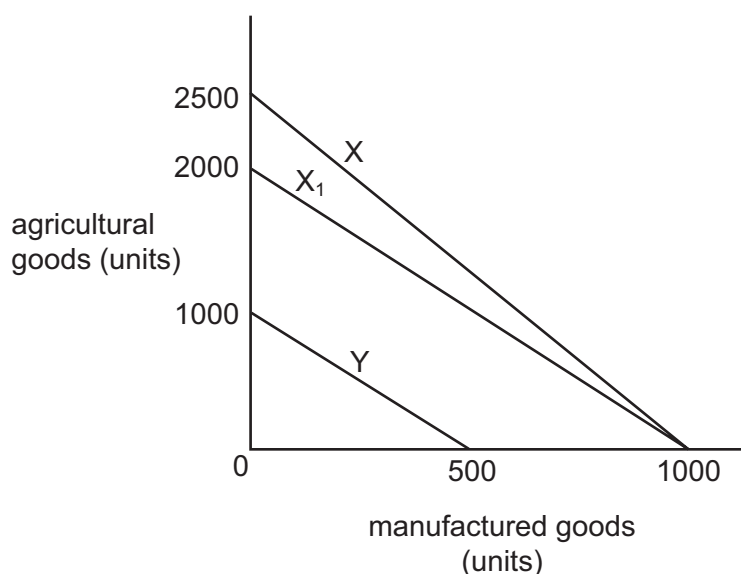


- 19 The diagram represents the production possibility curves of two economies X and Y.



As a result of soil erosion in economy X, the production possibility curve shifts from X to X₁.

According to the law of comparative advantage, what should country Y do following this change?

- A cease to trade with country X
 - B export agricultural goods to country X
 - C export manufactured goods to country X
 - D import both agricultural and manufactured goods from country X
- 20 What is an assumption behind the basic theory of comparative advantage?
- A Each country sets its own tariff barriers.
 - B Factors of production are mobile between countries.
 - C Producers benefit from economies of scale.
 - D There are no significant transport costs.
- 21 Which statement about the impact of a quota and a tariff is correct?
- A A quota benefits the seller of the imports while a tariff raises government revenue.
 - B A quota decreases the quantity of imports while a tariff leaves the quantity of imports unchanged.
 - C A quota leaves import prices unchanged while a tariff raises the price of imports.
 - D A quota shifts the demand curve for imports while a tariff shifts the supply curve of imports.