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Economics
Higher level
Paper 1

Wednesday 6 November 2019 (afternoon)

1 hour 30 minutes

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 **two** reasons why the demand for primary commodities might be price inelastic. [10]
- (b) Discuss the significance of price elasticity of demand (PED) for a government imposing an indirect tax on a good. [15]

2. (a) Explain how **two** types of economies of scale can lead to a fall in long-run average costs. [10]
- (b) Discuss the view that barriers to entry in a monopoly will always lead to abnormal profits in the long run. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain the impact that a cut in taxation and an increase in government spending might have on the circular flow of income. [10]
- (b) Discuss whether the real gross national income (GNI) per capita of a country is a good indicator of its standard of living. [15]
4. (a) Explain the effect an increase in investment might have on real gross domestic product (GDP) using the Keynesian multiplier. [10]
- (b) Discuss the view that interventionist supply-side policies are the most effective way for a government to achieve economic growth. [15]
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