

- 26** What is the difference between a customs union and a free trade area?
- A** Only the customs union has a common external tariff with the rest of the world.
 - B** Only the customs union requires fixed exchange rates between member countries.
 - C** Only the free trade area needs to eliminate tariffs between member countries.
 - D** Only the free trade area requires freedom of movement for labour and capital between member countries.
- 27** Which statement about trade protection is correct?
- A** A tariff will result in a greater decrease in demand for an import the lower its price elasticity of demand is.
 - B** Embargoes are only an effective trade barrier against imports in price-elastic demand.
 - C** Export subsidies to domestic firms will prevent the dumping of foreign products in the domestic market.
 - D** Quotas are less effective than tariffs for raising government revenue.
- 28** What is an example of expansionary monetary policy?
- A** the central bank buying government bonds in the money market
 - B** the central bank causing an appreciation of the country's foreign exchange rate
 - C** the central bank increasing controls on credit lending
 - D** the central bank increasing the minimum lending rate of interest
- 29** China had a US\$155 billion current account surplus in 2012.
- Which combination of policies might the Chinese Government use to reduce the surplus?
- A** decrease income tax and raise the value of the Chinese currency, the Yuan
 - B** increase income tax and lower the value of the Chinese currency, the Yuan
 - C** increase subsidies to Chinese firms and reduce income tax
 - D** increase tariffs on imports and increase income tax