

19 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

20 A group of countries introduce a single common currency to replace their national currencies.

What will result from this policy?

- A** easier price comparisons between countries
- B** higher transaction costs
- C** increased interest rate differentials
- D** identical prices in all countries

21 When is an economy likely to experience a deterioration in its terms of trade?

- A** when demand for its exports increases
- B** when the trade weighted value of its currency depreciates
- C** when the interest rate is increased
- D** when there is a fall in the average price of its imports

22 Country X has a comparative advantage in producing wheat and country Y in producing cars. However, the countries choose not to specialise and trade.

What is a valid reason for this behaviour?

- A** The exchange rate lies within the countries' opportunity cost ratios.
- B** There is immobility of factors of production between the countries.
- C** Trade is based on absolute rather than comparative advantage.
- D** Transport costs are high relative to the opportunity cost differences between the countries.

23 What will cause an immediate rise in the size of a country's labour force?

- A** an increase in the birth rate
- B** an increase in the age of retirement
- C** an increase in the school leaving age
- D** an increase in the number of redundancies