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International Baccalaureate®
Baccalauréat International
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**ECONOMICS
HIGHER LEVEL
PAPER 2**

Wednesday 19 May 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. With the aid of a diagram, explain why the price elasticity of supply is likely to change over time.
 2. Explain why an airline would want to practice price discrimination. Under what conditions would the airline be able to do so?
 3. With the aid of a diagram, explain how the government could try to eliminate a deflationary (recessionary) gap.
 4. With the aid of a diagram, explain how an increase in transfer payments to the poorest households in a nation is likely to affect the Lorenz curve and the Gini coefficient of that nation.
 5. Explain the difference between a fixed exchange rate and a floating (flexible) exchange rate.
 6. Explain the difference between outward-oriented growth strategies and inward-oriented growth strategies.
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