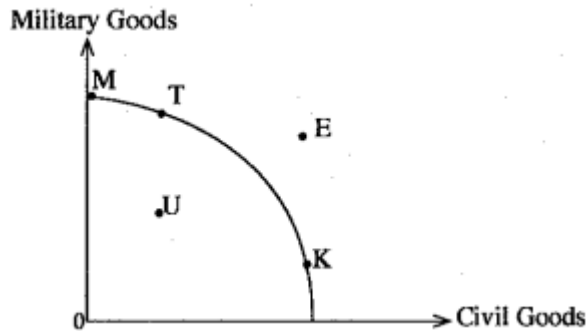




1. The following diagram shows a production possibilities curve for an economy which produces only civilian goods and military goods. Assume that the economy is producing at point K.



- (a) Does this economy's production possibilities curve exhibit increasing opportunity costs? Explain.
 - (b) If this economy were to go for a war, the most likely move would be from point K to which point? Explain.
 - (c) If the economy entered into a recession, the economy would move from point K to which point? Explain.
2. State three reasons that explain why the division of labour increases an economy's level of production.
 3. With the help of a production possibilities curve, explain the concept of scarcity.
 4. What functions do prices serve in a market economy?
 5. State the disadvantages of a command economy.