

**19** According to the theory of comparative advantage, what makes trade beneficial between two countries?

- A** Each country has different goods to sell and different tastes.
- B** Each country has different opportunity costs of production.
- C** One country has the absolute advantage in producing both goods.
- D** The prices of goods are different between each country.

**20** The demand for a country's exports is price-elastic. Its government introduces export subsidies.

What will be the effect on its balance of trade and on its terms of trade?

	balance of trade	terms of trade
<b>A</b>	increase	increase
<b>B</b>	increase	decrease
<b>C</b>	decrease	increase
<b>D</b>	decrease	decrease

**21** The table shows the average changes in the prices and volumes of exports and imports.

Which combination of changes would result in an increase in the terms of trade?

	export prices	export volumes	import prices	import volumes
<b>A</b>	−10%	+15%	−15%	+10%
<b>B</b>	−3%	+6%	−2%	+1%
<b>C</b>	+5%	−5%	+6%	−1%
<b>D</b>	+10%	−5%	+12%	−6%

**22** A government decides to increase a quota on an imported good.

What is likely to happen?

- A** The demand for the good will fall.
- B** The good will become more expensive.
- C** The government's revenue will decline.
- D** There will be more of the good imported.