

20 What must be true if an economy is experiencing inflation?

- A** Aggregate demand is increasing.
- B** Aggregate supply is decreasing.
- C** The interest rate is increasing.
- D** The real value of money is decreasing.

21 Suppose the average consumer's expenditure is divided between bread, meat, milk and vegetables in the ratio 4:3:2:1.

During the course of a year, the price of bread falls by 10%, the price of meat increases by 20% and the prices of both milk and vegetables increase by 10%.

What is the increase in the average price level during the year?

- A** 5% **B** 7.3% **C** 10% **D** 12.5%

22 In August 2013, a Dutch insurer announced it wished to sell its South Korean Life Insurance group to a South Korean company for \$1.65 billion.

How would such a sale be recorded on the Dutch balance of payments?

- A** a negative entry in the direct investment section of the financial account
- B** a negative entry in the investment income section of the current account
- C** a positive entry in the direct investment section of the financial account
- D** a positive entry in the investment income section of the current account