

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.

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