



**ECONOMICS
HIGHER LEVEL
PAPER 1**

Wednesday 19 May 2010 (afternoon)

1 hour

INSTRUCTIONS TO CANDIDATES

- Do not turn over this examination paper until instructed to do so.
- Answer one question.
- Use fully labelled diagrams and references to examples where appropriate.

Answer **one** question. Each question is worth [25 marks].

1. (a) Explain the importance of price elasticity of demand **and** cross-elasticity of demand for business decision-making. [10 marks]
 - (b) Studies have shown that the demand for tobacco tends to be highly price inelastic. Evaluate the view that governments can best reduce smoking by substantially increasing taxes on cigarettes. [15 marks]
 2. (a) Explain why a country may wish to reduce its rate of inflation. [10 marks]
 - (b) Evaluate the likely impact on the economy of relying on higher interest rates to reduce the rate of inflation. [15 marks]
 3. (a) There has been an increasing trend in different parts of the world for countries to engage in economic integration through the formation of trading blocs. Using suitable examples, explain the different types of trading bloc that may be formed. [10 marks]
 - (b) Evaluate a country's decision to join a free trade area (FTA). [15 marks]
 4. (a) Explain the difference between economic growth and economic development, and how each of these may be measured. [10 marks]
 - (b) Evaluate the view that the best way that developed countries can help the growth and development process of very poor, highly indebted countries is through a general cancellation of debts. [15 marks]
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