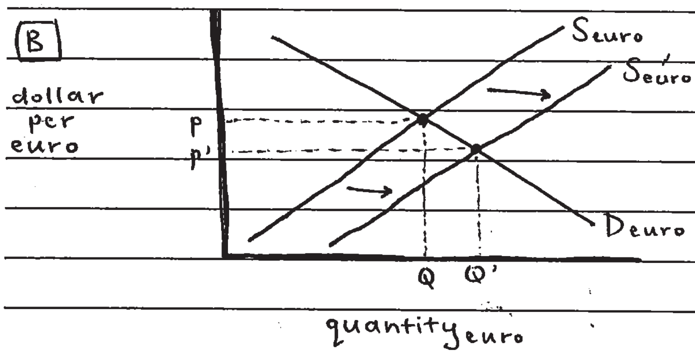
ii. The US dollar depreciates because the euro appreciates.

GO ON TO THE NEXT PAGE.

2C

A This would result in a current account surplus because if the United States ~~X~~ real income increases, the value of the dollar will depreciate over time. This means that the US would export more goods than they would import. As a result, the current account would be in surplus.

B



C (i) Demand for the United States dollar would increase because it is cheaper than the European euro. Higher interest rates cause the European euro to appreciate, making United States dollars ~~to be~~ cheaper and in more demand.

(ii) The United States dollar would depreciate relative to the European euro because demand has gone up.

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Question 2

Note: Student samples are quoted verbatim and may contain spelling and grammatical errors.

Overview

The question examined students' understanding of the current account and foreign exchange markets. Students were told that the United States current account balance is 0 and in part (a) they were asked to determine if an increase in real income in the United States led to a current account surplus, a current account deficit, or if the change in income led to no change in the current account balance. Part (b) asked the students to draw a correctly labeled graph of the foreign exchange market for the euro and to show the effect of the inccrease in U.S. real income on the value of the euro relative to the U.S. dollar. Finally, in part (c) students were told to assume that interest rates had increased in the European Union. Part (c)(i) asked students to explain how the increase in interest rates would affect the demand for the U.S. dollar. Part (c)(ii) asked students to determine how their answer in part (c)(i) would affect value of the U.S. dollar relative to the euro.

Sample: 2A
Score: 5

The student answers all parts of the question correctly and earned all 5 points.

Sample: 2B
Score: 3

The student did not earn 1 point in part (c)(i) because the response incorrectly states that the demand for U.S. dollars increases. The student did not earn 1 point in part (c)(ii) because the response incorrectly states that the U.S. dollar would depreciate, which is inconsistent with the increase in the demand for U.S. dollars the student identifies in part (c)(i).

Sample: 2C
Score: 1

The student earned 1 point in part (b) for drawing a correctly labeled graph of the foreign exchange market for the euro. Note: The student did not earn 1 point in part (c)(ii) because the response incorrectly states that the U.S. dollar would depreciate, which is inconsistent with the increase in the demand for U.S. dollars the student identifies in part (c)(i).