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
A	✓	✗	✓
B	✗	✓	✓
C	✓	✓	✓
D	✓	✓	✗

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.