

**27** Under a system of floating exchange rates, what determines the foreign exchange value of a currency?

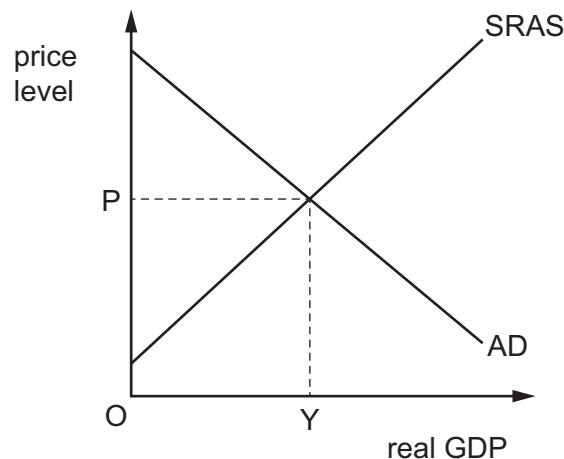
- A** the overall supply of and demand for a currency on currency markets
- B** the purchasing power of the currency relative to the purchasing power of foreign currencies
- C** the surplus or deficit on the balance of payments on current account
- D** the differential between domestic and foreign interest rates

**28** A country with a balance of trade deficit raises interest rates.

How may this help to reduce the deficit in the short run?

- A** by increasing the inflow of foreign direct investment
- B** by lowering the foreign exchange rate
- C** by raising the level of domestic capital investment
- D** by reducing the level of domestic aggregate demand

**29** An economy is currently in the position PY shown on the diagram.



Which short-run effects is government spending on education likely to have on unemployment and inflation?

	unemployment	inflation
<b>A</b>	fall	fall
<b>B</b>	fall	rise
<b>C</b>	rise	fall
<b>D</b>	rise	rise