

27 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 economies may react with trade protection measures.
- C** The economy's foreign exchange reserves may decrease.
- D** The economy's short-run standard of living will be reduced.

28 What is most likely to cause Australia's exchange rate to depreciate?

- A** an increase in Australia's demand for imports
- B** an increase in Australia's interest rate
- C** an increase in demand for Australia's exports
- D** an increase in tourist visits to Australia

29 With an exchange rate of 4 Egyptian pounds (EGP) = 1 US\$, an American product sells in Egypt for EGP120.

Assuming that the dollar price remains unchanged, what will be the price of the product in Egypt if the Egyptian pound depreciates to EGP5 = 1 US\$?

- A** EGP90
- B** EGP96
- C** EGP144
- D** EGP150