

# **AP Macroeconomics Series: Making the Connection Between Policy Actions and Global Market Repercussions**

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**December 19 5 pm EST/4 pm CST**



# Intro

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## About me....

- married 25+ years, two sons, two dogs
- 25 years at Mounds View High School
- *Beat Boredom (2018)*
- NeverBore consulting, blog (MarthaRush.org)
- AP reader since 2007 (Macro & Micro) and consultant since 2016
- CEE contributor (HS Econ, EconEdLink)
- National Econ Challenge coach
- Hobbies: Travel, reading, tennis, swimming, craft beer



**Topic:** Policy Impacts on Trade

Post your questions to the Jamboard

# Effects of Changes in Policies and Economic Conditions on the For-Ex Market (Macro 6.4)

## Tips to Prepare Your Students

- Build "Links and Logic" throughout the course
- Teach Exchange Rates *early and often*
- Include income, inflation, and interest rates in your Currency Market shifters

# Causes of Appreciation/Depreciation

From Last Week

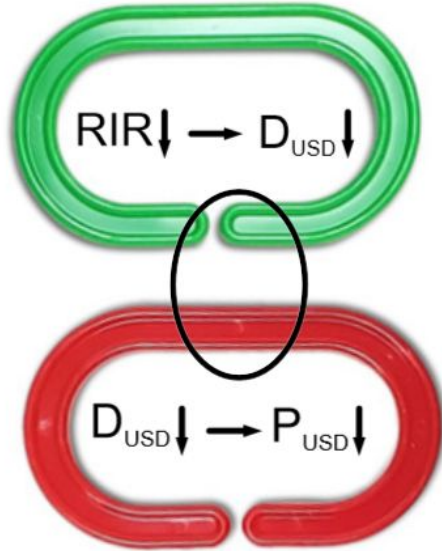
- Demand for a nation's goods and services (includes tourism)
- Demand for a nation's assets
- **Changing value of currency (inflation)**
- **Change in income**
- **Change in interest rates**
- Political unrest/Stability

**\*These all happen simultaneously - students are asked to isolate and examine one effect**



# Links and Logic

- Links are building blocks - the relationships students learn throughout the course



- The more links students accumulate and **connect**, the more sophisticated analysis they can do.

## Example 1

The economy of Country X is in a recession. The central bank implements an appropriate monetary policy to restore long-run equilibrium. Based on the change in interest rate due to this policy, what happens to the value of Country X's currency and exports in the world market?

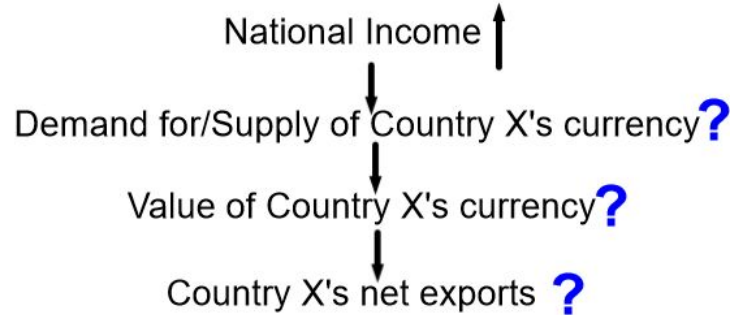
### Expansionary (easy) money policy



## Example 2

The economy of Country X is in a recession. The central bank implements an appropriate monetary policy to restore long-run equilibrium. Based on the change in national income due to this policy, what happens to the value of Country X's currency and exports in the world market?

### Expansionary (easy) money policy





## Example 3

The economy of Country X is in a recession. The central bank implements an appropriate monetary policy to restore long-run equilibrium. Based on the change in price level due to this policy, what happens to the value of Country X's currency and exports in the world market?

### Expansionary (easy) money policy



## RECAP

1. The economy of Country X is in a recession. The central bank implements an appropriate monetary policy to restore long-run equilibrium. Based on the change in interest rate due to this policy, what happens to the value of Country X's currency and exports in the world market?
2. The economy of Country X is in a recession. The central bank implements an appropriate monetary policy to restore long-run equilibrium. Based on the change in national income due to this policy, what happens to the value of Country X's currency and exports in the world market?
3. The economy of Country X is in a recession. The central bank implements an appropriate monetary policy to restore long-run equilibrium. Based on the change in price level due to this policy, what happens to the value of Country X's currency and exports in the world market?

These words cue students where to start their logical chain. They should underline them.

# **Socrative Activity**

Sample AP MCQs

[www.socrative.com](http://www.socrative.com)

RUSH240

# FRQs: Graphing and Explaining

*\*Add an explain  
to every step*



The exchange rate between the Australian dollar (AUD) and the Indian rupee (INR) is determined in a flexible foreign exchange market.

- a) Assume India is currently in recession. What fiscal policy action could the Indian government take to eliminate the recession?
- b) What would be the effect of the fiscal policy action identified in part (a) on interest rates in India?
- c) Draw a correctly labeled graph of the foreign exchange market for the Australian dollar. Show on your graph the impact of the change in interest rates identified in part (b) on each of the following.
  - i. The supply of Australian dollars
  - ii. The equilibrium exchange rate of the Australian dollar.
- d) What would be the effect of the change in the exchange rate identified in part (c)(ii) on Australian exports?
- e) What would be the effect of the change in Australian exports identified in part (d) on Australian unemployment?

## **Practice:** Graph one scenario

selected from *CEE Workbook*, Activity 7-4 (pp. 229-233)

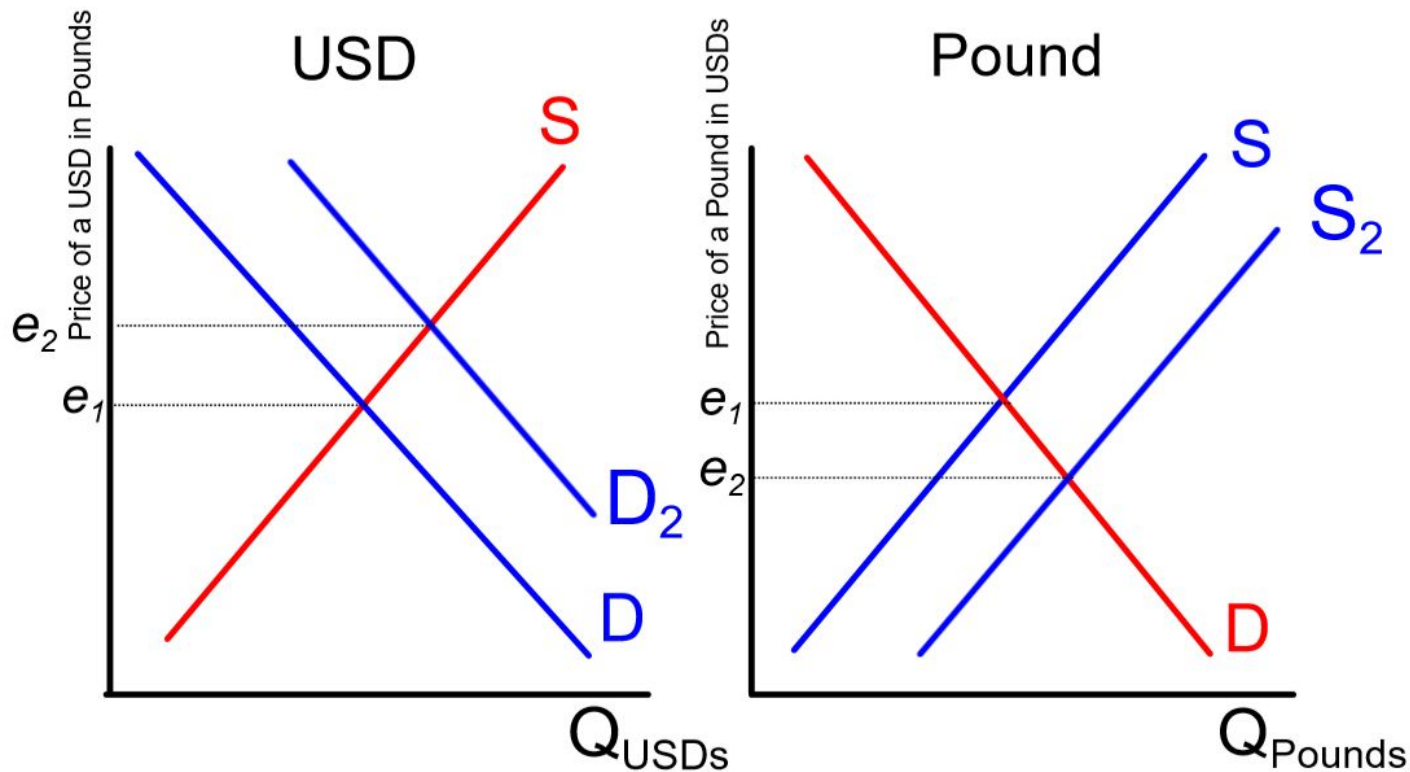
#2 Real interest rates in the U.S. increase relative to Great Britain

#4 Price level in Canada increases relative to the United States

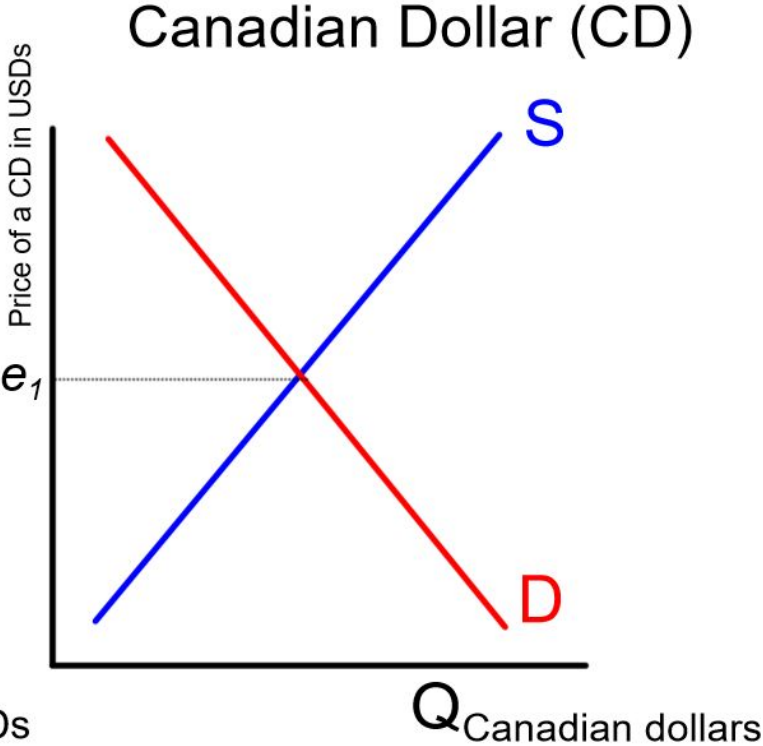
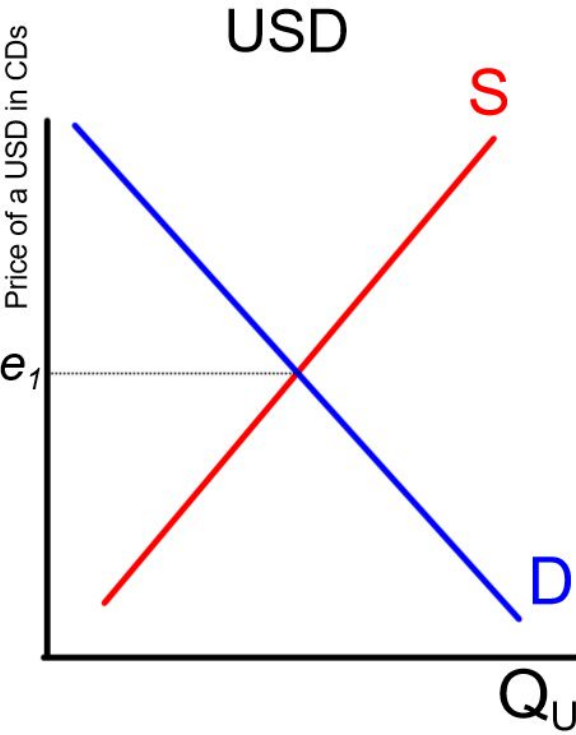
#5 Effect on Taiwan if U.S. government decreases taxes

Pick one to graph on the **Exchange Rates Slides**

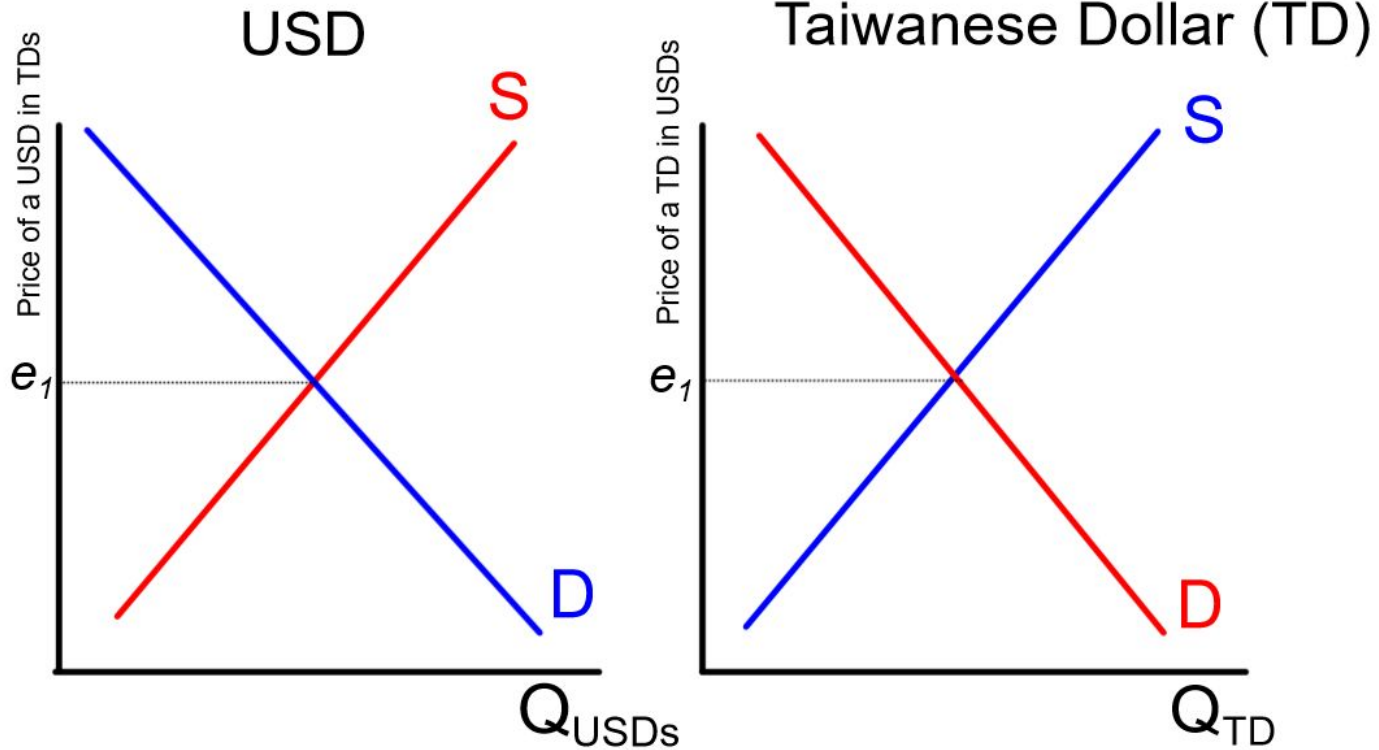
#2 Real interest rates in the U.S. increase relative to Great Britain



# #4 Price level in Canada increases relative to the United States



# #5 Effect on Taiwan if U.S. government decreases taxes





# AP FRQs

## \*2018 #1



Use links &  
logic to explain

Assume the United States is in recession.

(a) ... (Graph with LRAS, SRAS, AD, PL1, Y1)

(b) Now assume the euro zone, a major trading partner of the United States, enters a recession.

i - What will be the effect on United States exports to the euro zone? Explain.

ii - On your graph.. show the change identified in part (b)i on real output in the U.S.

iii - What will be the effect... on unemployment in the U.S.?

(c) Assume the euro zone recession causes a decrease in the demand for US dollars in the foreign exchange market.

i - Will the euro appreciate, depreciate or remain unchanged against the USD? Explain.

ii - Draw a correctly labeled graph of the foreign exchange market for USDs and show the effect of the decrease in demand for USDs on the exchange rate for USDs.

(d) Assume the U.S. implements a combination of expansionary fiscal and monetary policies. In the absence of complete crowding out, what will be the effect of these policies on each of the following.

i - AD in the U.S.

ii - PL in the U.S.

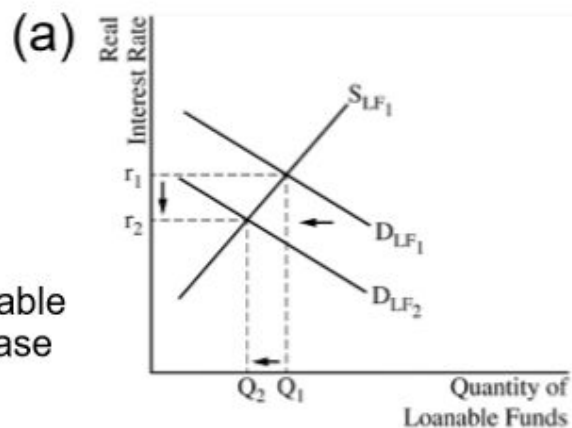
iii - Interest rates in the U.S. Explain.

# AP FRQs

## From AP Classroom

Suppose that the United States government implements a fiscal policy that increases the budget surplus.

(a) Draw a correctly labeled graph of the loanable funds market and show the effect of the increase in the budget surplus on the equilibrium real interest rate.



(b) The European Union is a major trading partner of the United States. Given your answer in part (a) about the real interest rate, will the United States dollar appreciate or depreciate against the euro? Explain.

(c) Suppose that the Federal Reserve, the central bank of the United States, decides to offset the change in the value of the dollar identified in part (b).

(i) Would the Federal Reserve buy or sell the euro?

(ii) Would the Federal Reserve buy or sell the dollar?

(d) Suppose that the Federal Reserve wants to counteract the real interest rate change identified in part (a). What monetary policy action would the Federal Reserve take?

## Review **Jamboard Questions**

**Next Week:** We'll look at how these changes in  $X_n$  circle back and affect the economy.