18 A government imposes an income tax on individuals. The first \$100 000 of earned income is taxed at a rate of 20%, and all further earned income above \$100 000 is taxed at a marginal rate of 50%.

Which statement is **not** valid?

A The average income tax rate is 20% at an income of \$80 000 and 35% at an income of \$200 000.

B The tax is a direct tax for incomes above \$100 000.

C The tax is a proportional tax for incomes between \$20 000 and \$40 000.

D The tax is regressive when incomes change from below to above \$100 000.

19 Agricultural economies have faced a deterioration in their terms of trade.

What might have contributed to this?

A falling exchange rates of agricultural economies

B falling productivity in agricultural production

C increasing productivity in manufacturing economies

D the high income elasticity of demand for foodstuffs

20 The table shows the output of rice and cotton for countries X and Y.

	units of output of rice per year	units of output of cotton per year
country X	5000	5000
country Y	4000	2000

Each country divides its resources equally between the production of rice and cotton.

Based upon the law of comparative advantage, which statement is correct?

A Country X has the higher opportunity cost in producing cotton.

B Country Y has the lower opportunity cost in producing rice.

C Country X should produce both goods as the opportunity cost is the same.

D Country Y should produce both goods as it has an absolute advantage in both.