



22125102



International Baccalaureate®
Baccalauréat International
Bachillerato Internacional

**ECONOMICS
HIGHER LEVEL
PAPER 1**

Tuesday 15 May 2012 (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.
- The maximum mark for this examination paper is *[25 marks]*.

Answer **one** question. Each question is worth [25 marks].

1. (a) Explain the economic factors which may encourage the formation of a monopoly. [10 marks]
- (b) Evaluate the view that natural monopoly is a more desirable market structure than perfect competition. [15 marks]
2. (a) Explain why governments may view deflation as a threat. [10 marks]
- (b) Evaluate the view that a low and stable rate of inflation is beneficial for an economy. [15 marks]
3. (a) Explain the differences in the operation of fixed and floating exchange rate systems. [10 marks]
- (b) Evaluate the view that any imbalance in the current account will be corrected automatically under a freely floating exchange rate system. [15 marks]
4. (a) Explain how **three** of the following factors may act as barriers to development in a less developed country:
- capital flight
 - income inequality
 - ineffective taxation structure
 - lack of infrastructure. [10 marks]
- (b) Evaluate the view that foreign direct investment (FDI) is the key factor in determining whether a developing country will be able to achieve economic growth and development. [15 marks]
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