



88075101

**ECONOMICS
HIGHER LEVEL
PAPER 1**

Wednesday 7 November 2007 (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 references to examples where appropriate.

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

1. (a) Explain the difference between short-run equilibrium and long-run equilibrium in monopolistic competition. [10 marks]
 - (b) “Perfect competition is a more desirable market form than monopolistic competition.” Discuss. [15 marks]

 2. (a) Using one or more diagrams, explain the difference between the equilibrium level of national income and the full employment level of national income. [10 marks]
 - (b) Evaluate the policies a government may use to increase the full employment level of national income. [15 marks]

 3. (a) Explain **three** factors that influence the value of a country’s exchange rate. [10 marks]
 - (b) Evaluate government/central bank intervention in the foreign exchange market to reduce the value of the exchange rate. [15 marks]

 4. (a) Explain **three** institutional factors that may contribute to potential economic growth in developing countries. [10 marks]
 - (b) Evaluate the view that economic growth will lead to economic development. [15 marks]
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