Question 28 (Answer: **C**)

- The theory assumes factors cannot move between countries, so factor mobility is one of its limitations.
- Trade restrictions and transport costs also limit it in practice.
- So the option that is *not* a limitation is the one the theory already allows for.

Question 26 (Answer: **C**)

- A large current account deficit means more of the currency is being sold to buy imports than bought to pay for exports.
- With a floating rate, that excess supply pushes the exchange rate down.
- So the currency's value is what falls as a consequence.

Question 27 (Answer: **D**)

- Terms of trade improve when export prices rise *relative* to import prices.
- Export prices rising while import prices fall guarantees that.
- Both rising by the same amount leaves the ratio unchanged, so that would be no improvement at all.

Question 28 (Answer: **A**)

- Comparative advantage is about *opportunity cost*, not absolute quantity.
- A country has it where it gives up least of other goods to produce one more unit.
- Producing more in absolute terms is *absolute* advantage, which is a different idea.

Question 27 (Answer: **B**)

- The index rises from 101 to 104 to 109, all above the 2018 base of 100.
- A rising terms of trade means export prices are rising relative to import prices.
- So each unit of exports buys more imports each year – the terms of trade improved throughout.

Question 28 (Answer: **D**)

- Valid reasons for trade include specialisation, economies of scale, greater choice and access to resources.
- Trade also raises the average standard of living through comparative advantage.
- What is *not* valid is a claim that trade guarantees every country or group gains equally.

Question 28 (Answer: **A**)

- The terms of trade compares what a country earns per unit exported with what it pays per unit imported.
- So it is the average price of exports divided by the average price of imports.
- A rise means each unit of exports now buys more imports – an improvement.

Question 27 (Answer: **C**)

- Both economies gain from specialisation only if their opportunity cost ratios differ.
- Equal ratios show as parallel production possibility curves, and then there is nothing to gain.
- So look for the diagram whose two curves have *different* slopes.