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

Monday 14 November 2011 (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. Explain the problems a transition economy could face as it moves towards a free market economy.
 2. Using an appropriate diagram, explain how the removal of a subsidy on fossil fuels such as oil, coal and natural gas could help reduce negative externalities.
 3. Explain why firms in perfect competition can make supernormal (abnormal) profit in the short run but can only make normal (zero) profit in the long run.
 4. Explain how an understanding of the Laffer curve could be used by a government to increase tax revenue.
 5. Explain the limitations of the theory of comparative advantage.
 6. Using examples, explain how the poverty cycle can be a barrier to economic development.
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