

- 25** What must be true if an economy is experiencing inflation?
- A** Aggregate demand is increasing.
 - B** Aggregate supply is decreasing.
 - C** The interest rate is increasing.
 - D** The real value of money is decreasing.
- 26** What is the **most** likely consequence of an appreciation in the value of the Malaysian ringgit?
- A** a decline in the level of unemployment in Malaysia
 - B** a fall in the rate of growth of the general price level in Malaysia
 - C** a reduction in the volume of imports into Malaysia
 - D** an improvement in the Malaysian balance of trade in services
- 27** Under which conditions will an appreciation of a floating exchange rate cause the current account of the balance of payments to worsen the most?

| | price elasticity of demand for imports | price elasticity of demand for exports |
|----------|--|--|
| A | 0.4 | 0.4 |
| B | 0.4 | 0.6 |
| C | 0.6 | 0.4 |
| D | 0.6 | 0.6 |

- 28** An economy experiences cost-push inflation.

Which combination of policies would be best for the economy to use to reduce cost-push inflation?

| | exchange rate | supply-side policy |
|----------|---------------|--------------------|
| A | appreciate | lower minimum wage |
| B | appreciate | raise minimum wage |
| C | depreciate | lower minimum wage |
| D | depreciate | raise minimum wage |