

**Economics**  
**Standard 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 **two** reasons why a government might impose an indirect tax on a good. [10]  
(b) Evaluate the impact that an increase in indirect tax might have on consumers and producers. [15]

## Section B

Answer **one** question from this section.

### Macroeconomics

3. (a) Explain how an economic recession can lead to an increase in absolute poverty. [10]
- (b) Evaluate the view that government policies to promote equity will always have a negative effect on efficiency. [15]
4. (a) Explain how an increase in leakages can affect the size of the circular flow of income. [10]
- (b) To what extent is the use of national income statistics an effective way of comparing the standard of living between countries? [15]
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