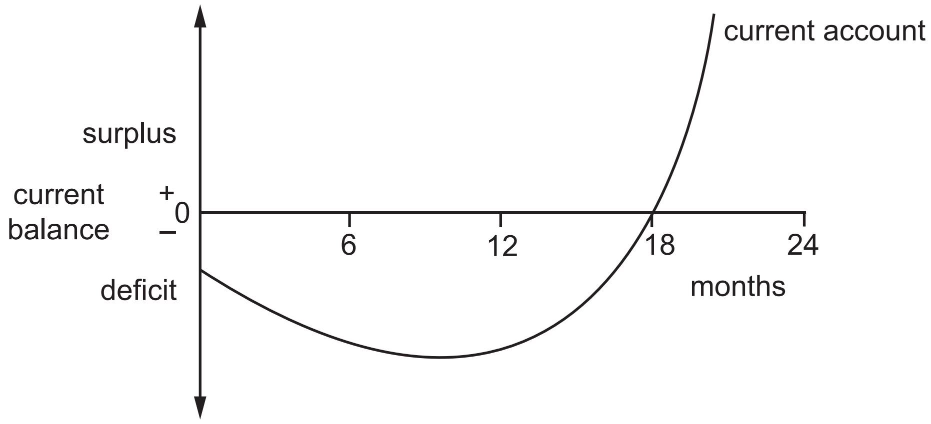
**29** A country at the beginning of a given period seeks to improve the current account of its balance of payments by devaluing its currency. The effect of this policy in the following two years is shown in the diagram.




Which statement is likely to explain this performance?

**A** In the short run, the price elasticity of demand for exports and imports was very low.

**B** The domestic inflation rate fell after 12 months before having the desired result.

**C** The elasticity of demand for imports diminished after 12 months.

**D** The policy was ineffective and other factors must have led to an improvement in the current account.

**30** Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

**A** a long-run supply side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions

**B** a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments

**C** a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target

**D** a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level