



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Wednesday 18 May 2005 (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 real-world examples where appropriate.

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

1. Use production possibility curve diagrams to explain the differences between actual output and potential output and between economic growth and economic development.
 2. Explain the relationship in the short-run between the marginal costs of a firm and its average total costs.
 3. What are the likely consequences of deflation for a country's economy?
 4. Use the Phillips Curve to explain the concept of the natural rate of unemployment.
 5. Why might a government prefer to negotiate Voluntary Export Restraints (VERs) rather than impose tariffs as a means of restricting international trade?
 6. Explain how overdependence on primary products may act as a barrier to economic development.
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