



88145101



International Baccalaureate®
Baccalauréat International
Bachillerato Internacional

**ECONOMICS
HIGHER LEVEL
PAPER 1**

Tuesday 4 November 2014 (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 diagram(s), explain the signalling and incentive functions of price. *[10 marks]*

(b) Evaluate the view that the market failure caused by the consumption of demerit goods is best dealt with through the use of taxation. *[15 marks]*

2. (a) Explain why firms might wish to collude. *[10 marks]*

(b) Discuss the view that governments should always try to prevent a monopoly occurring in a market. *[15 marks]*

SECTION B

Answer **one** question from this section.

Macroeconomics

3. (a) Distinguish between structural and demand-deficient unemployment. *[10 marks]*
- (b) Discuss the view that the problem of unemployment can be reduced through the use of supply-side policies. *[15 marks]*
4. (a) Using an appropriate diagram, explain how a recession might lead to more poverty. *[10 marks]*
- (b) Evaluate the view that attempts to achieve greater equity in the distribution of income will reduce economic efficiency. *[15 marks]*
-