

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

Monday 2 May 2016 (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 might subsidize basic food stuffs such as wheat. [10]
- (b) Discuss the consequences for the government **and** for consumers of subsidizing the price of admission to museums. [15]
2. (a) Explain **one** supply factor and **one** demand factor that might lead to a rise in the price of rented housing. [10]
- (b) Discuss the view that price controls imposed by governments on the market for rented housing should never be used. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain how expansionary monetary policy can help to close a deflationary (recessionary) gap. [10]
- (b) Discuss the view that governments should always try to avoid deflation. [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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