

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) Explain **two** reasons why a government might want to subsidize a good or service. [10]
(b) Discuss the view that governments should tax the consumption of gasoline (petroleum). [15]

2. (a) Explain why some firms might choose the goal of profit maximization while others might choose to adopt satisficing behaviour. [10]
(b) Discuss whether price will always be lower and output will always be higher in perfect competition compared to monopoly. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain why structural unemployment might occur in an economy. [10]
- (b) Evaluate government policies to deal with the different types of unemployment. [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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