

27 A country succeeds in attracting foreign direct investment.

How is its effect recorded in its balance of payments in the short run and long run?

	short run	long run
A	a credit item in the current account	a debit item in the financial account
B	a debit item in the current account	a credit item in the financial account
C	a credit item in the financial account	a debit item in the current account
D	a debit item in the financial account	a credit item in the current account

28 Under a system of flexible exchange rates, what determines the foreign exchange value of a currency?

- A** the overall supply of and demand for a currency
- 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

29 With an exchange rate of 5 Egyptian pounds (EGP) = 1 US dollar (\$), an American product sells in Egypt for EGP100.

Assuming that the dollar price remains unchanged, what will be the price of the product in Egypt if the Egyptian pound appreciates to EGP4 = 1 US\$?

- A** EGP75 **B** EGP80 **C** EGP120 **D** EGP125

30 Which measure to correct a balance of payments current account deficit would be classified as an expenditure-dampening policy?

- A** a reduction in interest rates
- B** an increase in direct taxes
- C** an introduction of foreign exchange controls
- D** an upward revaluation of the currency