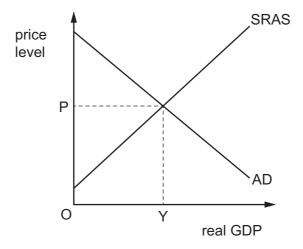
- 27 Under a system of floating exchange rates, what determines the foreign exchange value of a currency?
  - A the overall supply of and demand for a currency on currency markets
  - **B** the purchasing power of the currency relative to the purchasing power of foreign currencies
  - **C** the surplus 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
Α	fall	fall
В	fall	rise
С	rise	fall
D	rise	rise