

Solutions

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

2.1

- it attracts capital inflows

2.2

- it raises the demand for the currency

2.3

- they broadly offset each other (a financial-account surplus matches a current-account deficit)

3.1 B

3.2 A

3.3

(a)

- capital flows in

(b)

- it rises

(c)

- the currency appreciates