



22125103



**ECONOMICS  
HIGHER LEVEL  
PAPER 1**

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

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

1. (a) Explain why, in markets dominated by a few firms, prices may remain relatively stable. [10 marks]
  - (b) “An industry with a larger number of firms will experience lower prices and greater efficiency than an industry with a smaller number of firms.” Evaluate this view. [15 marks]
  2. (a) Explain why governments may pursue the macroeconomic goals of low inflation and low unemployment. [10 marks]
  - (b) Evaluate the extent to which the use of expansionary demand-side policies may lead to conflicts between the various goals of macroeconomic policy. [15 marks]
  3. (a) Explain the possible consequences for a country of a persistent deficit on the current account of its balance of payments. [10 marks]
  - (b) Evaluate the view that balance of payments deficits on current account are best resolved through the use of supply-side policies. [15 marks]
  4. (a) “The banking system, the education system, health care and a country’s infrastructure are four sources of economic development.” Explain how **three** of these factors might contribute to economic development. [10 marks]
  - (b) Evaluate the view that the impact of globalization on the economic growth and development of developing countries has, on balance, been beneficial. [15 marks]
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