



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Wednesday 7 November 2001 (afternoon)

1 hour

INSTRUCTIONS TO CANDIDATES

- Do not turn over this page until instructed to do so.
- Answer four questions.
- Use diagrams where appropriate.

1. Why is pollution an example of market failure? Use a diagram to illustrate your answer.
 2. Using real world examples, illustrate the difference between producer sovereignty and consumer sovereignty.
 3. Define ‘crowding out’. What is its importance in macroeconomic policy making?
 4. A government decides to raise interest rates. How might this affect the external account?
 5. Explain why a deterioration in the terms of trade could bring about an improvement in the balance of payments on current account.
 6. What is human capital? Explain its importance in economic development.
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