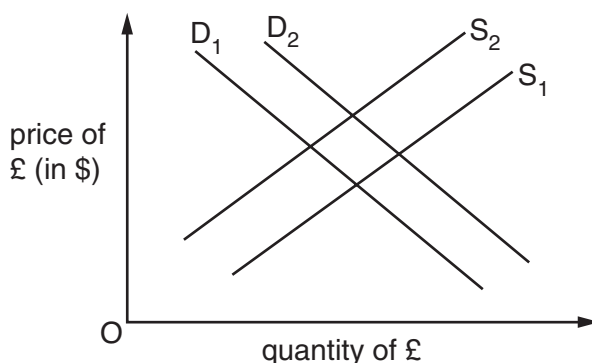


- 26 In the diagram D_1 and S_1 are the initial supply and demand curves of the pound sterling (£) on the foreign exchange markets.



What will cause the demand curve to shift to D_2 and the supply curve to S_2 ?

- A a depreciation of the pound sterling
 - B a decrease in UK interest rates
 - C an increase in the price levels of other countries
 - D an increase in the level of UK import tariffs
- 27 Which of the following combinations indicates that a country has a freely floating exchange rate?

	nominal exchange rate	foreign currency reserves
A	depreciates by 20%	decrease by \$1 billion
B	depreciates by 20%	unchanged
C	unchanged	decrease by \$1 billion
D	unchanged	unchanged

- 28 In the United States a representative basket of goods costs \$4000.

At the current actual exchange rate between the US\$ and the £ sterling the same basket of goods in the UK would cost \$5000.

What can be deduced from this?

- A The £ sterling is 25% over-valued against the US\$.
- B The £ sterling is 20% under-valued against the US\$.
- C The purchasing power parity exchange rate of the £ sterling is \$1.25 to the £.
- D The purchasing power parity exchange rate of the £ sterling is \$0.80 to the £.