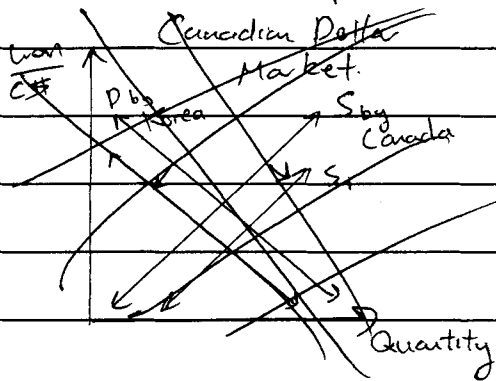


~~(a) (i) ~~Be~~ High relative inflation in Canada will result in Canadian products becoming relatively more expensive than Korean products. Consequently, the supply of Canadian money will increase as Canadians buy more Korean goods as they appear cheaper. Korean demand for Canadian currency will fall, as they will buy less Canadian imports.~~



a) (i) Demand for the Canadian dollar will fall due to higher relative inflation in Canada. Canadian goods will become comparatively more expensive to Koreans, who will buy fewer imports from Canada. This reduces the demand for Canadian money.

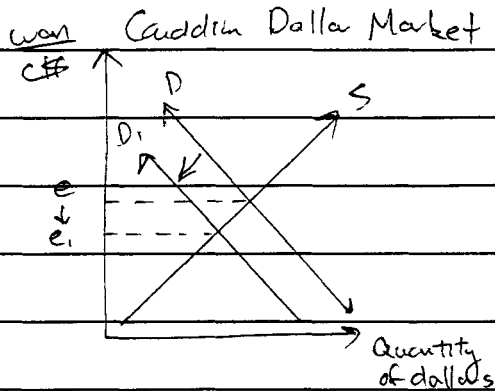
(ii) Demand will fall, since South Korean investors will note that the returns on their ~~can~~ investments in Canada are falling relative to those in Korea. ~~As they send less of their money i.~~ As they choose to keep less money in Canada, demand for dollars falls.

3.

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

3A₂

b) Because of falling demand for dollars, the Canadian dollar depreciates. ($e \rightarrow e_1$)



(c) Because the ~~can~~ Canadian dollar has depreciated, the same amount of Korean Won can purchase more Canadian Dollars. Thus, ~~Canadian~~ Canadian products appear cheaper to Korean consumers, who will purchase more Canadian goods. Canadian exports to South Korea will rise due to the depreciation of the Dollar.