

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

Wednesday 1 November 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) Explain why governments provide subsidies for some goods and services. [10]  
(b) Discuss the consequences of providing a subsidy for goods such as agricultural products. [15]
  
2. (a) Explain how an increase in the price of air travel might affect the demand for its complements **and** its substitutes. [10]  
(b) Evaluate the view that the use of regulation is the most effective way to reduce negative externalities. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain why structural unemployment may occur in an economy. [10]
- (b) Discuss the view that the best way to reduce unemployment is through education and training. [15]
4. (a) With reference to the income, output and expenditure approaches, explain how the real gross national product (GNP)/gross national income (GNI) per capita of a country can be measured. [10]
- (b) Discuss the view that a rise in the GNP/GNI per capita will always lead to a rise in living standards in a country. [15]
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