



**ECONOMICS  
STANDARD LEVEL  
PAPER 1**

Monday 21 May 2007 (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) Explain the signalling and incentive functions of price in a market economy. [10 marks]  
(b) Evaluate the proposition that government intervention in the market for tobacco is justified. [15 marks]
  2. (a) Use AD/AS (aggregate demand/aggregate supply) diagrams to explain the causes of inflation. [10 marks]  
(b) Evaluate the view that governments should make the control of inflation their highest priority. [15 marks]
  3. (a) Explain the likely consequences of a deterioration in the terms of trade for a country's balance of payments on current account. [10 marks]  
(b) Evaluate the view that a deterioration in the terms of trade is the most significant barrier to economic development that a developing country can face in the area of international trade. [15 marks]
  4. (a) Explain the various types of aid which a developing country might receive. [10 marks]  
(b) "Aid is an ineffective means of promoting the development of poorer countries." Evaluate this statement. [15 marks]
-