



**ECONOMICS
HIGHER LEVEL
PAPER 1**

Wednesday 19 November 2008 (afternoon)

1 hour

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 determinants of price elasticity of demand. [10 marks]
- (b) “A deterioration in a country’s terms of trade will always be disadvantageous for the current account balance.” Evaluate this statement using the concept of price elasticity of demand. [15 marks]
2. (a) Explain the concepts of allocative and productive (technical) efficiency. [10 marks]
- (b) “Monopolies are inefficient and therefore always act against the public interest.” Discuss this statement. [15 marks]
3. (a) Explain the difference between progressive taxation and regressive taxation. [10 marks]
- (b) Evaluate the possible effects of a decrease in direct taxation on a country’s inflation rate, unemployment rate and balance of payments. [15 marks]
4. (a) Explain **three** barriers to economic development for developing countries. [10 marks]
- (b) Evaluate the view that trade is more effective than aid in achieving economic development. [15 marks]
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