3. A United States firm sells $10 million worth of goods to a firm in Argentina, where the currency is the peso.

   (a) How will the transaction above affect Argentina's aggregate demand? Explain.

   (b) Assume that the United States current account balance with Argentina is initially zero. How will the transaction above affect the United States current account balance? Explain.

   (c) Using a correctly labeled graph of the foreign exchange market for the United States dollar, show how a decrease in the United States financial investment in Argentina affects each of the following.

      (i) The supply of United States dollars

      (ii) The value of the United States dollar relative to the peso

   (d) Suppose that the inflation rate is 3 percent in the United States and 5 percent in Argentina. What will happen to the value of the peso relative to the United States dollar as a result of the difference in inflation rates? Explain.

STOP

END OF EXAM

AP® MACROECONOMICS
2010 SCORING GUIDELINES

Question 3

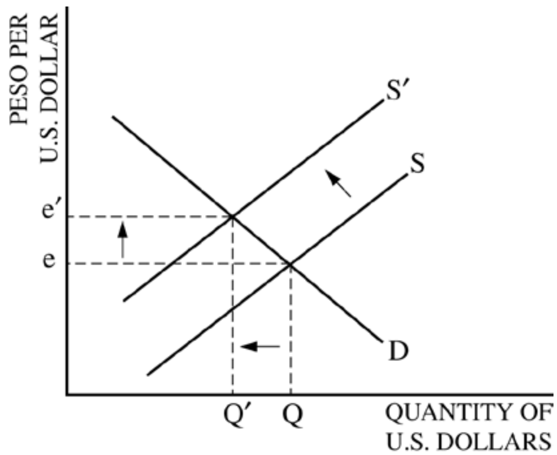
6 points (1 + 1 + 2 + 2)

(a) 1 point:

- One point is earned for stating that Argentina's aggregate demand will fall because the purchase results in increased imports *or* decreased net exports, which are components of aggregate demand.

(b) 1 point:

- One point is earned for stating that the United States current account will be in surplus or increases because exports are recorded as a credit in the current account.



(c) 2 points:

- One point is earned for a correctly labeled graph of the dollar market.
- One point is earned for showing a leftward shift of the supply curve and indicating that the value of the dollar against the peso increases, using arrows, labels or dotted lines.

(d) 2 points:

- One point is earned for stating that the peso will depreciate against the dollar.
- One point is earned for explaining that the higher inflation rate in Argentina makes U.S. goods less expensive (or more attractive) than Argentinean goods.