

**ECONOMICS
HIGHER LEVEL
PAPER 2**

Tuesday 6 May 2003 (afternoon)

1 hour

INSTRUCTIONS TO CANDIDATES

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

1. “Economics is primarily concerned with the allocation of scarce resources which have alternative uses.” Use a production possibility curve to help you explain this statement.
 2. Explain how the use of (expenditure) indirect taxation might be an appropriate response to the problem of negative externalities.
 3. Explain why firms operating in a perfectly competitive market would be able to make normal profits only in the long run.
 4. Why might the goal of full employment conflict with the goal of economic growth?
 5. What impact is a substantial rise in the level of interest rates in a country likely to have on its balance of payments?
 6. Explain **two** reasons why international indebtedness is a problem for less developed countries.
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