

**Economics**  
**Standard level**  
**Paper 1**

Tuesday 3 November 2015 (afternoon)

1 hour 30 minutes

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**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 the concepts of consumer surplus and producer surplus in the market for air travel. [10]
- (b) Discuss the view that a free market at competitive market equilibrium leads to the most efficient allocation of resources from society's point of view. [15]

**Section B**

Answer **one** question from this section.

**Macroeconomics**

3. (a) Explain, using a diagram, how interest rates are determined in an economy. [10]
- (b) Discuss the effectiveness of using expansionary monetary policy to reduce unemployment. [15]
4. (a) Explain how a rise in consumer confidence and business confidence might affect economic growth. [10]
- (b) Discuss the view that economic growth always raises living standards in a country. [15]
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