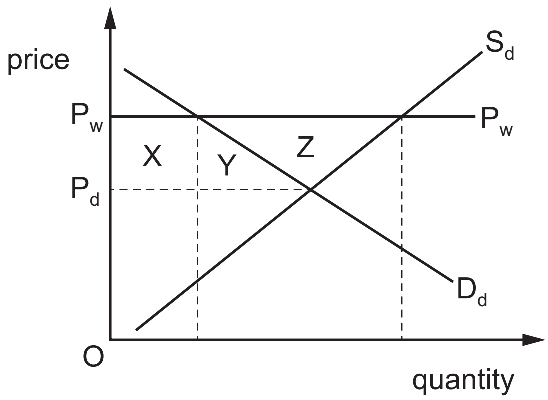
27 A country takes no part in international trade and its domestic market price is P_d. The country decides to engage in free trade and the market price rises to the world price (P_w).



What happens to consumer surplus and producer surplus when the economy engages in free trade?

A Domestic consumers gain Z only.

B Domestic consumers lose X + Y.

C Domestic producers gain Z only.

D Domestic producers lose X + Y + Z.

28 A government increases the basic rate of income tax to finance additional spending on apprenticeships and training.

Which types of macroeconomic policy are being used?

	fiscal policy	monetary policy	supply side policy
A	✓	✓	✓
B	✓	✓	✗
C	✓	✗	✓
D	✗	✓	✓

key
✓ = used
✗ = not used

29 If an economy experiences a persistent balance of trade deficit, it may choose to place tariffs on imports of manufactured goods.

When might the use of tariffs solve a balance of trade deficit in the long term?

A when an economy imports a sustainable amount of raw materials

B when an economy is experiencing a high rate of inflation

C when the demand for imports is inelastic

D when the supply of domestically produced goods is elastic