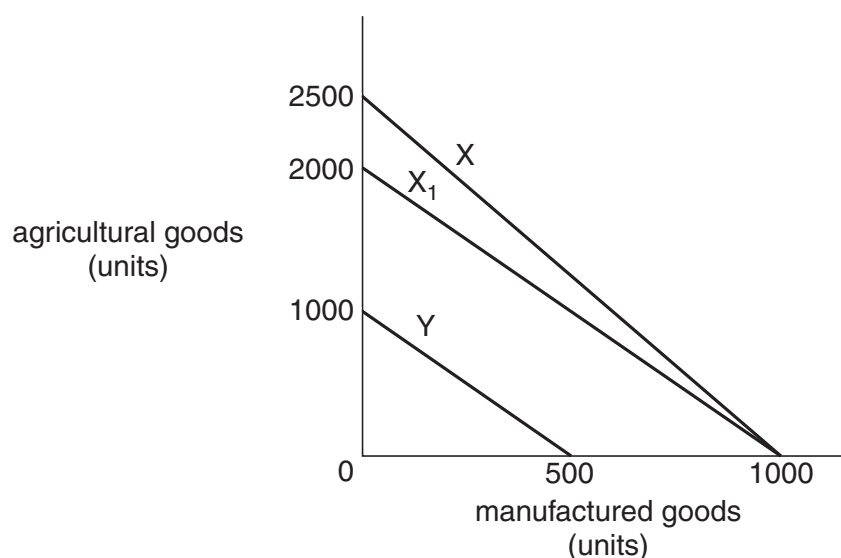


- 21 The diagram represents the production possibilities of two economies X and Y.



As a result of soil erosion in economy X, the production possibility curve shifts from X to X<sub>1</sub>.

According to the law of comparative advantage, what should country Y do following this change?

- A cease to trade with country X
  - B export agricultural goods to country X
  - C export manufactured goods to country X
  - D import both agricultural and manufactured goods from country X
- 22 What is likely to improve the visible trade balance of Mauritius but to worsen its invisible balance?
- A A Mauritian company sets up a subsidiary company in France.
  - B A US company builds a factory in the Mauritius to serve the African market.
  - C The Mauritian government removes import controls on semi-manufactured goods.
  - D The Mauritian government increases interest rates with a view to strengthening the exchange rate of the Mauritian rupee.
- 23 In an economy real national output increases more rapidly than the increase in employment.

What could account for this?

- A a decrease in the general price level
- B an improvement in the country's terms of trade
- C an increase in the size of the labour force
- D an increase in labour productivity