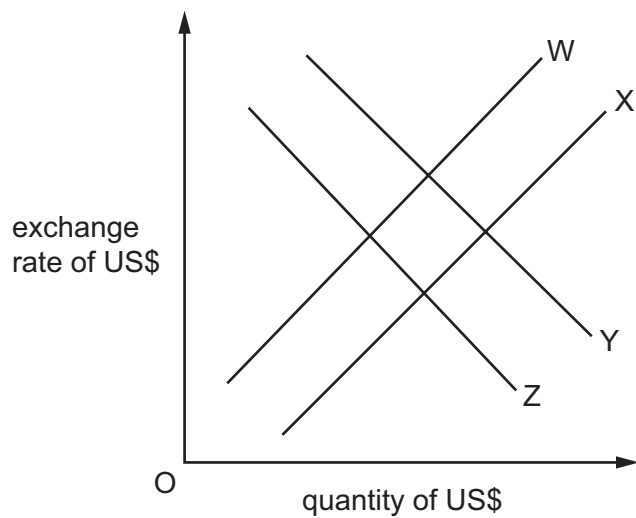


- 30 The US Central Bank lowers its interest rate to raise aggregate demand. This has an effect on the exchange rate of the US\$. The diagram shows the resulting changes in the demand for and supply of US\$ in the foreign exchange market.



Assume a change is shown by a move from a curve numbered 1 to a curve numbered 2.

What should curves W, X, Y and Z be labelled to show the effect of the interest rate rise on the exchange rate?

	W	X	Y	Z
A	S <sub>1</sub>	S <sub>2</sub>	D <sub>1</sub>	D <sub>2</sub>
B	S <sub>1</sub>	S <sub>2</sub>	D <sub>2</sub>	D <sub>1</sub>
C	S <sub>2</sub>	S <sub>1</sub>	D <sub>1</sub>	D <sub>2</sub>
D	S <sub>2</sub>	S <sub>1</sub>	D <sub>2</sub>	D <sub>1</sub>