



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Monday 11 May 2009 (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. With reference to the concept of economic growth, explain the difference between a movement along an existing production possibility curve (PPC) and an outward shift in a production possibility curve (PPC).
 2. Explain why prices tend to be relatively stable in a non-collusive oligopoly.
 3. With the aid of a diagram, explain how the application of a flat rate tax (a specific/fixed amount) could reduce the amount of pollution produced by a chemical factory.
 4. Explain the possible impact on the distribution of income of a government shifting its main source of tax revenue from progressive direct taxes to regressive indirect taxes.
 5. Oil prices have risen in recent years. Explain the likely impact on the terms of trade and the current account balance of a country that depends on oil exports for most of its revenue.
 6. Explain **three** possible limitations of using GDP as a measure to compare welfare between countries.
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