

27 Why might an increase in a current account surplus cause inflation?

- A** It will decrease aggregate supply.
- B** It will decrease the money supply.
- C** It will increase aggregate demand.
- D** It will increase the exchange rate.

28 Demand for imports is often price inelastic in the short term. Over time, demand tends to become more price elastic.

What does this help to explain?

- A** why a fall in the exchange rate causes a deficit on the current account of the balance of payments to increase before decreasing
- B** why a fall in the exchange rate causes inflation to rise before falling
- C** why a rise in the exchange rate causes a surplus on the current account of the balance of payments to decrease before increasing
- D** why a rise in the exchange rate causes the terms of trade to worsen before improving

29 The table shows the number of Jamaican dollars which exchanged for one unit of other currencies in time period 1 and time period 2.

	Jamaican \$ time period 1	Jamaican \$ time period 2
Barbados \$	23.19	23.12
Guyana \$	0.25	0.25
US\$	45.78	45.77
UK£	63.86	64.37

What might be concluded from the table?

- A** There was a decreased demand for Barbados \$ by Jamaicans.
- B** There was a decreased supply of Guyana \$ to Jamaicans.
- C** There was an increased demand for US\$ by Jamaicans.
- D** There was an increased supply of UK£ to Jamaicans.