

Economics
Higher level
Paper 1

Monday 2 May 2016 (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) Explain how the incidence of an indirect tax depends on the price elasticity of demand and the price elasticity of supply. [10]
- (b) Discuss the consequences of imposing an indirect tax on unhealthy food. [15]

2. (a) Explain why firms may not always pursue the goal of profit maximization. [10]
- (b) In monopoly, economic (abnormal) profit can be earned in both the short run and the long run. Examine the role of barriers to entry in earning economic profit. [15]

Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain how an increase in the level of taxation can influence the level of aggregate demand in an economy. [10]
- (b) Evaluate the effectiveness of fiscal policy in promoting economic activity during a recession. [15]
4. (a) Using the Keynesian AD/AS diagram, explain why an economy may be in equilibrium at any level of real output. [10]
- (b) Evaluate the view that increased investment is the most important factor in achieving a faster rate of economic growth. [15]
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