



22125112



**ECONOMICS
STANDARD 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 how, in a market system, changes in demand and supply allocate scarce resources through the signalling and incentive functions of price. [10 marks]
 - (b) Evaluate the view that government intervention in agricultural markets will create more problems than it solves. [15 marks]
 2. (a) Using AD/AS diagrams, explain how inflation may be caused by demand pull and cost push factors. [10 marks]
 - (b) Evaluate the view that the consequences of deflation are likely to be more harmful to an economy than the consequences of inflation. [15 marks]
 3. (a) Explain the factors which might cause a country's balance of payments on current account to deteriorate. [10 marks]
 - (b) Evaluate the view that it is never desirable for countries to resort to protectionism. [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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