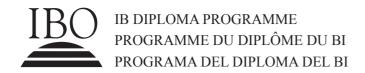
## M07/3/ECONO/SP1/ENG/TZ0/XX





## ECONOMICS STANDARD LEVEL PAPER 1

Monday 21 May 2007 (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 signalling and incentive functions of price in a market economy.	[10 marks]
	(b)	Evaluate the proposition that government intervention in the market for tobacco is justified.	[15 marks]
2.	(a)	Use AD/AS (aggregate demand/aggregate supply) diagrams to explain the causes of inflation.	[10 marks]
	(b)	Evaluate the view that governments should make the control of inflation their highest priority.	[15 marks]
3.	(a)	Explain the likely consequences of a deterioration in the terms of trade for a country's balance of payments on current account.	[10 marks]
	(b)	Evaluate the view that a deterioration in the terms of trade is the most significant barrier to economic development that a developing country can face in the area of international trade.	[15 marks]
4.	(a)	Explain the various types of aid which a developing country might receive.	[10 marks]
	(b)	"Aid is an ineffective means of promoting the development of poorer countries." Evaluate this statement.	[15 marks]