

- 24 The table indicates the factor inputs required to produce wheat and cars in countries X and Y.

	units of factor inputs to produce one tonne of wheat	units of factor inputs to produce one car
country X	4	2
country Y	8	6

What makes it possible for both countries to benefit from trade?

- A Country X has an absolute advantage in wheat and car production.
  - B Country Y has an absolute advantage in wheat and car production.
  - C Country Y has a comparative advantage in wheat production.
  - D Opportunity cost of wheat and car production is the same between countries.
- 25 A government decides to allow the country's currency to depreciate to remove the deficit on its current account of the balance of payments.

What is the most likely reason why this would **not** work?

- A The country gains a competitive advantage from the depreciation.
  - B The country has a surplus on its capital and financial accounts.
  - C The price elasticities of demand for the country's exports and imports are greater than one.
  - D There are high trade barriers with the country's main trading partners.
- 26 When must the terms of trade of a country change?
- A when the volume of exports falls and the volume of imports rises
  - B when the total value of exports falls and the total value of imports rises
  - C when the balance of trade in goods moves from deficit to surplus
  - D when the average price of exports rises and the average price of imports falls