



22115102



**ECONOMICS
HIGHER LEVEL
PAPER 1**

Monday 16 May 2011 (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) Using an appropriate diagram, explain how a monopolist might be able to make supernormal (abnormal) profits in the short-run, and why these profits might continue to be earned in the long-run. [10 marks]
 - (b) Evaluate the view that monopolistic competition is a more economically desirable market form than monopoly. [15 marks]

 2. During the global financial crisis of 2008–2009, there was a fall in consumer spending in many countries.
 - (a) Explain the factors which might be responsible for causing consumer spending to fall. [10 marks]
 - (b) Evaluate the possible consequences of falling consumer spending for a country’s macroeconomic performance. [15 marks]

 3. (a) Using the theory of comparative advantage, explain how specialization and free trade might lead to welfare gains for developed countries. [10 marks]
 - (b) Evaluate the possible impact of globalization on the economies of developed countries. [15 marks]

 4. (a) Explain the main features of market-led strategies used to achieve economic development in less-developed countries (LDCs). [10 marks]
 - (b) Evaluate the view that economic development in less-developed countries (LDCs) can best be achieved through market-led strategies rather than interventionist strategies. [15 marks]
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