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**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Monday 16 May 2011 (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 the distinction between public goods and merit goods and why these goods are examples of market failure. [10 marks]
  - (b) “The operation of the free market is always the best way to allocate scarce resources.” Evaluate this statement. [15 marks]
  2. (a) Using appropriate diagrams, explain how an increase in government spending could affect both aggregate demand and aggregate supply in an economy. [10 marks]
  - (b) “The lower the level of government spending, the better.” Evaluate this view. [15 marks]
  3. (a) Explain the main reasons why international trade takes place. [10 marks]
  - (b) Evaluate the consequences of a deterioration of the terms of trade for a country’s balance of payments on current account and for its domestic economy. [15 marks]
  4. (a) Explain the main features of export-led growth strategies used to achieve economic development. [10 marks]
  - (b) Evaluate the view that economic development in less-developed countries (LDCs) can best be achieved through export-led growth strategies rather than import substitution. [15 marks]
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