30 To reduce a deficit on the current account of the balance of payments, a government imposes a limit on the foreign exchange its people and firms can purchase.

Why may this increase the country's inflation rate?

A Firms may have to purchase more expensive, domestically-produced raw materials.

B Firms may have to sell more of their output on the domestic market.

C The change in demand for foreign currency on the foreign exchange market may lead to an appreciation in the exchange rate.

D The change in supply of the domestic currency on the foreign exchange market may reduce the money supply in the domestic economy.