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International Baccalaureate®
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**ECONOMICS
STANDARD LEVEL
PAPER 1**

Tuesday 4 November 2014 (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 price mechanism allocates resources in an economy. *[10 marks]*

(b) Examine the possible consequences of governments imposing a price ceiling in the market for rented housing. *[15 marks]*

2. (a) Explain that when producer surplus and consumer surplus are maximized, allocative efficiency is achieved. *[10 marks]*

(b) Discuss the consequences of the introduction of an indirect tax on gasoline (petrol) for consumers, producers and the government. *[15 marks]*

SECTION B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain the difference between cost-push and demand-pull inflation. *[10 marks]*
- (b) “A rise in the inflation rate will always result in negative consequences for the economy.” To what extent is this statement true? *[15 marks]*
4. (a) Using an appropriate diagram, explain how a recession might lead to more poverty. *[10 marks]*
- (b) Evaluate the view that attempts to achieve greater equity in the distribution of income will reduce economic efficiency. *[15 marks]*
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