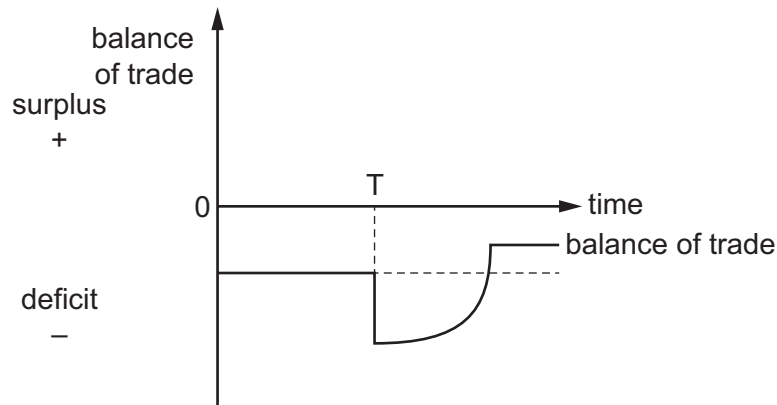


25 An economy changes its exchange rate at time T.



What does the J-curve diagram show happens at T and after T?

|          | exchange rate change at time T | Marshall-Lerner condition |
|----------|--------------------------------|---------------------------|
| <b>A</b> | devaluation                    | does not apply            |
| <b>B</b> | devaluation                    | applies                   |
| <b>C</b> | revaluation                    | does not apply            |
| <b>D</b> | revaluation                    | applies                   |

26 What always happens when there is an increase in the Consumer Price Index?

- A** an increase in consumer expenditure
- B** an increase in the cost of living
- C** a reduction in living standards
- D** a reduction in real disposable income

27 What would **not** be included in Germany's balance of payments accounts?

- A** financial investments in Germany by Japanese banks
- B** foreign aid received by Germany
- C** the German terms of trade
- D** the takeover of a German company by a French company