Unit II Macroeconomics

FRQ Release Practice **Balance of Payments, FOREX**

2010

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.

2006 #1 – part d and e

"Assume the U.S. is operating below full employment."

d. Assume that the US trades with Japan. Draw a correctly labeled graph of the FOREX market for the US dollar. Show and explain how the supply of the US dollar will be affected in the FOREX market.

e. indicate what will happen to the value of the US dollar relative to the Yen.

2008

2. Balance of payments accounts record all of a country's international transactions during a year.

(a) Two major subaccounts in the balance of payments accounts are the current account and the capital account.
In which of these subaccounts will each of the following transactions be recorded?

(i) A United States resident buys chocolate from Belgium.

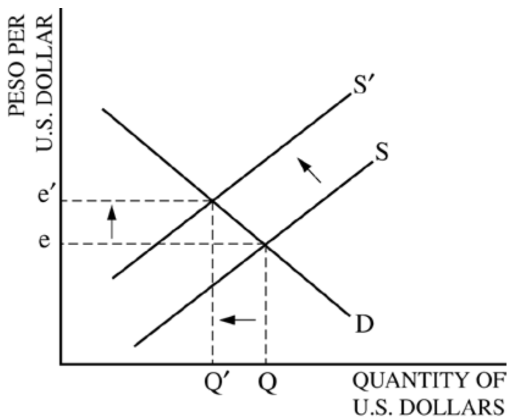
(ii) A United States manufacturer buys computer equipment from Japan.

(b) How would an increase in the real income in the United States 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 an increase in United States firms' direct investment in India will affect the value of the United States dollar relative to the Indian currency (the rupee).

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 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.



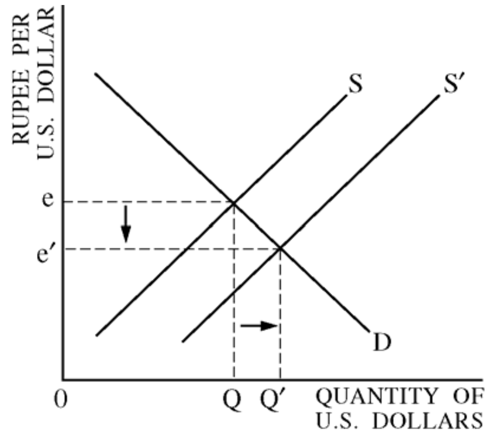
(c) 2 points:
• One point is earned for a correctly labeled graph of the dollar market.
• One point is earned for showing a leftward shift of the supply curve and indicating that the value of the dollar against the peso increases, using arrows, labels or dotted lines.

(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.

2006 D&E

(d) One point for: Graph Dollar market with Supply shifting to the left and P> and Q<

One point: The fall in real income b/c of below full employment causes the demand for M to <



2008 Release FRQ Question #2

6 points (2 + 2 + 2)
(a) 2 points:

- One point is earned for stating that the transaction will be recorded in the current account.
- One point is earned for stating that the transaction will be recorded in the current account.

(b) 2 points:

- One point is earned for stating that the current account balance will decrease or move toward a deficit.
- One point is earned for explaining that the increase in income causes imports to increase.

(c) 2 points:

- One point is earned for a correctly labeled graph of the foreign exchange market for the U.S. dollar.
- One point is earned for shifting the supply of U.S. dollars to the right and showing a depreciation of the dollar.