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

Wednesday 15 May 2019 (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 the concepts of consumer surplus and producer surplus. [10]  
(b) Examine the view that the best allocation of resources, from society's point of view, occurs where the marginal private benefit equals the marginal private cost. [15]
  
2. (a) Explain why a government might decide to impose a price ceiling on goods and services such as essential foods or rented housing. [10]  
(b) Evaluate the view that the most effective way in which the government can encourage the consumption of merit goods is through direct provision. [15]

**Section B**

Answer **one** question from this section.

**Macroeconomics**

3. (a) Explain how aggregate demand in an economy might be affected by a rise in the exchange rate and a decrease in the income of major trading partners. [10]
- (b) To what extent is expansionary fiscal policy the best policy to achieve a reduction in the rate of unemployment? [15]
4. (a) Explain the role of improved productivity in achieving economic growth. [10]
- (b) Discuss the view that economic growth can only be achieved at the expense of other macroeconomic objectives such as a low and stable rate of inflation and equity in the distribution of income. [15]
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