Diploma Programme
Programme du diplôme
Programa del Diploma

Economics
Standard 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]**.

3 pages

International Baccalaureate
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Section A

Answer **one** question from this section.

Microeconomics

1. (a) Explain why an increase in incomes over time may lead to an increase in demand for some goods but a decrease in demand for other goods. [10]

   (b) The income elasticity of demand for primary commodities tends to be relatively low, while the income elasticity of demand for manufactured goods and services tends to be higher. Examine the likely effects of this for individual producers **and** for the economy as a whole. [15]

2. (a) Explain why demerit goods are an example of market failure. [10]

   (b) Evaluate the effectiveness of using indirect taxation to correct market failure. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain what effect a reduction in interest rates might have on consumption and
         investment.   [10]

    (b) Evaluate the effectiveness of using monetary policy to reduce the rate of inflation.   [15]

4. (a) Explain the causes of economic growth in terms of an increase in actual output **and** an
         increase in potential output.   [10]

    (b) Discuss the view that the consequences of economic growth are always beneficial.   [15]