



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Tuesday 9 November 2004 (afternoon)

1 hour

INSTRUCTIONS TO CANDIDATES

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

Each question is worth [10 marks].

1. Use a diagram to explain why the under provision of merit goods is considered to be an example of market failure.
 2. Use a diagram to explain how producers and consumers might benefit from a government subsidy to an industry.
 3. A monopolist decides to maximize profits rather than revenue. Using a diagram, explain how price and quantity will change.
 4. Explain **two** policies that a government might use to deal with the problem of demand-deficient (cyclical) unemployment.
 5. How would deterioration in the terms of trade affect the current account of a country?
 6. With the help of a diagram, explain how a buffer stock scheme is expected to work.
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