29 Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

A a long-run supply-side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions

B a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments

C a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target

D a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level

30 Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in solving deflation?

	fiscal policy	monetary policy
A	lower direct taxes	devaluation
B	lower direct taxes	revaluation
C	lower indirect taxes	devaluation
D	lower indirect taxes	revaluation