

Economics
Higher level
Paper 1

Tuesday 1 May 2018 (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) With reference to the concept of excess demand, explain how a decrease in supply of a good would lead to a new market equilibrium. [10]
- (b) A government decides to impose an indirect tax on unhealthy drinks. Discuss the consequences for the stakeholders in these markets. [15]
2. (a) Explain **two** factors that might give rise to economies of scale for a firm. [10]
- (b) Discuss the view that legislation is the best way of dealing with the problem of monopoly power. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain the possible impact of an increase in wealth and consumer confidence on aggregate demand. [10]
- (b) Examine why, in contrast to the monetarist/new classical model, the economy will not automatically return to the full employment level of output in the Keynesian model. [15]
4. (a) Explain how expansionary fiscal policy could be used to close a deflationary (recessionary) gap. [10]
- (b) Evaluate the view that fiscal policy is the most effective way of achieving long-term economic growth. [15]
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