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**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Monday 14 November 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 differences between price elasticity of demand (PED) and cross-elasticity of demand (XED). [10 marks]
  - (b) Discuss the usefulness of price elasticity of demand (PED) and cross-elasticity of demand (XED) to businesses trying to increase their sales revenue. [15 marks]
  2. (a) Explain **three** factors that could cause an economy to go into recession. [10 marks]
  - (b) Evaluate the effectiveness of governments using demand-side policies to take an economy out of a recession. [15 marks]
  3. (a) Explain the benefits a country might experience from an increase in free trade. [10 marks]
  - (b) Evaluate the reasons why countries try to restrict free trade through protectionism. [15 marks]
  4. (a) Explain the differences between foreign direct investment (FDI) and aid. [10 marks]
  - (b) Evaluate the view that aid is an effective means to achieve economic growth and development in less-developed countries (LDCs). [15 marks]
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