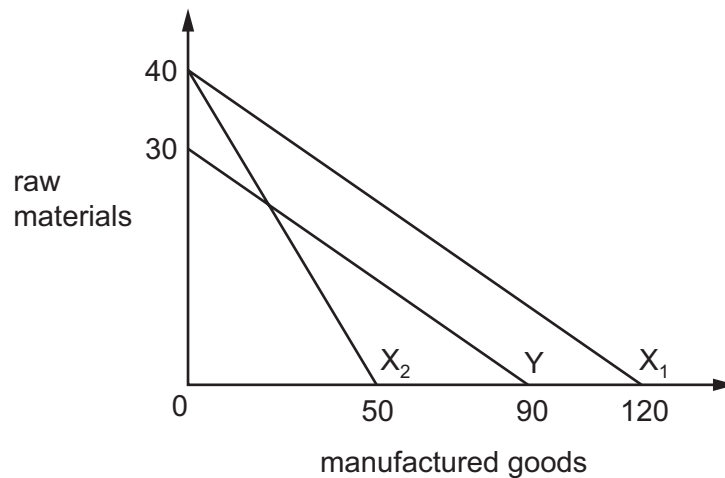


26 The diagram shows the production possibility curves for two countries, X and Y.

A decrease in productivity moves country X's production possibility curve from X_1 to X_2 .



Which statement is correct?

- A** After the change X would export raw materials and import manufactured goods.
 - B** After the change there is no economic basis for trade.
 - C** Before the change Y had an absolute advantage in the production of raw materials.
 - D** Before the change X had a comparative advantage in both products.
- 27** What is the main argument a government of a small country might use in times of a worsening worldwide recession to justify an increase in import tariffs and other trade protectionist policies?
- A** to protect the country from a rise in domestic unemployment
 - B** to protect the country's terms of trade
 - C** to protect the domestic economy from increasing prices
 - D** to protect the domestic economy from the import of poor quality goods
- 28** What would be classified as a supply-side policy measure?
- A** a law to alter the power of trade unions
 - B** a reduction in the government's fiscal deficit
 - C** an open market sale of securities
 - D** the imposition of a tariff on imported goods