Edexcel AS/A-level Year 1 Economics A exam practice answers

6 Aggregate demand

**1** Correct answer C: when prices are lower, the country is more likely to export and less likely to import.

**2** Aggregate demand will fall. The impact on three components are:

* Consumption is likely to fall, because mortgages repayments rise.
* Investment is likely to fall, because it costs more to borrow to invest, and because the opportunity cost of investment rises, i.e. what else can be done with the money.
* Net trade (X–M) is likely to fall. This is because when interest rates rise the firms making exports will have higher costs. Also, the value of the currency is likely to rise, meaning exports become relatively expensive and imports relatively cheap.