Question 19 (Answer: **C**)

- A worsening trade balance means net exports have fallen, so aggregate demand falls.
- Lower aggregate demand means lower output and so higher unemployment.
- With a fixed exchange rate the currency cannot depreciate to correct it, so the price level falls rather than the rate.

Question 23 (Answer: **D**)

- A revaluation makes exports dearer abroad and imports cheaper at home.
- Net exports fall, so aggregate demand shifts to the left.
- Output falls and the price level falls – cheaper imports also reduce costs, easing inflation.

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Question 21 (Answer: **C**)

- Higher direct taxation cuts disposable income, so consumption and aggregate demand fall.
- Lower demand means less inflation and fewer imports, so the current account improves.
- But growth slows and unemployment rises – the classic conflict between objectives.

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Question 21 (Answer: **C**)

- The Phillips curve plots the rate of inflation against the rate of unemployment.
- The short-run curve shows a trade-off: less unemployment comes with more inflation.
- The long-run curve is vertical at the natural rate, so the trade-off disappears.