



**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Wednesday 19 May 2010 (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 **at least one** diagram, explain the difference between a movement along an existing demand curve for a good and a shift of the demand curve for a good. [10 marks]
- (b) Evaluate the view that the market forces of demand and supply will always lead to the best allocation of resources. [15 marks]
2. (a) Aggregate demand consists of consumption, investment, government spending and net exports (exports minus imports). Explain **two** factors that may influence consumption and **two** factors that may influence government spending. [10 marks]
- (b) Evaluate the possible impact of an increase in consumption expenditure on the performance of an economy. [15 marks]
3. (a) Explain the possible consequences of an improvement in a country's terms of trade for a country with a current account deficit. [10 marks]
- (b) Evaluate the view that, in the long term, expenditure-switching policies (protectionism) are the most effective way to reduce a current account deficit. [15 marks]
4. (a) Explain the difference between economic growth and economic development, and how each of these may be measured. [10 marks]
- (b) Evaluate the view that the best way that developed countries can help the growth and development process of very poor, highly indebted countries is through a general cancellation of debts. [15 marks]
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