

**Economics**  
**Higher level**  
**Paper 1**

Wednesday 2 November 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) Using a production possibilities curve (PPC) diagram, explain why choices have to be made in all economies. [10]  
(b) Discuss the view that governments should not intervene in housing markets. [15]
  
2. (a) Explain why the under-consumption of merit goods causes market failure. [10]  
(b) Discuss whether there should always be direct provision of public goods by the government. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain how expansionary monetary policy might lead to a rise in inflation. [10]
- (b) Discuss the view that the most significant impact of high inflation in a country is a loss of export competitiveness. [15]
4. (a) Explain what effect an increase in interest rates might have on unemployment. [10]
- (b) Evaluate the effectiveness of fiscal policy as a tool to reduce unemployment. [15]
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