



**AP<sup>®</sup> Macro Economics  
2004 Sample Student Responses  
Form B**

**The materials included in these files are intended for noncommercial use by AP teachers for course and exam preparation; permission for any other use must be sought from the Advanced Placement Program<sup>®</sup>. Teachers may reproduce them, in whole or in part, in limited quantities, for face-to-face teaching purposes but may not mass distribute the materials, electronically or otherwise. This permission does not apply to any third-party copyrights contained herein. These materials and any copies made of them may not be resold, and the copyright notices must be retained as they appear here.**

The College Board is a not-for-profit membership association whose mission is to connect students to college success and opportunity. Founded in 1900, the association is composed of more than 4,500 schools, colleges, universities, and other educational organizations. Each year, the College Board serves over three million students and their parents, 23,000 high schools, and 3,500 colleges through major programs and services in college admissions, guidance, assessment, financial aid, enrollment, and teaching and learning. Among its best-known programs are the SAT<sup>®</sup>, the PSAT/NMSQT<sup>®</sup>, and the Advanced Placement Program<sup>®</sup> (AP<sup>®</sup>). The College Board is committed to the principles of excellence and equity, and that commitment is embodied in all of its programs, services, activities, and concerns.

For further information, visit [www.collegeboard.com](http://www.collegeboard.com)

Copyright © 2004 College Entrance Examination Board. All rights reserved. College Board, Advanced Placement Program, AP, AP Central, AP Vertical Teams, APCD, Pacesetter, Pre-AP, SAT, Student Search Service, and the acorn logo are registered trademarks of the College Entrance Examination Board. PSAT/NMSQT is a registered trademark of the College Entrance Examination Board and National Merit Scholarship Corporation. Educational Testing Service and ETS are registered trademarks of Educational Testing Service. Other products and services may be trademarks of their respective owners.

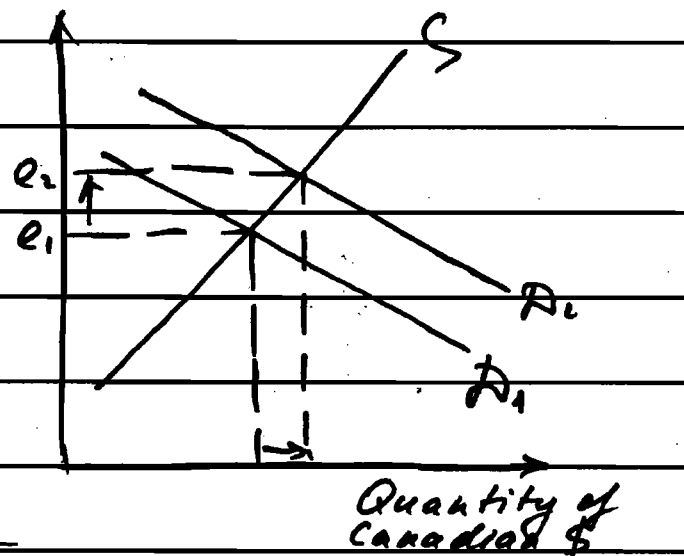
For the College Board's online home for AP professionals, visit AP Central at [apcentral.collegeboard.com](http://apcentral.collegeboard.com).

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

2

a) As Canada experiences

significant inflow of funds demand for its currency rises, so the international value of the Canadian dollar increases.



[Demand increases because

foreigners need more Canadian currency to buy more assets in Canada] i.e. Canadian dollar appreciated

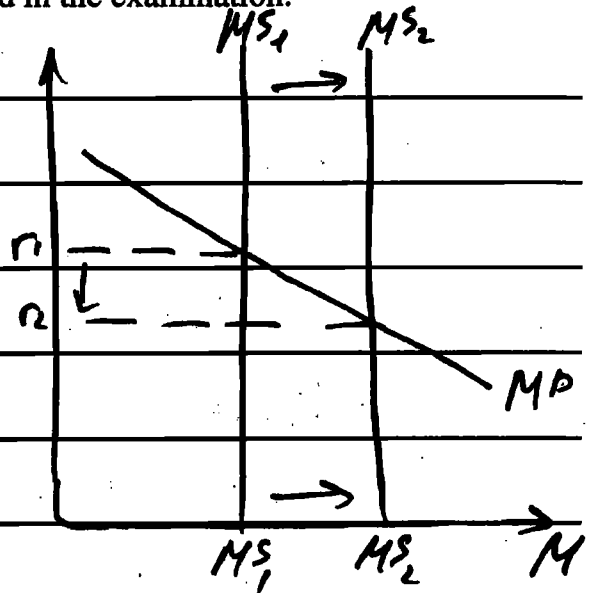
8) As the value of Canadian dollar increased,

[1 Canadian dollar costs more of foreign currency], Canadian exports became relatively more expensive for foreigners, so exports will decrease. However, imports increased, because 1 Canadian dollar is now able to buy more foreign goods than previously.  $\text{Net exports} = \text{Exports} - \text{Imports}$ , so with reduction in Exports and increase in Imports, Net exports ~~of~~ of Canada decrease.

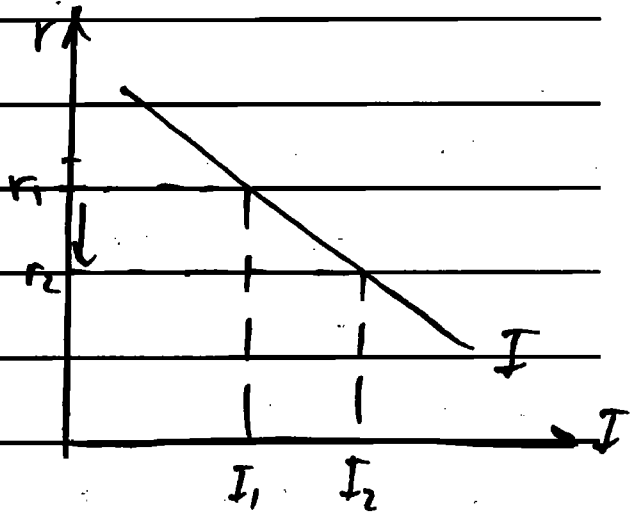
2

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

c) With an inflow of funds from abroad, quantity of Canadian dollars in Canada increases, i.e. money supply increases. This causes a decrease in interest rates, because money demand and interest rates are inversely related.



d) When interest rates decrease, this encourages investment, so it increases. [Interest rates and investment are inversely related]



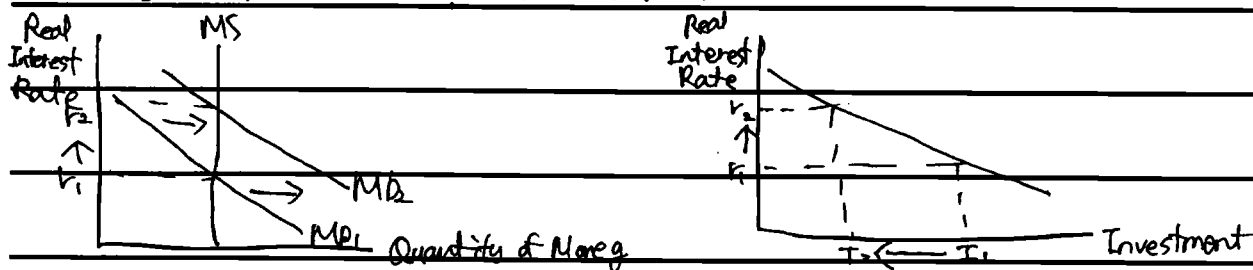
Write in the box the number of the question you are answering on this page as it is designated in the examination.

2

(a) The international value of the Canadian dollar will be increased, since ~~the~~ the increase of inflow of foreign funds means the increase in demand for Canadian dollar.

(b) Since the Canadian dollar has appreciated, its products will look more expensive to other countries, while Canadian would feel the products of other countries more cheap. So, Canada's exports will decrease and imports will increase, meaning the net exports decreases.

(c) Due to the increase of money demand for Canadian dollar, the interest rate will increase.



(d) Since interest rate has increased, the ~~level~~ level of investment will decrease.

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

20  
Question 2

a) It would depreciate, because of outside currencies entering the country.

(which are possibly stronger currencies)

b) Canadian exports would increase due to the Canadian dollar's depreciation. Outside demand would increase due to less expensive products

c) would decrease as more money would enter the economy due to exports. More money leads to lower interest rates

d) Investment would increase in Canada due to lower interest rates. As interest rates are low, investors would gain more, than if it was high.