



**ECONOMICS
STANDARD LEVEL
PAPER 1**

Tuesday 13 May 2008 (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) “The price elasticity of demand and the price elasticity of supply for many primary commodities tend to be low.” Explain what is meant by this statement, and how this contributes to the problem of price instability for primary commodity producers. *[10 marks]*

(b) Evaluate the view that it is best to allow primary commodity prices to be determined purely through the free interaction of market forces. *[15 marks]*

 2. (a) Explain how fiscal policy could be used to increase aggregate demand. *[10 marks]*

(b) “In the long-run, a country’s economic performance can only be improved through the implementation of supply-side policies.” Evaluate this statement. *[15 marks]*

 3. (a) Identify **three** types of protectionism and explain how each may be used to correct a balance of payments deficit on current account. *[10 marks]*

(b) Evaluate the extent to which a deficit on a country’s current account might be considered an economic problem. *[15 marks]*

 4. (a) Explain how development might be measured. *[10 marks]*

(b) Evaluate the view that the most effective way that a government could improve the welfare of its citizens is through the pursuit of faster economic growth. *[15 marks]*
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