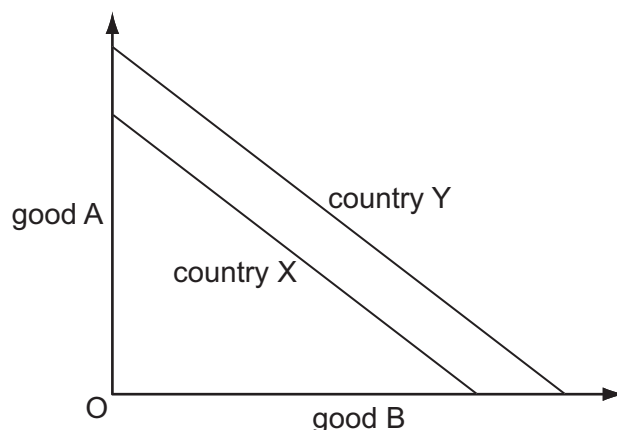


- 18** In which situation will it be necessary to use an alternative to the price mechanism to allocate a good between consumers?
- A** The quantity of the good available is fixed.
  - B** Producers of the good receive a subsidy.
  - C** The government imposes a specific tax on the good.
  - D** The government sets a maximum price below the equilibrium price.
- 19** The diagram shows production possibility curves for two countries, X and Y.



What can be deduced from the diagram?

- A** Both countries can benefit by specialisation.
  - B** Country X has a higher opportunity cost than Y in producing good B.
  - C** Country Y has a comparative advantage in both goods.
  - D** Trade between X and Y will not take place.
- 20** An argument against trade protection is that it will increase
- A** competition for domestic industries.
  - B** domestic price levels.
  - C** the current account deficit.
  - D** opportunities for domestic infant industries.
- 21** What is present in a customs union but not in a free trade area?
- A** a common monetary system
  - B** a common external tariff with the rest of the world
  - C** a common system of taxation
  - D** the free movement of all goods, services and factors of production