

25 The table shows a country's rate of inflation for four years.

year	rate of inflation %
2005	4.0
2006	3.0
2007	2.5
2008	2.0

What fell between 2005 and 2008?

- A** average prices
- B** the cost of living
- C** the exchange rate
- D** the value of money

26 When is a deficit on the current account of the balance of payments likely to worsen?

- A** when the government adopts a deflationary macroeconomic policy
- B** when the government devalues the currency
- C** when the prices of imported products that are demand-inelastic increase significantly
- D** when tariffs are placed on imported products that are demand-elastic

27 What would identify a country with a balance of payments disequilibrium?

- A** alternate annual deficits and surpluses in the current account
- B** a continually growing balancing item
- C** a large short-term outflow of foreign direct investment
- D** a persistent rise in foreign currency reserves