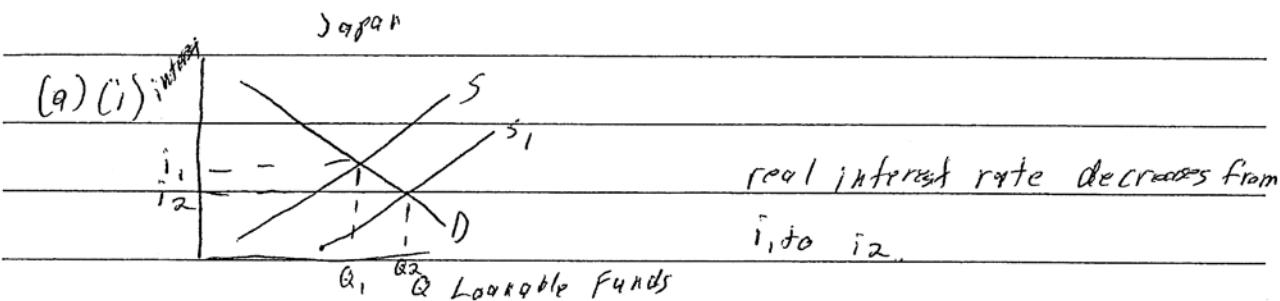


Write in the box the number of the question you are answering on this page as it is designated in the exam.

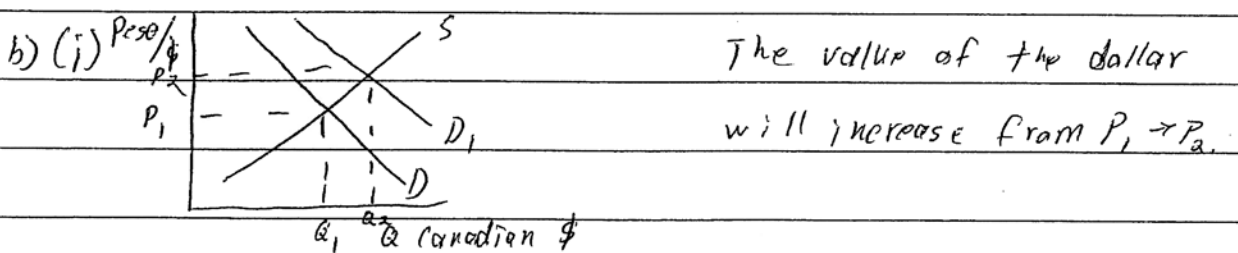
2

2A



~~As the interest rate decreases, unemployment increases, as indicated by this short-run Phillips curve.~~

(ii) As interest rates go down, the employment level in Japan will go up because there will be a significant shift of Aggregate Demand to the right due to an increase in consumer spending (MPC increases due to low ^{money} ~~money~~), Investment spending (low i makes borrowing ~~more~~ attractive), and exports (the low interest rate will cause foreign investors to go elsewhere and forcing Japan's currency to depreciate, making their goods cheaper).



(ii) As the value of the Canadian dollar goes up, Canadian exports become more expensive for Mexico, so Mexico will not purchase as many Canadian goods. Canadian exports decrease.