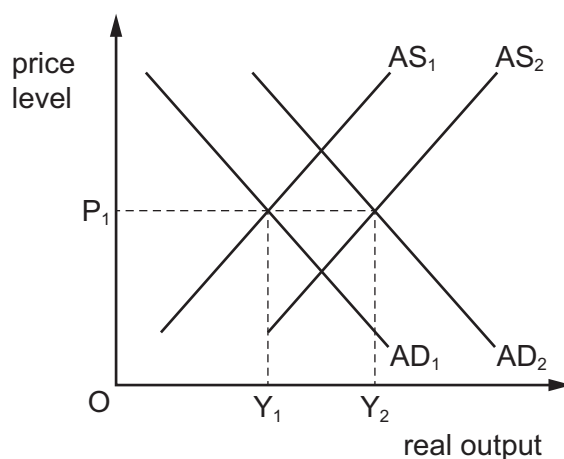


- 19 Under which circumstance would the rate of inflation be **most** likely to fall?
- A Government spending increases and society's marginal propensity to save falls.
  - B Reduced interest rates result in consumers increasing their spending.
  - C The government increases direct taxes and the level of investment falls.
  - D The prices of imported raw materials rise, whilst demand for exports falls.
- 20 In which circumstances will country X have a comparative advantage in the production of rice over country Y?
- A when X has lower opportunity costs in producing rice than Y
  - B when X is in a customs union and Y is outside that union
  - C when X uses dollars for trading and Y uses a different currency
  - D when X uses more units of labour than Y to produce rice
- 21 The diagram shows an economy with an initial equilibrium real output of  $Y_1$  at a price level of  $P_1$ .



Which combination of events is likely to cause the equilibrium real output to rise to  $Y_2$ ?

- A an increased budget deficit and a fall in energy costs
- B an increased budget surplus and a rise in energy costs
- C an increased trade deficit and a fall in indirect tax
- D an increased trade surplus and a rise in indirect tax