



International Baccalaureate<sup>®</sup> Baccalauréat International Bachillerato Internacional

## ECONOMICS HIGHER LEVEL PAPER 2

Monday 14 November 2011 (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 the problems a transition economy could face as it moves towards a free market economy.
- 2. Using an appropriate diagram, explain how the removal of a subsidy on fossil fuels such as oil, coal and natural gas could help reduce negative externalities.
- **3.** Explain why firms in perfect competition can make supernormal (abnormal) profit in the short run but can only make normal (zero) profit in the long run.
- **4.** Explain how an understanding of the Laffer curve could be used by a government to increase tax revenue.
- 5. Explain the limitations of the theory of comparative advantage.
- 6. Using examples, explain how the poverty cycle can be a barrier to economic development.