25 The real national income of a country fell by 3%.

What could have caused this?

A Money national income fell by 3% when the rate of inflation was 6%.

B Money national income fell by 6% when the rate of inflation was 3%.

C Money national income rose by 3% when the rate of inflation was 6%.

D Money national income rose by 6% when the rate of inflation was 3%.

26 An economy with a long history of extensive barriers to trade decides to switch to totally free trade.

What is most likely to increase in the short term?

A consumer surplus

B government revenue

C inflationary pressure

D profits of all domestic companies

27 Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

A Domestic money supply will increase.

B Rival economies may react with trade protection measures.

C The economy’s foreign exchange reserves may decrease.

D The economy’s short-run standard of living will be reduced.

28 What would be a positive effect on the growth of an economy in the short run, if the government reduced a direct tax on individual earnings?

A food prices would increase due to shortages

B imports of luxury cars would increase to satisfy a change in demand

C savings would increase due to additional disposable income

D the consumption of domestically produced goods would increase