



**ECONOMICS  
HIGHER LEVEL  
PAPER 1**

Tuesday 7 November 2006 (afternoon)

1 hour

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**INSTRUCTIONS TO CANDIDATES**

- Do not turn over this examination paper until instructed to do so.
- Answer one question.
- Use fully labelled diagrams and references to examples where appropriate.

Answer **one** question. Each question is worth [25 marks].

1. (a) Explain the necessary conditions for price discrimination to take place. [10 marks]
  - (b) Discuss the advantages **and** disadvantages of price discrimination for consumers and producers. [15 marks]
  2. (a) Explain how interest rates can be used to bring about an increase in economic activity. [10 marks]
  - (b) Discuss the strengths **and** weaknesses of demand-side policies. [15 marks]
  3. (a) What are the causes of inflation? [10 marks]
  - (b) Evaluate the possible effects of a persistently high inflation rate on a country's current account balance and its exchange rate. [15 marks]
  4. (a) Explain why a firm may benefit from becoming a multinational corporation. [10 marks]
  - (b) Evaluate the effectiveness of Foreign Direct Investment (FDI) as a means of achieving economic growth and economic development in a less developed country. [15 marks]
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