

**20** Which statement about inflation is correct?

- A** Inflation will lead to a rise in exports.
- B** Inflation will lead to a rise in real incomes.
- C** Inflation will lead to a rise in the cost of living.
- D** Inflation will lead to a rise in the purchasing power of money.

**21** Why is it that a country's balance of payments must always balance?

- A** Exchange rate changes will correct any deficit or surplus.
- B** One country's deficit is balanced by another country's surplus.
- C** The current account is balanced by the capital and financial accounts.
- D** The government must act to correct any disequilibrium.

**22** Which argument for protection would be most relevant if the government of country X decided to exercise voluntary export restraint in its trade with country Y?

- A** Voluntary export restraint would achieve an immediate correction for X's balance of trade deficit.
- B** Voluntary export restraint would cause the level of GDP to increase in country X.
- C** Voluntary export restraint would help to negotiate improved trading conditions between X and Y.
- D** Voluntary export restraint would help to reduce the level of unemployment in country X.

**23** The average price of a country's exports increased by 5% and the average price of its imports increased by 10%.

What can definitely be concluded from this information?

- A** Its balance of trade will improve.
- B** Its balance of trade will worsen.
- C** Its terms of trade have improved.
- D** Its terms of trade have worsened.