

2014 AP[®] MACROECONOMICS FREE-RESPONSE QUESTIONS

2. The Federal Reserve can influence the supply of money.
- (a) Assume that the Federal Reserve targets a lower federal funds rate.
 - (i) What open market operation can the Federal Reserve use to achieve the lower target?
 - (ii) Given your answer to part (a)(i), what will happen to the price of government bonds?
 - (b) Using a correctly labeled graph of the money market, show the effect of the open market operation from part (a)(i) on the nominal interest rate.
 - (c) Assume that the Federal Reserve buys government bonds from commercial banks. Based only on this transaction, will the level of required reserves in the commercial banks increase, decrease, or remain the same?
 - (d) Another monetary policy action involves changing the discount rate. Define the discount rate.
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3. The United States and South Korea are trading partners, and the United States has a zero current account balance. Assume now that the inflation rate in the United States decreases relative to the inflation rate in South Korea.
- (a) Based on the decrease in the inflation rate in the United States, will United States exports to South Korea increase or decrease?
 - (b) Based on the change in United States exports in part (a), answer each of the following.
 - (i) Will the United States current account balance remain at zero, be in surplus, or be in deficit?
 - (ii) What will happen to real gross domestic product in the United States in the short run? Explain.
 - (c) The South Korean currency is the won. Draw a correctly labeled graph of the foreign exchange market for the United States dollar. Show the effect of the lower inflation rate in the United States on the won price per United States dollar.

STOP

END OF EXAM

**AP[®] MACROECONOMICS
2014 SCORING GUIDELINES**

Question 3

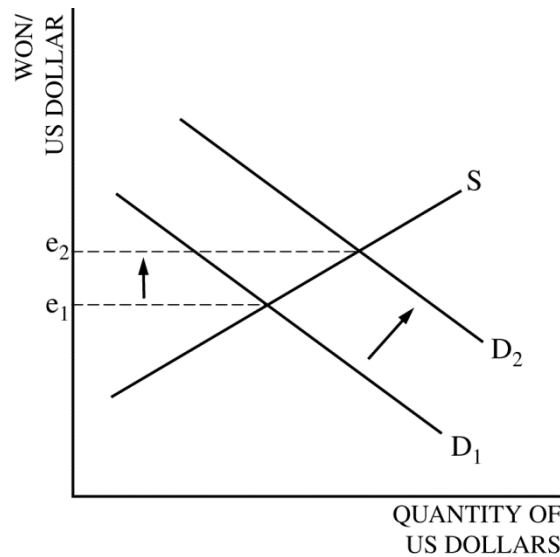
5 points (1+2+2)

(a) 1 point:

- One point is earned for stating that United States exports to South Korea will increase.

(b) 2 points:

- One point is earned for stating that the United States current account will be in surplus.
- One point is earned for stating that the United States gross domestic product will increase and explaining that higher U.S. exports increase AD (or that production increases to meet the increased export demand from South Korea).



(c) 2 points:

- One point is earned for drawing a correctly labeled graph of the foreign exchange market for the U.S. dollar.
- One point is earned for shifting the demand curve for the dollar to the right (and/or shifting the supply curve to the left) and showing an increase in the won price per dollar.