

21 What best describes a country's terms of trade?

- A** the difference between the volume of its exports and its imports
- B** the average price of its exports divided by the average price of its imports
- C** the total value of its exports divided by the total value of its imports
- D** the volume of its exports divided by the volume of its imports

22 A developed country has a price-inelastic demand for oil, all of which it imports. The oil-producing countries increase the supply of oil.

What is likely to happen to the developed country's rate of inflation and its balance of trade?

	rate of inflation	balance of trade
A	decreases	improves
B	decreases	worsens
C	increases	improves
D	increases	worsens

23 Country X and country Y both produce rice and tables. Half of their resources are used to produce rice and the other half to produce tables. The resulting output of each product is given in the table shown.

country	rice	tables
X	150	100
Y	100	50

What can be concluded from the table?

- A** Country X has a comparative advantage in the production of both goods.
- B** Country X has a comparative advantage in the production of rice.
- C** Country Y has a comparative advantage in the production of both goods.
- D** Country Y has a comparative advantage in the production of rice.

24 An economy experiences a deficit on the current account of its balance of payments.

What could the economy do to finance this deficit?

- A** adopt a fixed exchange rate
- B** attract more foreign direct investment
- C** decrease income tax rates
- D** lower the rate of interest