18 A major trading nation, country X, is in equilibrium at the full employment level of real output. There is then a recession in its main international markets.

What are the most likely consequences of this change for country X?

	rate of inflation	unemployment
A	decrease	decrease
B	decrease	increase
C	unchanged	decrease
D	unchanged	increase

19 Why would a fall in a country's average price level cause its aggregate demand curve to slope downwards?

A It leads to an increase in interest rates.

B It reduces the real value of money balances.

C It makes the country’s goods cheaper relative to foreign goods.

D It leads to the expectation of further price falls.

20 To counter deflation a central bank uses expansionary monetary policy.

What is likely to result?

A a higher cost of borrowing

B an increase in aggregate demand

C an appreciation of the exchange rate

D an increase in government debt

21 Which statement about government budget surpluses and deficits is the most accurate?

A A surplus implies that the balance of payments is in surplus.

B A surplus implies that the government is spending too much money.

C A deficit implies that the economy is in decline.

D A deficit implies that the national debt is increasing.

22 What is most likely to decrease if a government uses expansionary fiscal policy?

A a balance of payments deficit

B cyclical unemployment

C the level of wages

D the rate of inflation