

Economics
Higher level
Paper 1

Wednesday 1 November 2017 (afternoon)

1 hour 30 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Section A: answer one question.
- Section B: answer one question.
- Use fully labelled diagrams and references to examples where appropriate.
- The maximum mark for this examination paper is **[50 marks]**.

Section A

Answer **one** question from this section.

Microeconomics

1. (a) With reference to demand and supply in competitive markets, explain how the economic question “what to produce” is answered. [10]
- (b) Discuss the consequences of the direct provision of public goods by the government. [15]
2. (a) Explain why firms in oligopolistic markets may prefer to use non-price competition. [10]
- (b) Discuss the reasons why firms compete or collude in oligopolistic markets. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain why structural unemployment may occur in an economy. [10]
- (b) Discuss the view that the best way to reduce unemployment is through education and training. [15]
4. (a) Explain how short-term fluctuations in the level of economic activity may be evened out through the impact of automatic stabilizers. [10]
- (b) Evaluate the view that the use of fiscal policy is the most effective way of reducing the rate of inflation in an economy. [15]
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