

- 18** A major trading nation, country X, is in equilibrium at the full employment level of real output. There is then a recession in its main international markets.

What are the most likely consequences of this change for country X?

	rate of inflation	unemployment
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	unchanged	decrease
<b>D</b>	unchanged	increase

- 19** Why would a fall in a country's average price level cause its aggregate demand curve to slope downwards?

- A** It leads to an increase in interest rates.
- B** It reduces the real value of money balances.
- C** It makes the country's goods cheaper relative to foreign goods.
- D** It leads to the expectation of further price falls.

- 20** To counter deflation a central bank uses expansionary monetary policy.

What is likely to result?

- A** a higher cost of borrowing
- B** an increase in aggregate demand
- C** an appreciation of the exchange rate
- D** an increase in government debt

- 21** Which statement about government budget surpluses and deficits is the most accurate?

- A** A surplus implies that the balance of payments is in surplus.
- B** A surplus implies that the government is spending too much money.
- C** A deficit implies that the economy is in decline.
- D** A deficit implies that the national debt is increasing.

- 22** What is most likely to decrease if a government uses expansionary fiscal policy?

- A** a balance of payments deficit
- B** cyclical unemployment
- C** the level of wages
- D** the rate of inflation