

**26** A country has a floating exchange rate.

An increase in which variable in the country will cause its currency to appreciate?

- A** the budget deficit
- B** the general price level
- C** the interest rate
- D** the trade deficit

**27** What is an accurate statement about possible causes and/or consequences of a worsening in a country's terms of trade?

- A** It will result from a fall in the demand for its exports.
- B** It will result from an increase in consumers' incomes in its major trading partners.
- C** It will result in a decrease in interest rates by its major trading partners.
- D** It will result in an improvement in its balance of trade.

**28** An economy has a balance of payments surplus, which it wishes to eliminate.

In order to achieve this objective, which combination of policies would be **most** appropriate?

- A** a depreciation of the currency and an increase in government spending
- B** an appreciation of the currency and a cut in interest rates
- C** an increase in the money supply and a pay freeze
- D** increases in both direct and indirect taxation

**29** What would be increased by an expansionary fiscal policy?

- A** budget deficit
- B** exchange rate
- C** money supply
- D** rate of direct taxation