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

Tuesday 20 November 2012 (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.
- The maximum mark for this examination paper is *[30 marks]*.

Answer **three** questions. Each question is worth [10 marks].

1. Using a production possibility curve, explain the problem of scarcity faced by all societies.
 2. Using **at least one** diagram, explain how a buffer stock scheme might function.
 3. Using **at least one** diagram, explain how firms operating in monopolistic competition will make normal profit (zero economic profit) in the long run.
 4. Using **at least one** diagram, explain the difference between demand-pull and cost-push inflation.
 5. Explain possible disadvantages that may be associated with the adoption of a single currency.
 6. Explain how a significant fall in the price of commodities (raw materials) would affect the economy of a less developed country.
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