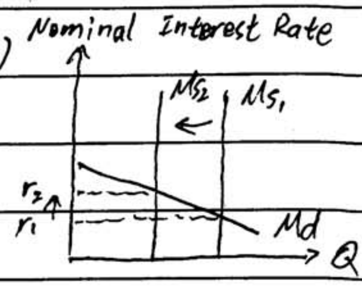
2

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

2A

(a) The amount of customer loans will decrease

(b)



(c) (i) Price level will fall because the money in the currency decrease.

(ii) Real interest rate will increase. Real ~~i~~ interest rate (i) = Nominal interest rate(r) - Expected inflation rate (π).

As money ~~supplied~~ supply decrease, ~~π is de~~ expected inflation rate decrease assuming people can expect inflation rate from central bank's action. And nominal interest rate increases according to the graph in part (b). So real interest rate ~~at~~ will increase.

(d) The international value of ono will increase. Since the real interest rate increases, the foreigners will ~~put money in~~ lend money to Sewell because of higher benifit from high interest rate. This causes the demand ~~cu curve~~ of ono increases, ~~raise~~ raising the international value of ono.

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