AP® Macroeconomics
2002 Sample Student Responses

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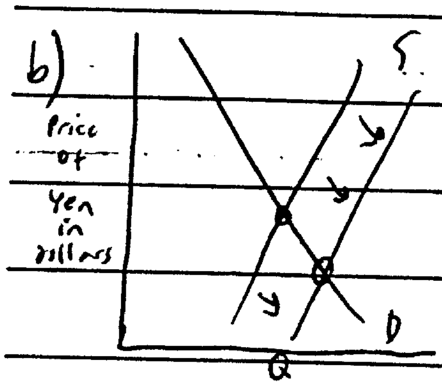
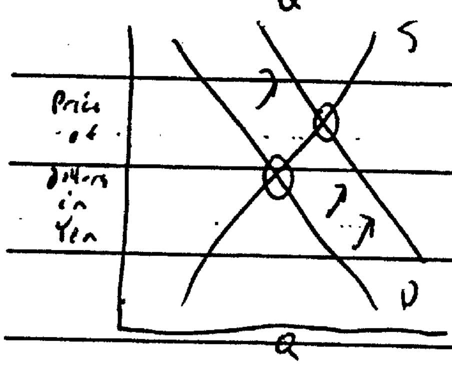
Write in the box the number of the question you are answering on this page as it is designated in the examination.

a) Capital flows into the US from Japan would increase because Japanese investors would want to keep their money where they would get the highest possible returns. The higher interest rates in the US would give them higher returns than if they kept their money in Japanese banks.

b)



Because Japanese investors would need dollars to keep in US banks, the demand for dollars would increase. This would cause the dollar to get stronger and appreciate. Also, the supply of Yen would increase and ~~[illegible]~~ the Yen would depreciate.



c) i) Imports from Japan would increase because the yen is weaker, and the goods would seem relatively cheaper to US consumers.

ii) Exports to Japan would decrease because the dollar is stronger and the US products would appear relatively more expensive to Japanese consumers.

3 MACCLL

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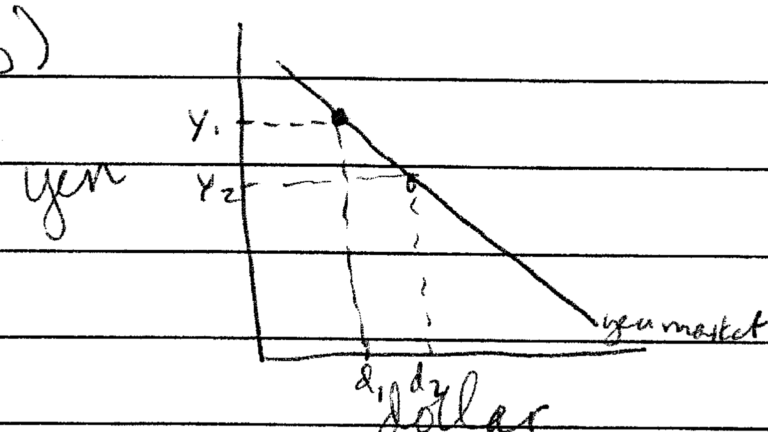
(a) An increase in interest rates in the United states would create a net capital inflow. Investors in Japan would invest money in the United States because interest rates are higher. This would move more money into our financial markets creating net capital inflow. ~~The~~ Japan would have a net capital outflow as they invested money in the US. The capital account would become bigger in the US and consequently the current account would get smaller.

(b)



If the value of the dollar increases, the value of the yen decreases. As d_1 goes to d_2, the value of the yen is pulled down. If the value of the dollar decreases then the value of the yen would increase. ~~If the dollar is stronger, then people will want to invest~~ If a dollar will suddenly be able to buy more yen, the value of the yen in decreased. It would then

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require more yen to purchase a dollar. This shows the value would decrease. One yen would buy less of a dollar.

~~(c)~~ Because the dollar is strengthened in this case, the yen would ~~be lowered~~ ~~or~~ be deppreciated.

(C) (i) The ~~depreciation of~~ lower value of the yen would cause an increase of imports from Japan coming to the United States. The dollar would be able to buy more product from Japan because it would be strengthened.

(ii) Exports from the US to Japan would decrease. Japan would not want to buy from the US because it would cost more yen to a dollar to buy products. It would, ~~In a sense,~~ increase the cost of US exports in Japan.