

- 26** In what circumstances will money lose its value?
- A** The economy experiences a period of deflation.
  - B** The general level of prices is falling.
  - C** The growth of money supply falls below the growth of output.
  - D** The rate of inflation is positive.
- 27** What would most help a country to achieve a surplus on the current account of the balance of payments?
- A** a depreciating exchange rate combined with a high rate of inflation and falling productivity
  - B** a depreciating exchange rate combined with a low rate of inflation and rising productivity
  - C** an appreciating exchange rate combined with a high rate of inflation and falling productivity
  - D** an appreciating exchange rate combined with a low rate of inflation and rising productivity
- 28** At the start of the year, the exchange rate of Country X's dollar (X\$) to Country Y's pound (Y£) is X\$4.80 : Y£1
- During the year prices increase by 10% in Country X and by 20% in Country Y.
- According to Purchasing Power Parity theory, what will be the exchange rate at the end of the year?
- A** X\$4.40 : Y£1
  - B** X\$4.90 : Y£1
  - C** X\$5.00 : Y£1
  - D** X\$5.20 : Y£1
- 29** Devaluation always has the effect of
- A** decreasing the price of imports.
  - B** decreasing the value of imports.
  - C** worsening the balance of payments.
  - D** worsening the terms of trade.