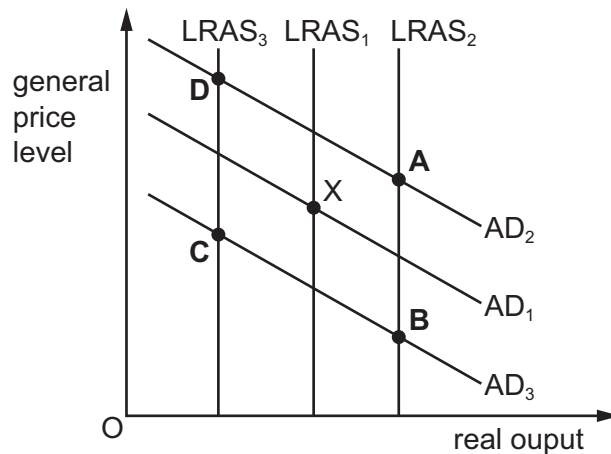


- 21** The diagram shows the aggregate demand (AD) and long-run aggregate supply (LRAS) curves for a country. X is the original equilibrium position.

In one year, over one million foreign workers left the country and at the same time the country's currency appreciated against the currencies of its major trading partners.

What will be the most likely new equilibrium position for this country?



- 22** What is most likely to cause a rise in a country's exchange rate?
- A** a fall in its direct taxes
  - B** a fall in its export orders
  - C** a rise in its interest rates
  - D** a rise in its imports
- 23** Which change affecting the foreign exchange market for the US\$ would be most likely to result in a shift to the right of the demand curve and a movement along the supply curve?
- A** The US government reduces subsidies on exports to the EU.
  - B** Foreign currency speculators in Switzerland believe that the US\$ is undervalued and act accordingly.
  - C** The US government intervenes in the foreign exchange market so as to bring about a drop in the value of the US\$.
  - D** US pharmaceutical companies experience a fall in demand for their products from the rest of the world.
- 24** What can be best understood from a knowledge of a country's terms of trade?
- A** its balance of payments performance
  - B** the purchasing power of its exports
  - C** the standard of living within the country
  - D** the value of its real exchange rate