

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

What is likely to result in an improvement in its balance of payments?

- A** a decrease in interest rates in foreign countries
- B** a decrease in the country's interest rates
- C** a decrease in the income of foreign countries
- D** an increase in the country's national income

**27** A government decides to reduce the quota on imported cars from 2000 to 1000 per year.

What is likely to happen?

- A** The balance of trade may improve.
- B** The demand for the good will increase.
- C** The good will become cheaper.
- D** The government's revenue will decline.

**28** A representative basket of goods costs \$2500 in the United States. The same basket of goods costs £2000 in the UK.

What can be deduced from this?

- A** The £ sterling is 25 % overvalued.
- B** The £ sterling is 20 % undervalued.
- C** The purchasing power parity exchange rate of the £ sterling is \$0.80 to the £.
- D** The purchasing power parity exchange rate of the £ sterling is \$1.25 to the £.