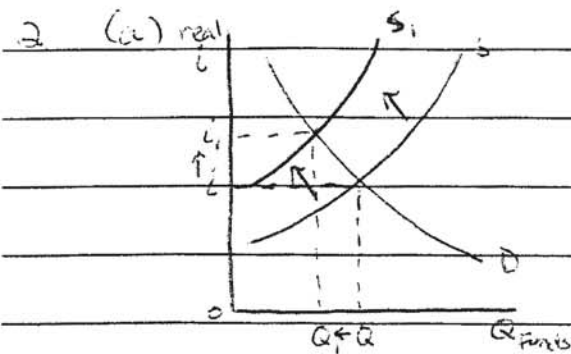


2A

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

2

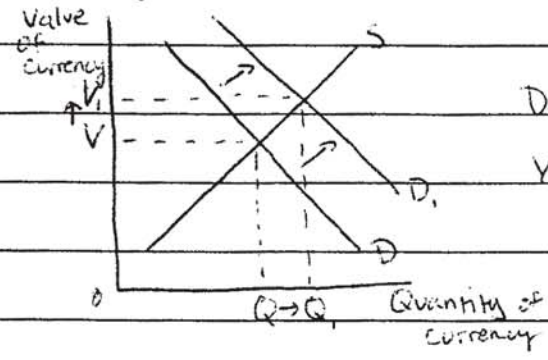


The increase in deficit spending increases the real interest rate because the supply of funds is diminished by the government (crowding out effect).

(b) The quantity demanded of funds ~~decreases~~ ^(Investment) decreases.
 $S_{funds} \downarrow \rightarrow \uparrow i \rightarrow \downarrow Q_{demanded} \Rightarrow \downarrow \text{Investment}$

(c) Since investment decreases, ~~growth~~ ^{future} growth is limited because there is less capital stock. Long term economic growth will therefore decrease.

(d) (i) Since the real interest rate increases, more countries will want to invest; there will be capital inflow so the demand for the country's currency will increase and the currency will appreciate.



Demand ↑
Value ↑