Figure 2: The effects of an increase in the U.S. interest rate.

Canadian Dollar Return

\[ 0.10 + \frac{-0.05}{E_{\text{US \$}}} \]

\[ 0.12 + \frac{-0.05}{E_{\text{US \$}}} \]

[Expected U.S. Dollar Return]

\[ \Rightarrow R_{\text{US \$}} \uparrow \text{as from } 10\% \text{ to } 12\% \]

Rate of Return in Canadian Dollars

\[ R_{\text{CND \$}} = 0.08 \]