

**30** The monetary authorities of a country, whose currency is floating freely, raise the market rates of interest.

Other things being equal, the exchange rate of the currency is most likely to

- A** fall, as domestic fixed capital formation declines in response to higher rates of interest.
- B** fall, because the quantity of money must be reduced to cause rates of interest to rise.
- C** rise, as foreigners buy the domestic currency in order to hold assets with a higher yield.
- D** rise, as exporters increase the volume of exports to hold foreign currency.