



22065102

**ECONOMICS
HIGHER LEVEL
PAPER 2**

Monday 8 May 2006 (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. Using demand and supply analysis, explain how resources are allocated through changes in price in a market economy.
 2. Define cross elasticity of demand and using diagrams, explain what determines whether cross elasticity of demand is positive or negative.
 3. Using appropriate diagrams, discuss whether monopoly is more efficient or less efficient than perfect competition.
 4. Using AD/AS diagrams, analyse the likely impact on an economy of the following:
 - (a) a general rise in wage costs
 - (b) the discovery of new raw material sources
 - (c) capital stock increases.
 5. Using an appropriate diagram, explain who gains and who loses from the introduction of a tariff.
 6. Explain **two** ways in which the international indebtedness of developing countries might hinder their growth and development.
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