

Economics
Standard 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) Explain how the value of the cross price elasticity of demand (XED) for a particular good is determined by its relationship to other goods. [10]
- (b) Examine the significance of both cross price elasticity of demand and income elasticity of demand for a firm. [15]
2. (a) Explain **two** factors that would lead to an increase in the demand for a product. [10]
- (b) Discuss the view that competitive markets will always achieve allocative efficiency. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain how income inequality might be measured in a country. [10]
- (b) Evaluate the view that the best way to reduce income inequality in a country is by using progressive taxation. [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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