



22145111



**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Monday 5 May 2014 (afternoon)

1 hour 30 minutes

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**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 **two** reasons why governments impose indirect taxes. *[10 marks]*  
  
(b) Discuss the consequences for consumers, producers and the government of imposing a specific tax on cigarettes. *[15 marks]*
  
2. (a) Explain why the price elasticity of supply (PES) for primary commodities tends to be relatively low, while the PES for manufactured products tends to be relatively high. *[10 marks]*  
  
(b) Discuss possible consequences of a government imposing a price floor on an agricultural product. *[15 marks]*

**SECTION B**

Answer *one* question from this section.

**Macroeconomics**

3. (a) Using a Lorenz curve, explain how the Gini coefficient is derived and interpreted. *[10 marks]*
- (b) Evaluate government policies that could be used to promote a more equal distribution of income. *[15 marks]*
4. (a) Explain how an increase in investment might affect aggregate demand and aggregate supply. *[10 marks]*
- (b) “An increase in aggregate demand may not lead to an increase in real national income.” To what extent is this statement valid? *[15 marks]*
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