

**ECONOMICS  
HIGHER LEVEL  
PAPER 2**

Monday 14 November 2005 (afternoon)

1 hour

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**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. Using appropriate diagrams, explain the difference between the law of diminishing returns and economies of scale.
  2. Explain the multiplier effect of an increase in government spending.
  3. Using an example, explain how the concept of opportunity cost is a key element in the theory of comparative advantage.
  4. With reference to the Marshall-Lerner condition, explain how the depreciation of a country's exchange rate might affect its current account balance.
  5. Explain why economic growth is likely to generate external costs, which are a threat to sustainable development.
  6. Explain the difference between outward-oriented and inward-oriented growth strategies.
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