2014 ap macroeconomics free response answers

2014 AP Macroeconomics Exams FRQ #3 Even this guy could get five. 3. The USA and South Korea are trading partners, and the US has a zero current account. Let us now assume that the inflation rate in the US is falling in relation to the inflation rate in South Korea. (a) On the basis of a reduction in the US inflation rate, will US exports to South Korea increase or decrease? Check the forex cheat sheet – If the inflation rate (PL) in the U.S. decreases, the level of PL prices decreases,,, U.S. goods become cheaper and therefore more affordable compared to South Korean products. South Koreans import more American goods,,, the U.S. exports more of their cheap goods to South Korea. Answer - Increase in US exports (i) The US current account will remain at zero, be in surplus or be in deficit. FOREX - Cheat Answer Account - if the current account is at zero, and U.S. exports increase,, then exports will be larger than imports, so the U.S. current account balance will be in surplus. (ii) What will happen to real gross domestic product in the US in the short term? Answer - If exports increase, then AD will increase, so R-GDP will increase. (c) South Korea's currency is the winning one. Design a CLG of the foreign exchange market for the US dollar. Show the effect of the lowest inflation rate in the US on the price earned per US dollar. If the level of US prices decreases, then American goods become cheaper than South Korean goods, so Koreans import more American goods. Trade S. Koreans won for American goods, therefore, there is surplus won in the FOREX market,, the value of won decreases. On the other hand - the U.S. exports goods, in order to be able to buy these American goods the S. Koreans have to exchange their winnings for U.S. dollars, causing a higher level of demand for U.S. dollars, hence the U.S. dollar estimates relative to the earned. The important part to recognize this question is that the college board is asking for the price of winning per dollar... Thus, the horizontal axis will be in dollars. You could either display the above,, an increase in demand or a decrease in supply,, or you could get points,, as long as they show the number of profits per dollar increasing. Answer - draw a CLG of FOREX,, show (arrows) a shift to the right of the demand curve (increase) or a left shift of the supply curve (decrease),, and an increase in the profit/dollar ratio. I told you I'd get a five. 2014 AP Macroeconomics Exams FRQ #3 Even This It could take five. 3. The USA and South Korea are trading partners, and the US has a zero current account. Let us now assume that the inflation rate in the US is falling in relation to the inflation rate in South Korea. (a) On the basis of a reduction in the US inflation rate, will US exports to South Korea increase or decrease? 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Answer - draw a CLG of FOREX,, show (arrows) a shift to the right of the demand curve (increase) or a left shift of the supply curve (decrease),, and an increase in the profit/dollar ratio. I told you I'd get a five. 2014 AP Macro Exams FRQ Question 2 Watch with anser here 2. The Federal Reserve could influence the money supply. (a) Suppose the Federal Reserve targets a lower federal funds rate. (i) What open market function can the Federal Reserve use to achieve a lower target? The Federal Reserve has three tools under their control,,, OMO Open Market Operations (purchase and/or sale of bonds), reserve obligation (increase/decrease), discount rate (increase/decrease). 1. It will be know what the federal funds rate is - cheat sheet. The federal funds rate is the interest rate that commercial banks charge each other on borrowing their excess reserves. The example above shows a growing federal funds rate, we want a reduction in the federal funds rate. Answer - if the Fed were to buy bonds,, Member States, increases and the Nom. IR, Nominal interest rate is reduced,, thus reducing the interest rate of commercial banks would charge charge loans from their surplus reserves. (ii) Given your answer to part (i) what will happen to the price of the bonds. If the Fed buys bonds,,, the bond price will rise. The easiest way to understand this is to think about supply and demand,, demand for bonds is going up... increase in the price of bonds. Even better to understand that interest rates and bond prices are inversely related. Answer - if the Fed buys bonds then the bond price rises. (b) Using a well-labelled money market chart to demonstrate the effect of the functioning of the open market in part (a)(i) on nominal interest rates. Cheat Sheet – You need to know how to draw and label a money market chart from memory. Answer - if the Fed buys bonds, then pays for the bonds in cash,,, citizens abandon their bonds and receive cash. Therefore, the supply of money is increasing. As the money supply increases nominal interest rates they fall. Look down. c) Suppose the Federal Reserve buys government bonds from commercial banks. On the basis of this transaction alone, will the level of reserves required in commercial banks increase, decrease or remain the same? You should understand that the required reserves are required for customers requesting deposits (controllable accounts), cash from the sale of assets does not affect bank reserve requirements. Answer - The Fed's bond purchase will not initially affect the required commercial reserve banks. (d) another monetary policy action entails a change in the discount rate. Here's the discount rate. Answer - the discount rate is the interest rate that the Fed charges banks for lending from the discount window. How would I have considered the college board after reading some of these questions. 2014 AP Macroeconomics Exams FRQ #3 Even this guy could get five. 3. 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