



22075102

**ECONOMICS
HIGHER LEVEL
PAPER 2**

Monday 21 May 2007 (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. Examine the possible consequences of a high real rate of economic growth for sustainable development.
 2. “Normally, it would be expected that more would be demanded at lower prices as opposed to higher prices, all other things being equal, but this may not always be the case.” Explain this statement.
 3. Explain the law of diminishing returns using average and marginal product curves.
 4. “Macroeconomic equilibrium does not necessarily occur at full employment.” Explain this statement using the concepts of inflationary **and** deflationary gaps.
 5. Distinguish between an outward-orientated growth strategy **and** an inward-orientated growth strategy.
 6. Using the principle of comparative advantage, explain why economic theory suggests that countries should specialize and trade with each other.
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