



22145112



**ECONOMICS
STANDARD LEVEL
PAPER 1**

Monday 5 May 2014 (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 **three** factors that could lead to an increase in demand for cigarettes. *[10 marks]*

(b) Discuss **three** policies a government might use to reduce the consumption of a demerit good such as cigarettes. *[15 marks]*

2. (a) Distinguish between the concepts of income elasticity of demand (YED) and cross price elasticity of demand (XED). *[10 marks]*

(b) To what extent might the concepts of YED and XED be of significance for business organizations? *[15 marks]*

SECTION B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain the income, output and expenditure methods used to measure real gross domestic product (GDP). *[10 marks]*
- (b) Discuss the usefulness of real GDP per capita as a method of measuring the living standards of a country's population. *[15 marks]*
4. (a) Using an appropriate diagram, explain why a country might experience a deflationary gap. *[10 marks]*
- (b) "Fiscal policy is the most effective way of bringing an economy out of recession." To what extent is this statement valid? *[15 marks]*
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