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.

   (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?