



22135111



**ECONOMICS
STANDARD LEVEL
PAPER 1**

Thursday 2 May 2013 (afternoon)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- You are not permitted access to any calculator for this paper.
- Section A: answer one question.
- Section B: answer one question.
- Use fully labelled diagrams and references to examples where appropriate.
- The maximum mark for this examination paper is *[50 marks]*.

SECTION A

Answer **one** question from this section.

Microeconomics

1. (a) Explain why the price elasticity of demand for primary commodities tends to be relatively low while the price elasticity of demand for manufactured products tends to be relatively high. *[10 marks]*
- (b) “The income elasticity of demand for primary products tends to be lower than that for manufactured products and services.” Examine the implications of this for producers and for the economy as a whole. *[15 marks]*
2. (a) Analyse the consumption externalities which might arise from the provision of education and health care for the citizens of a country. *[10 marks]*
- (b) Evaluate the use of government policies to increase the consumption of health care. *[15 marks]*

SECTION B

Answer *one* question from this section.

Macroeconomics

3. (a) Explain the difficulties involved in measuring the rate of inflation. *[10 marks]*
- (b) Discuss the view that deflation is a more serious problem than inflation for the economy of a country. *[15 marks]*
4. (a) Explain how labour market reforms may be used to promote economic growth. *[10 marks]*
- (b) “Market-oriented supply-side policies will always be more effective in promoting economic growth than demand-side policies.” To what extent do you agree with this statement? *[15 marks]*
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