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**ECONOMICS  
HIGHER LEVEL  
PAPER 2**

Monday 16 May 2011 (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 the concept of opportunity cost and how it may be used to show the difference between free goods and economic goods.
  2. Explain **two** possible ways a government may respond to market failure resulting from a polluting power station.
  3. Explain why structural unemployment might persist despite high economic growth.
  4. A country suffers an inflation rate of 10%. Explain the costs associated with this for the country's economy?
  5. Given that a country's terms of trade are improving, explain the possible impact on its balance of payments on current account.
  6. Explain the importance of the concept of income elasticity of demand for the exports and imports of less-developed countries (LDCs).
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