



**ECONOMICS
STANDARD 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) “World food prices have increased sharply over the past five years.” With the aid of **at least one** diagram, explain how **one** possible demand factor and **one** possible supply factor may have caused this increase. [10 marks]
- (b) Consider the following **two** conflicting views:
“Food prices are best left to market forces.”
“Government should intervene to control rising food prices.”
Evaluate whether rising food prices should be left to market forces or controlled by government. [15 marks]
2. (a) Aggregate demand consists of consumption, investment, government spending and net exports (exports minus imports). Explain **two** factors that may influence investment and **two** factors that may influence net exports. [10 marks]
- (b) Evaluate the effectiveness of an increase in investment expenditure on the performance of an economy. [15 marks]
3. (a) Explain the possible consequences of an improvement in a country’s terms of trade for a country with a current account deficit. [10 marks]
- (b) Evaluate the view that, in the long term, expenditure-switching policies (protectionism) are the most effective way to reduce a current account deficit. [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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