

Economics
Higher level
Paper 1

Tuesday 2 May 2017 (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 the overuse of common access resources can lead to negative externalities. [10]
- (b) Discuss the view that the best way to reduce the threat to sustainability, arising from the burning of fossil fuels, is for the government to provide subsidies to firms that produce energy through renewable sources. [15]
2. (a) Explain why a loss-making firm in perfect competition would shut down in the long run. [10]
- (b) Discuss the view that perfect competition is a more desirable market structure than monopoly. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain the impact that a fall in the world price of oil might have on aggregate supply **and** gross domestic product (GDP) in an economy. [10]
- (b) Evaluate the view that economic growth is best achieved through improvements in technology. [15]
4. (a) Explain why a high rate of inflation may negatively affect both a country's export competitiveness **and** the level of capital investment by firms. [10]
- (b) Discuss the view that the use of monetary policy is always the best way to reduce inflation. [15]
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