

**Economics**  
**Higher level**  
**Paper 1**

Wednesday 31 October 2018 (afternoon)

1 hour 30 minutes

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**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 how the price mechanism reallocates resources when there is an increase in demand for a good or service. [10]
- (b) To what extent is advertising the most effective way of increasing the consumption of merit goods? [15]
2. (a) Explain why prices tend to be relatively rigid in oligopolistic markets. [10]
- (b) Discuss whether an oligopolistic firm should collude rather than compete. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Using the concept of the multiplier, explain how an increase in investment might affect aggregate demand. [10]
- (b) Discuss the effectiveness of supply-side policies in reducing unemployment. [15]
4. (a) Explain the potential effects on the economic growth rate from a substantial increase in the number of skilled people of working age entering a country. [10]
- (b) Discuss the view that, apart from indicating economic growth rates over time, national income statistics are of little use. [15]
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