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International Baccalaureate®
Baccalauréat International
Bachillerato Internacional

**ECONOMICS
HIGHER LEVEL
PAPER 1**

Monday 14 November 2011 (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 different objectives that a firm in an oligopolistic market structure might try to achieve. [10 marks]
 - (b) Evaluate the view that an oligopolistic market is an inefficient market structure. [15 marks]
 2. (a) Explain what the multiplier is and, using a numerical example, demonstrate how it can be calculated. [10 marks]
 - (b) Evaluate whether real Gross Domestic Product (GDP) can be increased by the use of demand-side policies. [15 marks]
 3. (a) Explain, using a diagram, how government intervention can change the exchange rate of a currency. [10 marks]
 - (b) Reducing the value of a country's currency is an effective solution for a balance of payments deficit on the current account. Evaluate this view. [15 marks]
 4. (a) Explain the differences between foreign direct investment (FDI) and aid. [10 marks]
 - (b) Evaluate the view that aid is an effective means to achieve economic growth and development in less-developed countries (LDCs). [15 marks]
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