



**ECONOMICS  
HIGHER LEVEL  
PAPER 2**

Wednesday 7 November 2007 (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 scarce factors of production are allocated by the free market.
  2. With the help of a diagram, explain when a firm should shut down in the short run.
  3. Explain the concept of a natural monopoly.
  4. With the use of examples, explain the difference between a progressive tax and a regressive tax.
  5. Explain **two** reasons for an improvement in a country's terms of trade.
  6. Explain the role of fair trade organizations and micro-credit schemes in promoting economic development.
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