

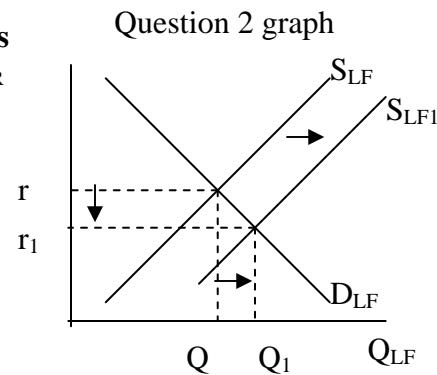
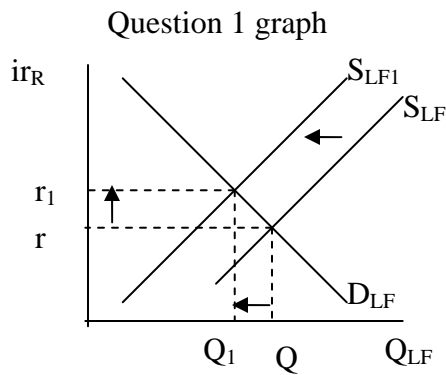
## Practice Loanable Funds FRQ

AP Macroeconomics  
Released 2009 question

1. Assume that as a result of increased political instability, investors move their funds out of the country of Tara.
  - (a) How will this decision by investors affect the international value of Tara's currency on the foreign exchange market? Explain.
  - (b) Using a correctly labeled graph of the loanable funds market in Tara, show the impact of this decision by investors on the real interest rate in Tara.
  - (c) Given your answer in part (b), what will happen to Tara's rate of economic growth? Explain.

AP Macroeconomics  
Released 2006 Question

2. Interest rates are important in explaining economic activity.
  - (a) Using a correctly labeled graph of the loanable funds market, show how a decision by households to increase savings for retirement will affect the real market interest rate in the short run.
  - (b) Suppose the nominal interest rate has been 6 percent with no expected inflation. If inflation is now expected to be 2 percent, determine the value of each of the following.
    - (i) The new nominal interest rate
    - (ii) The new real interest rate



### Question 1: 6 points

a. 2 points

Tara's currency will depreciate

Capital flight increases the supply of and/or decrease demand for Tara's currency in the foreign exchange market, thereby lowering the market equilibrium exchange rate

b. 2 point- see graph above

Correctly labeled graph of the loanable funds market. The graph must have correctly labeled axis and correctly labeled supply and demand curves

For showing a leftward shift of the supply curve results in a higher interest rate. Must show 3 arrows!

c. 2 points

Stating interest rate rise found in (b) will result in a decrease rate of economic growth

Explaining that the interest rate increase reduces investment, which causes a decline in the rate of growth of capital stock

Student	Reader #2	Reader #1
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**1**                      **1**                      **1**

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**Question 2: 5 points**

a. 3 point- see graph above

Correctly labeled graph. The graph must have correctly labeled axis and correctly labeled supply and demand curves

Showing a rightward shift of the supply curve

Showing that the real interest rate is decreasing

b. 2 points

Nominal interest rate is 8%

Real interest rate is 6%

Student	Reader #2	Reader #1
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**1**                      **1**                      **1**

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