



22065104

**ECONOMICS
STANDARD 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) The basic economic problem is one of scarcity of productive resources.
Explain how resources are allocated between competing uses in a market economy. [10 marks]
 - (b) Discuss the view that there is strong justification for government intervention in the market for health care. [15 marks]
 2. (a) Identify the components of aggregate demand and briefly explain **two** factors which might determine each of these components. [10 marks]
 - (b) Evaluate the likely impact on an economy of a substantial rise in the level of interest rates. [15 marks]
 3. (a) Explain how changes in a country's exchange rate may occur under a floating exchange rate system. [10 marks]
 - (b) Discuss the view that exchange rate changes are the most important factor in determining a country's export sales. [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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