



**ECONOMICS  
HIGHER LEVEL  
PAPER 2**

Tuesday 7 November 2006 (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 references to examples where appropriate.

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

1. Use a diagram to explain how the incidence (burden) of a tax is shared among producers and consumers when an *ad valorem* indirect tax is placed on a good which has relatively inelastic demand.
  2. A monopoly firm decides to maximize revenue rather than profit. Use a diagram to explain what will happen to price and quantity.
  3. Explain how an increase in government spending can lead to crowding out.
  4. Explain how a progressive tax system may be used to redistribute income.
  5. Explain the link between the Marshall-Lerner condition and the J-curve effect.
  6. Explain which is likely to be higher in a Less Developed Country, Gross National Product **or** Gross Domestic Product.
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