

19 The world consists of Sealand and Fantasia. Each produces two goods, X and Y.

Good X needs much land but little labour. Good Y needs much labour but little land.

Sealand has plentiful land and labour. Fantasia has more labour than Sealand.

What can be deduced from the above about Sealand?

- A** It is unlikely to gain from trade with Fantasia.
- B** It will have an absolute advantage in the production of both X and Y.
- C** It will have a comparative advantage in the production of X.
- D** It will have a comparative advantage in the production of Y.

20 Which measure would encourage domestic production?

A reduction in

- A** the safety standards for imports.
- B** the size of import quotas.
- C** the subsidies on home produced goods.
- D** the time taken to process import paperwork.

21 Which combination of export and import prices will cause the greatest change in a country's terms of trade?

	export prices	import prices
A	decrease by 1 %	increase by 1 %
B	decrease by 2 %	no change
C	increase by 1 %	decrease by 1 %
D	no change	increase by 2 %

22 An Indian multinational company receives profits from its factories based in the UK. It then buys a US-owned firm based in the UK.

How will these transactions appear in India's balance of payments?

	the remittance of profit	the purchase of the US-owned firm
A	a credit item in the current account	a debit item in the financial account
B	a credit item in the financial account	a debit item in the current account
C	a debit item in the current account	a credit item in the financial account
D	a debit item in the financial account	a credit item in the current account