

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

Tuesday 1 May 2018 (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 how the price elasticity of demand for a good might be affected by the number and closeness of substitutes. [10]
- (b) Examine the significance of price elasticity of demand for the decision making of firms and government. [15]
  
2. (a) Explain why the exploitation of common access resources, such as uncontrolled fishing, might pose a threat to sustainability. [10]
- (b) Evaluate whether the use of carbon taxes is the most effective way for the government to deal with the threat to sustainability posed by the use of fossil fuels. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain how an increase in investment might lead to economic growth. [10]
- (b) Discuss the possible consequences of economic growth on living standards, unemployment and inflation. [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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