



## AP<sup>®</sup> Macroeconomics 2001 Sample Student Responses

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As the real interest rate in the EU increases, investment in its financial assets becomes more desirable since upon sale the investment will yield a higher return. Consequently, with higher real interest rates in the EU, purchases of U.S. financial assets by foreigners, with relatively less attractive returns, will decrease. With the decrease of purchases of US financial assets, the international value of the US dollar will fall. This depreciation results from the lower demand for US dollars for financial assets. As the currency depreciates U.S. exports will increase since US goods will be relatively less expensive than previously in foreign markets. It will take fewer yen to purchase the same computer for instance. Similarly, a currency depreciation will cause a decrease in U.S. imports since foreign goods will be relatively more expensive. It will take more dollars to buy the same cell phone from Japan, so U.S. purchases of foreign goods will tend to decrease. ~~Beneficial for U.S. exporters, this situation does help correct some of the balance of trade deficit.~~ Beneficial for U.S. exporters, this situation does help correct some of the balance of trade deficit.

2MACCLD

- (a) If the United States interest rate is lower than that of other countries, therefore foreigners will have less incentive to purchase U.S. financial assets. Purchases will decrease.
- (b) If the demand for our financial assets falls, the demand for the dollar falls and its international value will fall.
- (c) If the international value falls, foreigners will want to purchase more of our goods and services, ~~the~~ U.S. exports will increase.
- (d) If the international value of our dollar falls, foreign goods and services will be more expensive and U.S. imports will decrease.

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- a) purchases of United States financial assets by foreigners will decrease.
- b) the international value of the United States dollar will increase because of the inflation that resulted from the increase in interest rate within the European Union.
- c) United States exports will increase.
- d) United States imports will decrease.