



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Tuesday 13 May 2008 (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 references to examples where appropriate.

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

1. Explain what is meant by a production possibility curve and use a production possibility curve diagram to explain the concepts of scarcity, choice and opportunity cost.
 2. A concert is to be held in a stadium with limited seating capacity. The organizers set the ticket prices at a level below the equilibrium price. Using a diagram, explain the possible consequences of their decision.
 3. Using at least one diagram, explain the difference between profit maximization and sales revenue maximization as goals of the firm.
 4. A government decides to raise personal income tax rates. Using diagrams, explain **one** possible demand-side consequence and **one** possible supply-side consequence of this decision.
 5. Explain why a depreciation of a country's exchange rate may not always lead to an improvement in its current account of the balance of payments.
 6. "Indebtedness, non-convertible currencies and capital flight are all significant barriers to economic development." Explain **two** of these three factors.
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