26 A developed country has a price-inelastic demand for oil, all of which it imports. The oil-producing countries decide to provide more oil to the market.

What is likely to happen as a result in the developed country to inflation, its balance of trade and the quantity of oil demanded?

	inflation	balance of trade	quantity of oil demanded
A	less likely	improves	rises
B	less likely	worsens	rises
C	more likely	improves	falls
D	more likely	worsens	falls

27 Why is it that a country's balance of payments must always balance?

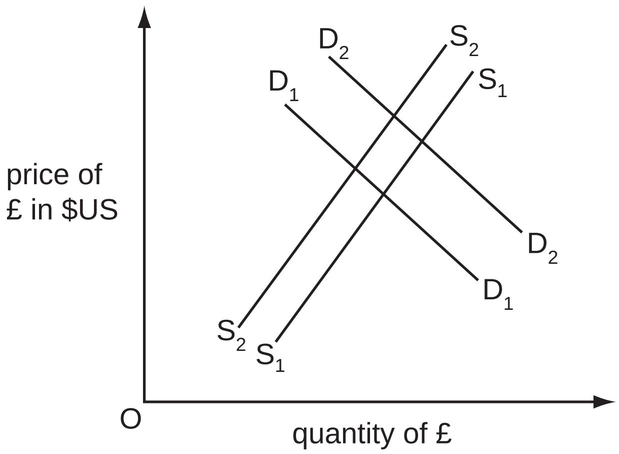
A Exchange rate changes will correct any deficit or surplus.

B One country's deficit is matched by another's surplus.

C The current account is balanced by the capital and financial accounts.

D The government must act to correct any disequilibrium.

28 In the diagram, D_1D_1 and S_1S_1 are the initial demand and supply curves of the pound sterling (£) on the foreign exchange market.



What will cause the demand curve to shift to D_2D_2 and the supply curve to S_2S_2?

A an appreciation of the pound

B an increase in UK interest rates

C a reduction in the level of UK import tariffs

D a reduction in the quality of UK goods