



## **AP<sup>®</sup> Macro Economics (Operational) 2004 Sample Student Responses**

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a. If national saving increases, then the supply of loanable funds also increases, since when people save, that money is available to be loaned out. If supply of loanable funds curve shifts to the right, then the real interest rate in the US decreases.

b. (i) The demand for the US dollar on the foreign exchange market decreases, because if real interest rates are down, less foreigners want to financially invest in the US.

(ii) If the demand for US dollar decreases, then the demand curve for US dollars shifts to the left, decreasing the international value of the dollar.

c. (i) US imports decrease

(ii) US exports increase

A) With an increase in National Savings, the interest rate will decrease to stabilize the money supply. With a lower interest rate, further saving will be discouraged and money will be put back into circulation.

B)

i) The lower interest rate will cause a decrease in the demand for the dollar.

ii) The lower demand for the dollar will decrease its value.

c) The United States' imports will decrease because the dollar will have less value and therefore less purchasing power.

ii) United States' exports will increase because foreign countries will be able to buy more goods with their currency.

## Question 2

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

(a) - with probable inflation, ~~too much savings~~ an increase in savings means the interest rate has risen.

(b)

(i) - ~~the~~ the U.S. is losing money by ~~saving~~ increased saving and ~~with~~ with only the U.S. having increased interest rates, the ~~demand~~ demand for the dollar decreases

(ii) - the value of the dollar will decrease

(c)

(i) - Imports will decrease because the U.S. dollar is less in value and ~~the~~ the demand for it has decreased from other countries

(ii) - exports will increase because foreign money has appreciated as our dollar decreased in value.