



**ECONOMICS
STANDARD 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 a buffer stock system might be used to stabilize agricultural prices. [10 marks]
(b) Discuss the view that intervention in agricultural markets causes more problems than it solves. [15 marks]

 2. (a) Describe the main causes of inflation. [10 marks]
(b) “If inflation is a major problem faced by governments it must follow that the opposite, deflation, is desirable.” To what extent do you agree with this statement? [15 marks]

 3. (a) Describe **three** possible economic consequences of a persistent current account deficit for a country. [10 marks]
(b) Evaluate different methods of correcting a current account deficit. [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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