



22135103



**ECONOMICS
HIGHER 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) Distinguish between decreasing returns to scale and the law of diminishing returns. *[10 marks]*

(b) Using diagrams, compare and contrast the market structure of monopoly with that of perfect competition. *[15 marks]*

2. (a) Explain the factors which might influence the cross price elasticity of demand between different products. *[10 marks]*

(b) Examine the importance of income elasticity of demand for the producers of primary products, manufactured goods and services. *[15 marks]*

SECTION B

Answer *one* question from this section.

Macroeconomics

3. (a) Using a diagram, describe how expansionary monetary policy might be used to close a deflationary (recessionary) gap. *[10 marks]*
- (b) Discuss why, in contrast to the monetarist/new classical model, an economy can remain stuck in a deflationary (recessionary) gap according to the Keynesian model. *[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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