Solutions

Each answer shows the steps, then the **result**.

2.1

- a higher interest rate raises the opportunity cost of holding money, so less is demanded

2.2

- vertical, because it is set by the central bank regardless of the interest rate

2.3

- it falls

3.1 C

3.2 B

3.3

(a)

- it falls

(b)

- investment rises

(c)

- AD rises