



22125105



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Tuesday 15 May 2012 (afternoon)

1 hour

INSTRUCTIONS TO CANDIDATES

- Do not turn over this examination paper until instructed to do so.
- Answer three questions.
- Use fully labelled diagrams and references to examples where appropriate.
- The maximum mark for this examination paper is *[30 marks]*.

Answer **three** questions. Each question is worth [10 marks].

1. Using the concept of market failure, explain why a government may try to decrease the use of motor vehicles in city centres.
 2. Using a diagram, explain how a firm in perfect competition can be making losses whilst still producing at the level of output where marginal costs equal marginal revenue.
 3. With the aid of **at least one** diagram, explain how cost push and demand pull inflation may occur in an economy.
 4. With the aid of a diagram, explain the potential trade gains and trade losses arising from the formation of a customs union.
 5. Explain how fiscal policy can be used to reduce the level of unemployment.
 6. Explain **three** factors which may limit the effectiveness of aid as a means of promoting economic development.
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