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**Economics**  
**Standard level**  
**Paper 1**

Friday 7 May 2021 (afternoon)

1 hour 30 minutes

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**Instructions to candidates**

- Do not turn over 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 the price mechanism reallocates resources when there is a decrease in the supply of a good. [10]  
(b) Evaluate the view that the threat to sustainability, caused by economic activity requiring the use of fossil fuels, is best addressed through the use of carbon taxes. [15]
2. (a) Explain **two** reasons why a government might impose indirect taxes. [10]  
(b) Discuss the view that price floors are more effective than subsidies in providing assistance to producers in the agricultural sector. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain how the size of the circular flow of income in an economy is likely to be affected by a decrease in the rate of interest. [10]  
(b) Evaluate the effectiveness of fiscal policy as a means of achieving long-term economic growth. [15]
  4. (a) Explain how aggregate demand is likely to be affected by an increase in the wealth of consumers and an increase in business confidence. [10]  
(b) Evaluate the effectiveness of monetary policy in reducing an economy's rate of unemployment. [15]
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