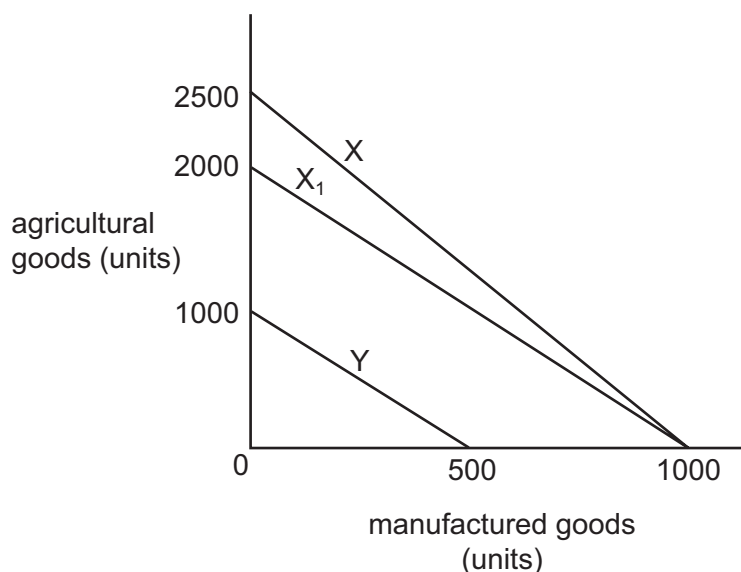


- 19 The diagram represents the production possibility curves of two economies X and Y.



As a result of soil erosion in economy X, the production possibility curve shifts from X to X<sub>1</sub>.

According to the law of comparative advantage, what should country Y do following this change?

- A cease to trade with country X
  - B export agricultural goods to country X
  - C export manufactured goods to country X
  - D import both agricultural and manufactured goods from country X
- 20 Which of the following will increase a country's protection against imports?
- A an appreciation of its exchange rate
  - B an increase in its inflation rate
  - C a reduction in the size of existing import quotas
  - D a reduction in subsidies to domestic producers
- 21 When will there be a favourable movement in a country's terms of trade?
- A when the prices of its exports fall by more than the prices of its imports
  - B when the prices of its imports rise by less than the prices of its exports
  - C when the volume of its exports increases by more than the volume of its imports
  - D when the volume of its imports increases by more than the volume of its exports