



**ECONOMICS
STANDARD LEVEL
PAPER 1**

Wednesday 10 November 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 how taxes and subsidies differ in their effect on the market price and quantity of a good. [10 marks]
 - (b) “It is essential that a government supports its farmers by subsidizing agricultural output.” Evaluate this view. [15 marks]

 2. (a) Using appropriate diagrams, explain the difference between demand-side and supply-side economic policies. [10 marks]
 - (b) Evaluate the use of supply-side policies to improve the performance of an economy. [15 marks]

 3. (a) Explain **two** factors which may cause an appreciation of a country’s exchange rate. [10 marks]
 - (b) Evaluate the extent to which an appreciating 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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