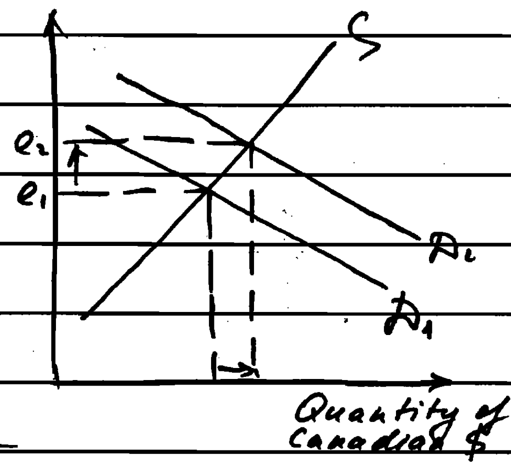
2A

Write in the box the number of the question you are answering on this page as it is designated in the examination. **2**

a) As Canada experiences significant inflow of funds demand for its currency rises, so the international value of the Canadian dollar increases. [Demand increases because foreigners need more Canadian currency to buy more assets in Canada] i.e. Canadian dollar appreciated

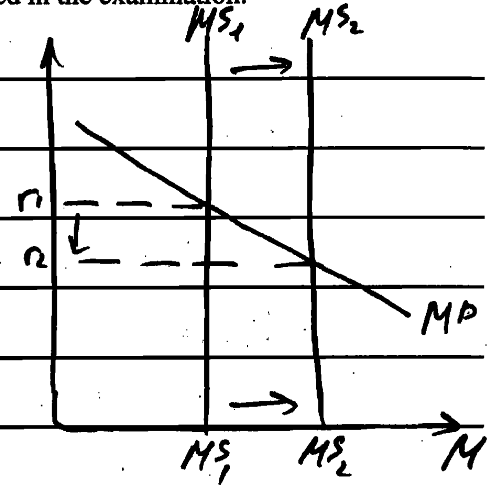


b) As the value of Canadian dollar increased, [1 canadian dollar costs more of foreign currency], Canadian exports became relatively more expensive for foreigners, so exports will decrease. However, imports increased, because 1 Canadian dollar is now able to buy more foreign goods then previously. Net exports = Exports - Imports, so with reduction in Exports and increase in Imports, Net exports ~~of~~ of Canada decrease.

2

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

c) With an inflow of funds from abroad, quantity of Canadian dollars in Canada increases, ie. money supply increases. This cause an decrease in interest rates, because money demand and interest rates are inversely related.



d) When interest rates decrease, this encourage investment, so it increases. [Interest rates and investment are inversely related]