



**ECONOMICS
STANDARD LEVEL
PAPER 1**

Tuesday 7 November 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 references to examples where appropriate.

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

1. (a) Explain why underprovision of merit goods in an economy is considered to be a market failure. [10 marks]
- (b) Evaluate the possible measures that a government might use to correct such a market failure. [15 marks]
2. (a) Explain the following different types of unemployment:
- frictional unemployment
 - structural unemployment
 - cyclical/demand-deficient unemployment
 - real wage/classical unemployment. [10 marks]
- (b) Evaluate the effectiveness of the different measures available to governments to deal with the types of unemployment in (a). [15 marks]
3. (a) Explain the reasons why countries trade with each other. [10 marks]
- (b) Given the benefits of trade, evaluate the economic arguments in favour of protectionism. [15 marks]
4. (a) Explain why a firm may benefit from becoming a multinational corporation. [10 marks]
- (b) Evaluate the effectiveness of Foreign Direct Investment (FDI) as a means of achieving economic growth and economic development in a less developed country. [15 marks]
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