

Economics
Higher level
Paper 1

Monday 2 May 2016 (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) Market failure can occur when there is asymmetric information, abuse of monopoly power and positive externalities. Explain why any **two** of these represent market failure. [10]
- (b) Evaluate the view that regulations are the most effective government response to the market failure of negative externalities. [15]
2. (a) Explain the conditions necessary for firms in oligopolistic markets to engage in price discrimination. [10]
- (b) Discuss whether producers in oligopolistic markets should compete or collude. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain the impact of automatic stabilizers on an economy. [10]
- (b) Evaluate the effectiveness of fiscal policy in achieving economic growth. [15]
4. (a) Using the Keynesian AD/AS diagram, explain why an economy may be in equilibrium at any level of real output. [10]
- (b) Evaluate the view that increased investment is the most important factor in achieving a faster rate of economic growth. [15]
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