

Economics
Standard level
Paper 1

Monday 4 May 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 the view that an increase in price will lead to an increase in the quantity supplied whilst an increase in supply will lead to a decrease in price. [10]
- (b) To what extent are subsidies the most effective way of encouraging the consumption of merit goods? [15]
2. (a) Explain the likely effects of falling costs of factors of production on price and output in agricultural markets. [10]
- (b) Discuss the impact on different stakeholders of governments using price floors (minimum prices) to support farmers when agricultural prices are falling. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain the effect of a rise in saving and a fall in investment on the circular flow of income of an economy. [10]
- (b) Discuss the view that an economy will always return to the full employment equilibrium level of output in the long run. [15]
4. (a) Explain how business spending on research and development and government expenditure on infrastructure might shift the long-run aggregate supply curve. [10]
- (b) Evaluate the effectiveness of interventionist supply-side policies to achieve economic growth. [15]
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