

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

Monday 4 May 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 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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