



22145102



International Baccalaureate®
Baccalauréat International
Bachillerato Internacional

**ECONOMICS
HIGHER 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) Using diagrams, explain how a change in one of the determinants of demand might increase the price of rice and how a change in one of the determinants of supply might decrease the price of rice. *[10 marks]*
(b) Discuss the consequences of providing a subsidy on the production of rice for producers, consumers and the government. *[15 marks]*

2. (a) Using diagrams, explain why a perfectly competitive firm can make economic (abnormal) profit only in the short run. *[10 marks]*
(b) Discuss the consequences of a perfectly competitive industry becoming a monopoly. *[15 marks]*

SECTION B

Answer **one** question from this section.

Macroeconomics

3. (a) Using **two** AD/AS diagrams, explain cost-push and demand-pull inflation. *[10 marks]*
- (b) “The rate of inflation can be most effectively reduced through the use of monetary policy.” To what extent do you agree with this statement? *[15 marks]*
4. (a) Explain **two** factors which might cause economic growth. *[10 marks]*
- (b) Evaluate the view that the benefits of economic growth will always outweigh the costs. *[15 marks]*
-