

Solutions

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

2.1

- it raises the demand

2.2

- it tends to depreciate the currency

2.3

- it tends to depreciate the currency (lower rates reduce demand for it)

3.1 A

3.2 B

3.3

(a)

- it rises

(b)

- the exchange rate rises

(c)

- appreciation