

27 Increased international competition leads to a worsening in a country's current account balance.

In the absence of any offsetting factors, how is this likely to affect the exchange rate and domestic cost-push inflation?

	exchange rate	cost-push inflation
A	appreciate	decrease
B	appreciate	increase
C	depreciate	decrease
D	depreciate	increase

28 Why are higher interest rates together with increased taxation on expenditure likely to cause domestic deflation?

- A** because the contractionary monetary policy will over-ride the expansionary fiscal policy
- B** because the monetary and fiscal policies involved will reinforce each other
- C** because the expansionary monetary policy will over-ride the contractionary fiscal policy
- D** because the monetary and fiscal policies involved will cancel each other out

29 Which policy aimed at correcting a balance of trade deficit is an expenditure-reducing policy?

- A** depreciation of the currency
- B** increased direct taxation
- C** tax incentives for exporters
- D** the imposition of protectionist tariffs

30 Which policy will **not** cause a reduction in the rate of inflation?

- A** increasing income tax
- B** reducing government spending
- C** reducing interest rates
- D** removing subsidies