



88125110



**ECONOMICS
STANDARD LEVEL
PAPER 1**

Tuesday 20 November 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 why merit goods are an example of market failure. *[10 marks]*
(b) Evaluate the policies a government might use to deal with the market failure associated with merit goods. *[15 marks]*

 2. (a) Explain the difference between cyclical/demand-deficient and structural unemployment. *[10 marks]*
(b) Evaluate the view that high unemployment is the most serious economic problem a country can face. *[15 marks]*

 3. (a) Explain how the value of a currency is determined in a free floating exchange rate system. *[10 marks]*
(b) Evaluate the consequences for an economy of a significant depreciation in the value of its currency. *[15 marks]*

 4. (a) Explain why multinational corporations enter new markets in less developed countries. *[10 marks]*
(b) “Multinational corporations do not help economic development.” Evaluate this statement. *[15 marks]*
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