1. A country can make 10 units of wheat OR 5 units of cloth with the same resources. What is the opportunity cost of 1 unit of cloth (in wheat)?

   _____

2. A tariff is:

   ☐ a payment to domestic firms

   ☐ a ban on exports

   ☐ a tax on imports

   ☐ a limit on the quantity imported

3. Exports total 500 and imports total 600. What is the trade balance (exports − imports)?

   _____

4. If 1 pound = 1.30 dollars, how many dollars do you get for 200 pounds?

   _____

5. Which is an expenditure-switching policy to reduce a current account deficit?

   ☐ currency depreciation

   ☐ cutting government spending

   ☐ raising interest rates

   ☐ raising income tax

6. Comparative advantage is based on which country has the lower:

   ☐ opportunity cost

   ☐ exchange rate

   ☐ population

   ☐ tax rate

7. The ”infant industry” argument says protection should be used to:

   ☐ raise consumer prices permanently

   ☐ ban all imports

   ☐ let a new industry grow until it can compete

   ☐ protect a dominant monopoly

8. Which is part of the current account?

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   ☐ the money supply

   ☐ trade in goods and services

   ☐ interest rates

9. A strong pound makes imports dearer and exports cheaper.

   ☐ True ☐ False

10. Supply-side policies aim to improve competitiveness as a long-run fix for a deficit.

    ☐ True ☐ False

1. **2**

   10 wheat ÷ 5 cloth = 2 wheat per cloth.

2. **a tax on imports**

   A tariff is an import tax; a quota is a quantity limit; a subsidy pays home firms.

3. **-100**

   500 − 600 = −100, a trade deficit of 100.

4. **260**

   200 × 1.30 = 260 dollars.

5. **currency depreciation**

   Depreciation switches spending toward home goods; the others reduce total expenditure.

6. **opportunity cost**

   Comparative advantage compares opportunity costs, not absolute resource use.

7. **let a new industry grow until it can compete**

   Temporary protection while a young industry achieves economies of scale.

8. **trade in goods and services**

   The current account records trade in goods/services, primary and secondary income.

9. **False**

   False. SPICED: a Strong Pound makes Imports Cheaper and Exports Dearer, because each pound buys more foreign currency.

10. **True**

    Raising productivity makes exports succeed without relying on a weaker currency.

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