

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

Tuesday 2 May 2017 (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) A fall in income leads to a fall in demand for a good. Explain this relationship between the demand for the good and consumer income. [10]
- (b) Evaluate the consequences of rising incomes on service sector producers (such as hotels) **and** primary sector producers (such as rice farmers). [15]
2. (a) Explain why the consumption of merit goods, such as healthy food, can lead to positive externalities of consumption. [10]
- (b) Discuss whether advertising by the government is the most appropriate way of increasing consumption of a merit good. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain how aggregate demand might be affected by an increase in interest rates. [10]
- (b) Discuss whether the use of fiscal policy is the most effective way to bring an economy out of a recession. [15]
4. (a) Explain the factors that cause demand-pull **and** cost-push inflation. [10]
- (b) Discuss the view that deflation will always be bad for an economy. [15]
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