



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Monday 11 May 2009 (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.

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

1. Using a production possibility curve (PPC) diagram, explain the relationship between the economic concepts of economic goods, factors of production and opportunity cost.
 2. Explain why the marginal revenue curve is identical to the average revenue curve for a firm in perfect competition but not identical for a monopoly.
 3. Explain how direct provision of a public good by the state (government) can correct the problem of market failure.
 4. With reference to **one** factor, explain why some factors might shift the SRAS (Short-Run Aggregate Supply) curve, but leave the LRAS (Long-Run Aggregate Supply) curve unchanged.
 5. Explain **two** economic consequences of a favourable movement in the terms of trade resulting from an increase in demand for a country's exports.
 6. Explain, using the Harrod-Domar model, how increased domestic savings could contribute to economic development.
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