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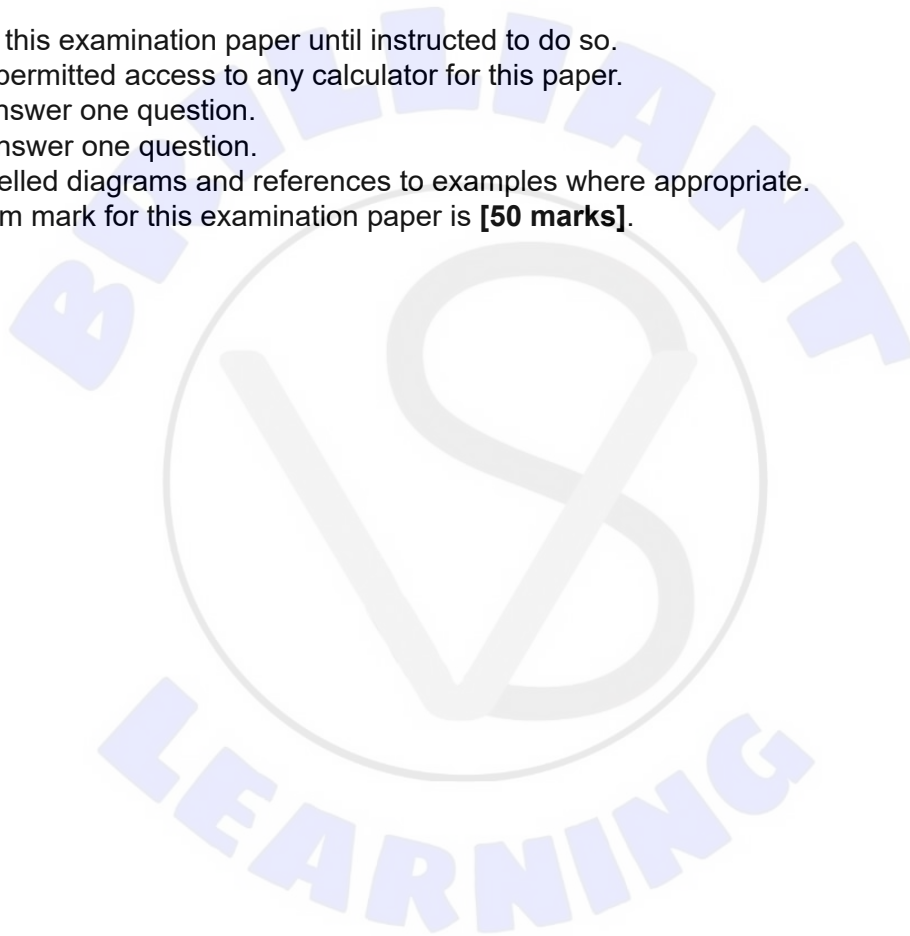
Economics
Higher level
Paper 1

Wednesday 15 May 2019 (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]**.

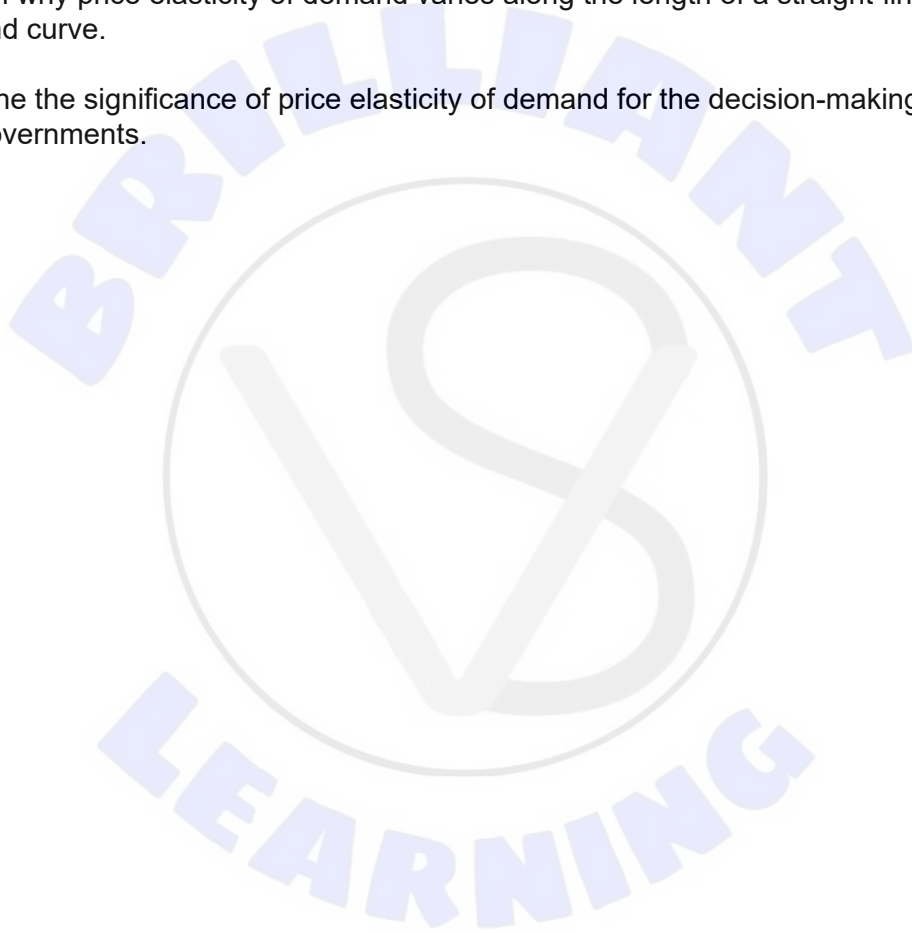


Section A

Answer **one** question from this section.

Microeconomics

1. (a) Explain the relationship between the law of diminishing returns and a firm's short-run cost curves. [10]
- (b) Evaluate the view that monopoly is an undesirable market structure as it fails to achieve productive and allocative efficiency. [15]
2. (a) Explain why price elasticity of demand varies along the length of a straight-line demand curve. [10]
- (b) Examine the significance of price elasticity of demand for the decision-making of firms and governments. [15]



Section B

Answer **one** question from this section.

Macroeconomics

3. (a) Explain how a deflationary gap might occur. [10]
- (b) Using the monetarist/new classical model and the Keynesian model, discuss the view that increases in aggregate demand will inevitably be inflationary. [15]
4. (a) Explain how government spending might promote greater equity in an economy. [10]
- (b) Evaluate the view that government policies to promote greater equity will always have a negative effect on efficiency. [15]
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