

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

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As the real interest rate in the EU increases, investment in its financial assets becomes more desirable since upon sale the investment will yield a higher return. Consequently, with higher real interest rates in the EU, purchases of U.S. financial assets by foreigners, with relatively less attractive returns, will decrease. With the decrease of purchases of US financial assets, the international value of the US dollar will fall. This depreciation results from the lower demand for US dollars for financial assets. As the currency depreciates U.S. exports will increase since US goods will be relatively less expensive than previously in foreign markets. It will take fewer yen to purchase the same computer for instance. Similarly, a currency depreciation will cause a decrease in U.S. imports since foreign goods will be relatively more expensive. It will take more dollars to buy the same cell phone from Japan, so U.S. purchases of foreign goods will tend to decrease. ~~Beneficial for U.S. exporters, this situation does help correct some of the balance of trade deficit.~~ Beneficial for U.S. exporters, this situation does help correct some of the balance of trade deficit.