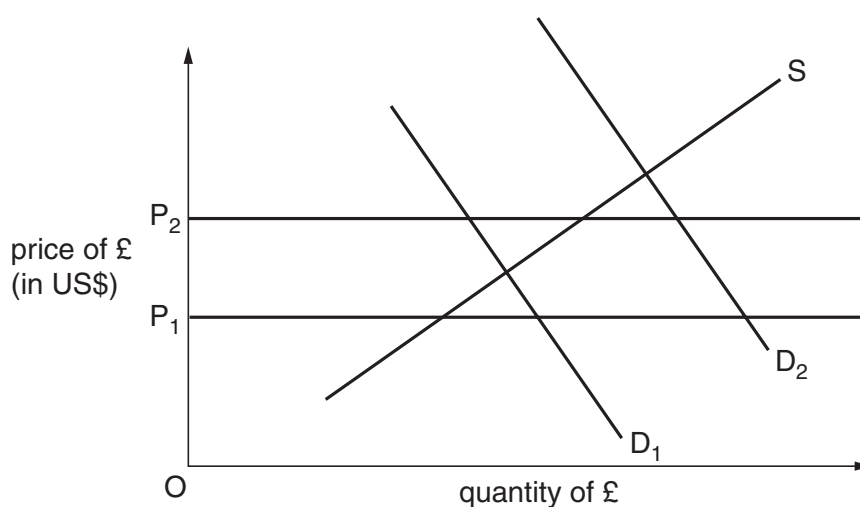


- 26** A representative basket of goods costs \$2500 in the United States. The same basket of goods costs £2000 in the UK. What can be deduced from this?
- A** The £ sterling is 25% over-valued.
 - B** The £ sterling is 20% under-valued.
 - C** The purchasing power parity exchange rate of the £ sterling is \$0.80 to the £.
 - D** The purchasing power parity exchange rate of the £ sterling is \$1.25 to the £.
- 27** The British monetary authorities are committed to maintaining the exchange rate of the UK £ against the US dollar between P_1 and P_2 on the diagram.



What might they do if demand changes from D_1 to D_2 ?

- A** impose controls on UK investment overseas
 - B** increase interest rates
 - C** sell \$ out of foreign exchange reserves
 - D** sell £ on the foreign exchange markets
- 28** What do the weights used to calculate a country's trade-weighted exchange rate reflect?
- A** the relative importance of different goods in a country's balance of trade
 - B** the relative size of a country's trade with different countries
 - C** the relative importance of trade as a percentage of a country's GDP
 - D** the relative size of a country's trade as a percentage of world trade