



**ECONOMICS
HIGHER LEVEL
PAPER 1**

Wednesday 18 May 2005 (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) Explain how profit is determined in perfect competition. *[10 marks]*
(b) “Whatever the type of market structure, profit maximization will always be the only goal of firms.” Discuss. *[15 marks]*

 2. (a) Using suitable examples, explain the difference between the multiplier and the accelerator. *[10 marks]*
(b) Evaluate the proposition that the most effective way to reduce unemployment is through the use of demand-side policies. *[15 marks]*

 3. (a) Describe the factors which might cause a change in a country’s terms of trade. *[10 marks]*
(b) Evaluate the significance for less developed countries of a deterioration in the terms of trade. *[15 marks]*

 4. (a) Explain the main characteristics of a market economy. *[10 marks]*
(b) Evaluate the proposition that economic development is best achieved through the market system. *[15 marks]*
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