

26 A country experiences a devaluation of its currency.

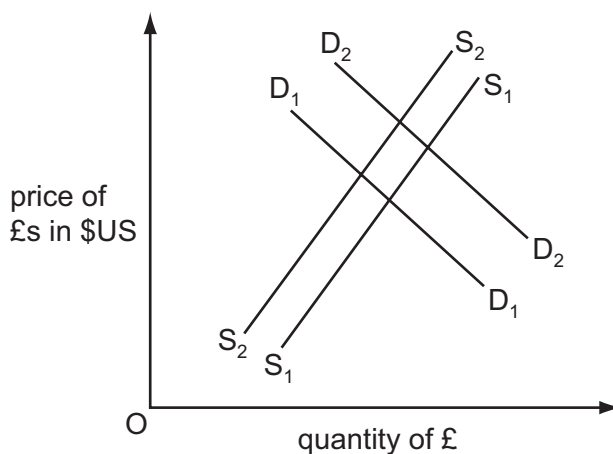
Under which circumstances is this most likely to cause inflation in the country?

	dependence on imported raw materials	price elasticity of demand for imports	price elasticity of demand for exports
A	high	inelastic	elastic
B	high	elastic	inelastic
C	low	inelastic	elastic
D	low	elastic	inelastic

27 Why may a government seek to reduce a current account surplus on the balance of payments?

- A** to lower inflation
- B** to lower unemployment
- C** to raise the economic growth rate
- D** to raise the exchange rate

28 In the diagram, D_1D_1 and S_1S_1 are the initial demand and supply curves of the pound sterling (£) on the foreign exchange market.



What will cause the demand curve to shift to D_2D_2 and the supply curve to S_2S_2 ?

- A** an appreciation of the pound
- B** an increase in UK interest rates
- C** a reduction in the level of UK import tariffs
- D** a reduction in the quality of UK goods