



**ECONOMICS  
HIGHER LEVEL  
PAPER 1**

Wednesday 10 November 2010 (afternoon)

1 hour

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**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 why negative externalities are an example of market failure. [10 marks]  
(b) Evaluate **three** policies that governments might implement to reduce negative externalities associated with the environment. [15 marks]
  2. (a) Explain how supply-side improvements to an economy may be achieved through the use of taxes and government spending. [10 marks]  
(b) Evaluate the use of supply-side policies to reduce unemployment. [15 marks]
  3. (a) Explain **two** factors which may cause a depreciation of a country's exchange rate. [10 marks]  
(b) Evaluate the extent to which a depreciating exchange rate may benefit or harm an economy. [15 marks]
  4. (a) Explain why economic growth rates may differ between developing countries. [10 marks]  
(b) Evaluate the role of foreign direct investment in assisting a developing country to achieve greater growth and development. [15 marks]
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