



**ECONOMICS
HIGHER LEVEL
PAPER 1**

Monday 8 May 2006 (afternoon)

1 hour

INSTRUCTIONS TO CANDIDATES

- Do not turn over this examination paper until instructed to do so.
- Answer one question.
- Use fully labelled diagrams and real-world examples where appropriate.

Answer **one** question. Each question is worth [25 marks].

1. (a) Carefully distinguish between merit goods, demerit goods and public goods. [10 marks]
- (b) Evaluate the view that governments should always intervene in markets for such goods as cigarettes and alcohol. [15 marks]
2. (a) Explain the difference between demand-side and supply-side economic policies. [10 marks]
- (b) “Higher economic growth can only be achieved through the implementation of supply-side policies.” Discuss. [15 marks]
3. (a) Explain why an improvement in a country’s terms of trade does not always lead to an improvement in its balance of payments on current account. [10 marks]
- (b) An economy is currently experiencing a deficit on the current account of its balance of payments. The government is considering either allowing the exchange rate to fall or reducing aggregate demand.
- Evaluate the relative advantages **and** disadvantages of these two policies. [15 marks]
4. (a) Explain how an increase in the quantity and quality of a nation’s factors of production can promote economic development. [10 marks]
- (b) Evaluate the impact of globalization on the economic development of developing countries. [15 marks]
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