



ECONOMICS HIGHER LEVEL PAPER 1

Tuesday 4 November 2014 (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. Using diagram(s), explain the signalling and incentive functions of price. [10 marks] (a) Evaluate the view that the market failure caused by the consumption of (b) demerit goods is best dealt with through the use of taxation. [15 marks] 2. Explain why firms might wish to collude. [10 marks] (a) Discuss the view that governments should always try to prevent a monopoly (b) occurring in a market. [15 marks]

SECTION B

Answer one question from this section.

Macroeconomics

Distinguish between structural and demand-deficient unemployment. 3. [10 marks] (a) (b) Discuss the view that the problem of unemployment can be reduced through the use of supply-side policies. [15 marks] 4. Using an appropriate diagram, explain how a recession might lead to (a) more poverty. [10 marks] Evaluate the view that attempts to achieve greater equity in the distribution of income will reduce economic efficiency. [15 marks]