

Economics
Higher level
Paper 1

Monday 4 May 2015 (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 how changes in price work to reallocate resources in a market. [10]
(b) Discuss the view that the overuse of common access resources is best addressed by government. [15]

2. (a) Explain why prices tend to be stable in oligopolistic markets. [10]
(b) Oligopolists often possess too much monopoly power. Evaluate whether governments should intervene in oligopolistic markets. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain what is meant by the natural rate of unemployment. [10]
- (b) Discuss the view that there is no trade-off between inflation and unemployment. [15]
4. (a) Explain how business spending on research and development and government expenditure on infrastructure might shift the long-run aggregate supply curve. [10]
- (b) Evaluate the effectiveness of interventionist supply-side policies to achieve economic growth. [15]
-