



88135110



**ECONOMICS
STANDARD LEVEL
PAPER 1**

Monday 4 November 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) Using a diagram, explain why demerit goods are considered to be an example of market failure. *[10 marks]*
(b) Evaluate **two** possible government responses that could be used to address the problem of demerit goods. *[15 marks]*

2. (a) Explain **three** determinants of price elasticity of demand (PED). *[10 marks]*
(b) Examine the role of PED for firms making decisions regarding price changes and their effect on total revenue. *[15 marks]*

SECTION B

Answer **one** question from this section.

Macroeconomics

3. (a) Distinguish between the causes of cyclical (demand-deficient) unemployment and structural unemployment. *[10 marks]*
- (b) Evaluate government policies used to deal with cyclical unemployment. *[15 marks]*
4. (a) Explain how a producer price index could be useful in predicting future inflation. *[10 marks]*
- (b) To what extent can supply-side policies help in fighting inflation? *[15 marks]*
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