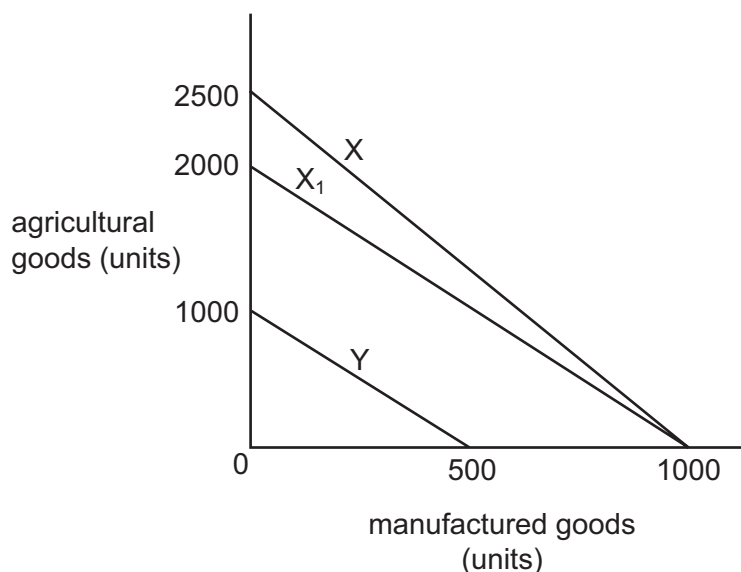


- 19 The diagram represents the production possibility curves of two economies X and Y.



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 What will be the immediate effect of the removal of tariffs on imported consumer goods?
- A a decrease in the cost of living
  - B a decrease in free trade
  - C an increase in customs revenues received by the government
  - D an increase in the level of domestic employment
- 21 Which feature is found in both a customs union and a free trade area?
- A a common currency
  - B a common external tariff
  - C freedom from internal trade barriers
  - D uniform tax rates