

3. Initially, the real interest rates in the United States and Japan are equal to 7 percent. The real interest rate in the United States increases to 8 percent while the real interest rate in Japan decreases to 6 percent.
- (a) How and why will capital flows be affected by this change in real interest rates?
 - (b) Using a correctly labeled graph for the yen market, show and explain how the value of the yen will change relative to the value of the dollar.
 - (c) Explain how the change in the value of the yen will affect each of the following in the United States.
 - (i) Imports from Japan
 - (ii) Exports to Japan