



**ECONOMICS  
HIGHER LEVEL  
PAPER 1**

Monday 21 May 2007 (afternoon)

1 hour

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**INSTRUCTIONS TO CANDIDATES**

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

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

1. (a) Explain how barriers to entry may affect market structure. [10 marks]  
(b) Evaluate the view that monopoly is an undesirable type of market structure. [15 marks]
  
  2. (a) Explain why a government might find it difficult to maintain a low rate of inflation as the economy approaches full employment. [10 marks]  
(b) Evaluate the proposition that the priority in economic management should be the maintenance of low unemployment. [15 marks]
  
  3. (a) Explain the various factors which may affect an exchange rate in a floating exchange rate system. [10 marks]  
(b) Evaluate a government decision to adopt a floating exchange rate as opposed to a fixed exchange rate system. [15 marks]
  
  4. (a) Explain the various types of aid which a developing country might receive. [10 marks]  
(b) “Aid is an ineffective means of promoting the development of poorer countries.” Evaluate this statement. [15 marks]
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