



**ECONOMICS
HIGHER LEVEL
PAPER 1**

Friday 6 November 2009 (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 why a firm may practice price discrimination and the necessary conditions for it to take place. [10 marks]
 - (b) “Although a firm may pursue a range of goals, economists usually assume that profit maximization is the main goal.” Discuss this statement. [15 marks]
 2. (a) Explain how the rate of inflation might be measured and the factors which might make accurate measurement difficult. [10 marks]
 - (b) Evaluate the extent to which an individual government can influence the rate of inflation in its economy. [15 marks]
 3. (a) Explain **two** possible consequences of a sustained current account deficit in a country’s balance of payments. [10 marks]
 - (b) Evaluate the methods available to a government to reduce a current account deficit. [15 marks]
 4. (a) Explain how buffer stock schemes/commodity price agreements may be used to reduce wide fluctuations in primary commodity prices. [10 marks]
 - (b) Evaluate the view that, to achieve greater growth and development, developing countries must lessen their dependence on the production of primary commodities. [15 marks]
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