2. Assume a country's economy is currently operating below full employment.

   (a) Identify a fiscal policy action the country's government could implement to restore full employment.

   (b) Draw a correctly labeled graph of the loanable funds market, and show the effect of the fiscal policy action identified in part (a) on the equilibrium real interest rate.

   (c) Based solely on the real interest rate change shown in part (b), what will happen to each of the following?

   (i) Net exports. Explain.
   (ii) The stock of physical capital. Explain.

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.

AP Macroeconomics: **2019 Set 2**

2. The European Union and the United States are trading partners.

   (a) If the current account balance is zero, will an increase in United States real income result in a current account surplus, deficit, or no change? Explain.

   (b) Draw a correctly labeled graph of the foreign exchange market for the euro. On your graph, show the effect of the increase in United States real income on the value of the euro relative to the United States dollar.

   (c) Now assume interest rates increase in the European Union.

   (i) What is the effect of the increase in interest rates in the European Union on the demand for the United States dollar? Explain.

   (ii) Based on your answer to part (c)(i), what is the effect on the value of the United States dollar relative to the euro?