

**Economics**  
**Higher level**  
**Paper 1**

Tuesday 2 May 2017 (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 an increase in the costs of factors of production would affect the market price **and** output of a good. [10]
- (b) Discuss the consequences for different stakeholders in the economy of the government providing subsidies on goods, such as renewable energy. [15]
2. (a) Explain why a loss-making firm in perfect competition would shut down in the long run. [10]
- (b) Discuss the view that perfect competition is a more desirable market structure than monopoly. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain how equilibrium interest rates are determined in an economy. [10]
- (b) Discuss whether an increase in interest rates is the most effective way of reducing the rate of inflation in an economy. [15]
4. (a) Explain the cause of cyclical (demand-deficient) unemployment. [10]
- (b) Discuss the view that the most significant consequence of unemployment is the loss of tax revenue for the government. [15]
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