



**ECONOMICS  
HIGHER LEVEL  
PAPER 2**

Wednesday 19 November 2008 (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. Explain how the three basic economic questions would be answered in a free market economy and in a centrally-planned economy.
  2. Using diagrams, explain the difference between the short-run and long-run profit maximizing positions of a firm in monopolistic competition.
  3. Explain how the burning of fossil fuels (*e.g.* coal) by industries could create a market failure and a threat to sustainable development.
  4. Explain **two** ways a government can reduce its natural rate of unemployment.
  5. Using a diagram **or** a numerical example, explain how the concept of comparative advantage determines which goods or services a country should export.
  6. Using the Harrod-Domar growth model, explain how a country can increase its rate of economic growth.
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