a) As Canada experiences a significant inflow of funds, demand for its currency rises, so the international value of the Canadian dollar increases.

[Diagram: Graph showing the demand and supply curves for Canadian dollars, labeled e1 and e2, with a shift to the right indicating an increase in demand.]

[Legend: Demand increases because foreigners need more Canadian currency to buy more assets in Canada, i.e., Canadian dollar appreciated.]

b) As the value of the Canadian dollar increases, 1 Canadian dollar costs more of foreign currency. Canadian exports become relatively more expensive for foreigners, so exports will decrease. However, imports increased, because 1 Canadian dollar is now able to buy more foreign goods than previously.

Net exports = Exports - Imports, so with reduction in exports and increase in imports, Net exports of Canada decrease.
c) With an inflow of funds from abroad, quantity of Canadian dollars in Canada increases, so money supply increases. This causes an increase in interest rates, because money demand and interest rates are inversely related.

When interest rates decrease, this encourages investment, so it increases. (Interest rates and investment are inversely related.)
(a) The international value of the Canadian dollar will be increased, since the increase of inflow of foreign funds means the increase in demand for Canadian dollars.

(b) Since the Canadian dollar has appreciated, its products will look more expensive to other countries, while Canadian would feel the products of other countries more cheap. So, Canada's exports will decrease and imports will increase, meaning the net exports decreases.

(c) Due to the increase of money demand for Canadian dollar, the interest rate will increase.

(d) Since interest rate has increased, the level of investment will decrease.
Write in the box the number of the question you are answering on this page as it is designated in the examination.

**Question 2**

a) It would depreciate, because of outside currencies entering the country. (which are possibly stronger currencies)

b) Canadian exports would increase due to the Canadian dollar's depreciation. Outside demand would increase due to less expensive products.

c) Would decrease as more money would enter the economy due to exports. More money leads to lower interest rates.

d) Investment would increase in Canada due to lower interest rates. As interest rates are low, investors would gain more, than if it was high.