

Economics
Higher level
Paper 1

Tuesday 3 November 2015 (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) Explain why a government might decide to impose an indirect tax on the consumption of cigarettes. [10]
- (b) Discuss the possible consequences of the imposition of an indirect tax on cigarettes for the different stakeholders in the market. [15]
2. (a) Explain why a firm in monopolistic competition will make normal profit in the long run. [10]
- (b) Evaluate the view that monopolistic competition is a more efficient market structure than monopoly. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain how fiscal policy can be used to achieve long-term economic growth (increases in potential output). [10]
- (b) Discuss the view that economic growth always leads to a more equal distribution of income and a reduction in unemployment. [15]
4. (a) Explain why, using the monetarist/new classical model, the economy will always return to the full employment level of output following a recession. [10]
- (b) Evaluate the view that an increase in aggregate demand will always be inflationary. [15]
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