

**Economics**  
**Standard level**  
**Paper 1**

Monday 4 May 2015 (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 why governments impose price floors (minimum prices). [10]  
(b) Discuss the consequences for producers, consumers and the government of imposing a price floor (minimum price) on a good. [15]
  
2. (a) Explain the view that an increase in price will lead to a decrease in the quantity demanded whilst an increase in demand will lead to an increase in price. [10]  
(b) Discuss the significance of price elasticity of demand for government intervention in markets. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain the effect of a rise in taxation and a fall in government expenditure on the circular flow of income of an economy. [10]
- (b) Evaluate the effectiveness of fiscal policy to reduce the rate of inflation. [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]
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