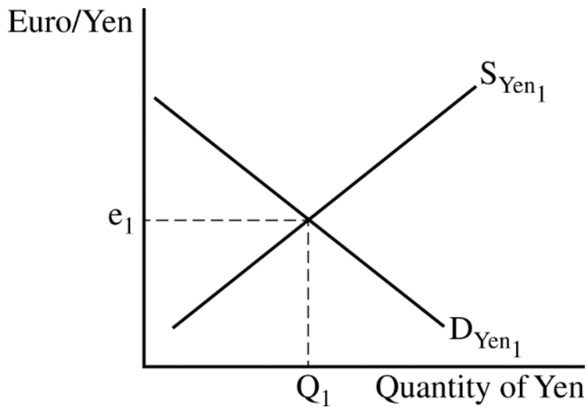
Question 3: Short — 5 points

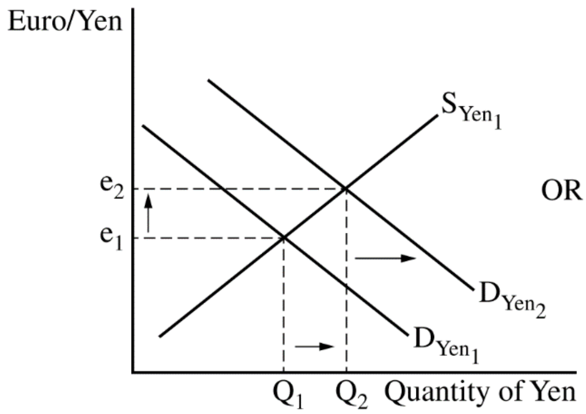
(a) State that the price of the coat is 12,000 yen. **1 point**

(b) State that net financial capital flows from Italy to Japan will increase. **1 point**

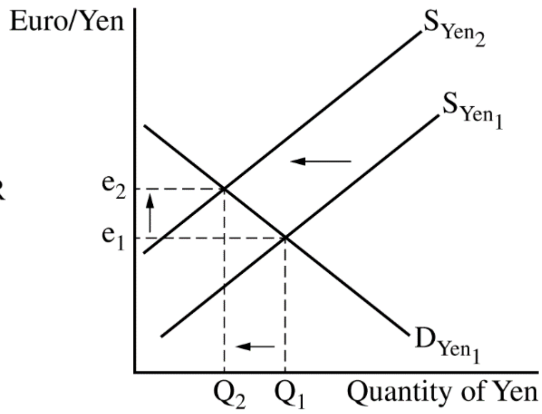
(c) Draw a correctly labeled graph of the foreign exchange market for the Japanese yen. **1 point**



For the second point, the graph must show a rightward shift in the demand curve for yen (or a leftward shift in the supply curve of yen), resulting in an appreciation of the yen. **1 point**



OR



Total for part (c) 2 points

(d) State that Italy's exports will increase and explain that the appreciation of the yen makes Italian goods relatively less expensive than Japanese goods and/or makes Japanese goods relatively more expensive than Italian goods. **1 point**

Total for question 3 5 points