

- 26 What is likely to explain an increase in the deficit on a country's current account of the balance of payments?
- A an increase in government foreign aid to countries abroad
  - B an increase in government tax rates
  - C an increase in other countries' exchange rates
  - D an increase in the proportion of income saved by the country's residents
- 27 What does the Marshall–Lerner condition state must be present for a depreciation of a currency to cause an improvement in the current account balance?
- A The price elasticity of demand for exports and the price elasticity of demand for imports are both greater than one.
  - B The price elasticity of demand for exports and the price elasticity of demand for imports are both less than one.
  - C The sum of the price elasticity of demand for exports and the price elasticity of demand for imports is greater than one.
  - D The sum of the price elasticity of demand for exports and the price elasticity of demand for imports is less than one.
- 28 To encourage people to work, a government increases the minimum income level at which people start to pay income tax.

Which types of macroeconomic policy are being followed?

	fiscal policy	monetary policy	supply side policy
<b>A</b>	✓	✗	✓
<b>B</b>	✗	✓	✓
<b>C</b>	✓	✓	✓
<b>D</b>	✓	✓	✗

- 29 Raising interest rates is proposed to reduce a balance of payments deficit.

Which justification for this action is **not** valid?

- A It will attract more foreign currency inflows.
- B It will encourage exporters to find new foreign markets.
- C It will lower the level of imported consumer goods.
- D It will put downward pressure on the exchange rate.