



**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Wednesday 19 November 2008 (afternoon)

1 hour

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**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) With the aid of a diagram, explain the difference between actual economic growth and potential economic growth. [10 marks]
  - (b) Evaluate the extent to which economic growth may contribute to market failure. [15 marks]
  2. (a) With the aid of diagrams, explain the causes of inflation. [10 marks]
  - (b) Evaluate the effectiveness of demand-side policies in reducing inflation. [15 marks]
  3. (a) Explain the likely consequences of an increase in a country's current account deficit. [10 marks]
  - (b) Evaluate the methods available to a government to correct a current account deficit. [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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