28 Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

A Domestic money supply will increase.

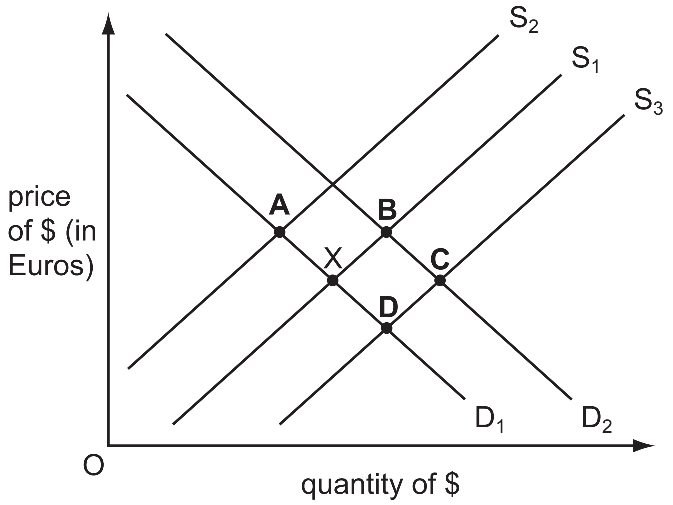
B Rival producers may react with trade protection measures.

C The economy's foreign exchange reserves may run down.

D The economy's short-run standard of living will be reduced.

29 In the diagram the foreign exchange market is initially in equilibrium at X.

What could be the new equilibrium position after an increase in demand from US residents for holidays in Europe?



30 Which policy would be most likely to reduce a balance of payments current account deficit?

A reducing income tax rates

B reducing subsidies to domestic industries

C reducing the external value of the currency

D reducing the level of tariffs