



**ECONOMICS
HIGHER LEVEL
PAPER 2**

Wednesday 10 November 2010 (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. Using a diagram, explain why Giffen goods and Veblen goods represent exceptions to the law of demand.
 2. Using a **diagram(s)**, explain how the characteristics/assumptions of the models of perfect competition and monopolistic competition result in different demand curves for individual firms.
 3. Using a diagram, and assuming a neo-classical aggregate demand/aggregate supply model, explain the short-term and long-term effects of a rise in aggregate demand when a country is at full employment.
 4. A government decides to increase its spending on new roads, recognizing that there will be a multiplier effect on national income. Using a numerical example, explain what may determine the size of the multiplier.
 5. Using real world examples, explain the factors that allow a country to have a comparative advantage in the production of a good or service.
 6. Using a production possibility curve (PPC) diagram, explain the importance of infrastructure and education for achieving economic growth.
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