24 What does the Kuznets curve show about the relationship between economic development and inequality?

A the Gini coefficient initially falls as countries develop from low to high income levels

B the Gini coefficient initially rises as countries develop from low to high income levels

C there is always a negative relationship between GDP per capita and the Gini coefficient

D there is always a positive relationship between GDP per capita and the Gini coefficient

25 Which statement about the components of the balance of payments is correct?

A The current account consists of transactions in goods, services, investment income and remittances between countries.

B The current account consists of transactions in goods, services, and portfolio investment between countries.

C The financial account consists of transactions in financial assets, investment income and remittances between countries.

D The financial account consists of transactions in fixed assets, investment income and the balancing item between countries.

27 What occurs in a monetary union?

A Countries have the same currency.

B Countries use the same fiscal policy.

C Countries have the same domestic rates of sales tax.

D The government budget in each country is balanced.

28 What is the main role of the World Bank?

A to ensure that exchange rate systems are working efficiently

B to help countries enter international markets where trade barriers exist

C to offer short-term assistance to countries with balance of payments problems

D to provide low-interest loans to developing countries for infrastructure projects

29 There is a rise in the domestic rate of interest in an economy. This economy has a fixed exchange rate.

What would be the impact on the current and financial accounts of the balance of payments?

	current account	financial account
A	improves	improves
B	improves	worsens
C	worsens	improves
D	worsens	worsens

30 As a member of the European Union, Greece must trade at the same exchange rate, tied to the euro, as stronger economies such as Germany. Greece has a persistent balance of payments deficit.

How would changing to a floating exchange rate help Greece?

A Exchange rates will be less volatile which encourages international investment.

B Its currency should be less open to attacks by international speculators.

C Its currency would be allowed to depreciate which will make its exports more competitive.

D The value of its exports and imports will automatically balance.

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18 A country with a managed exchange rate has a persistent deficit on the current account of the balance of payments. It devalues its currency to reduce this deficit.

Under which conditions will a devaluation help the government to achieve its four main macroeconomic objectives?

	Marshall–Lerner condition satisfied	level of employment
A	no	below full employment
B	no	full employment
C	yes	below full employment
D	yes	full employment

24 Which statement is correct?

A Economic development is necessary for economic growth.

B Economic growth and economic development are directly proportional.

C Economic growth enables economic development.

D Economic growth is always sustainable.

25 What is a trade-weighted exchange rate?

A the price of one currency against a basket of other currencies

B the price of one currency in terms of another

C the price of one currency in terms of its real purchasing power

D the price of one currency being determined by state intervention

27 What is a protectionist policy a government may use to reduce the deficit on the balance of payments of the current account?

A revaluation of the exchange rate

B increase in the rate of income tax

C increase in the rate of interest

D introduction of import quotas