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Concerns

- only "temporary relief to farmers" (paragraph 4)
- large government stocks (paragraph 4) will eventually have to be sold
- may discourage coffee farmers from diversifying
- may encourage over-supply, which will further lower the price
- opportunity cost of government spending *eg* on merit goods (paragraph 4)
- price floor may simply be a short-term political strategy (paragraph 4)
- allocatively inefficient.

Any reasonable discussion.

**Economics**  
**Higher level**  
**Paper 3**

Wednesday 4 November 2015 (morning)

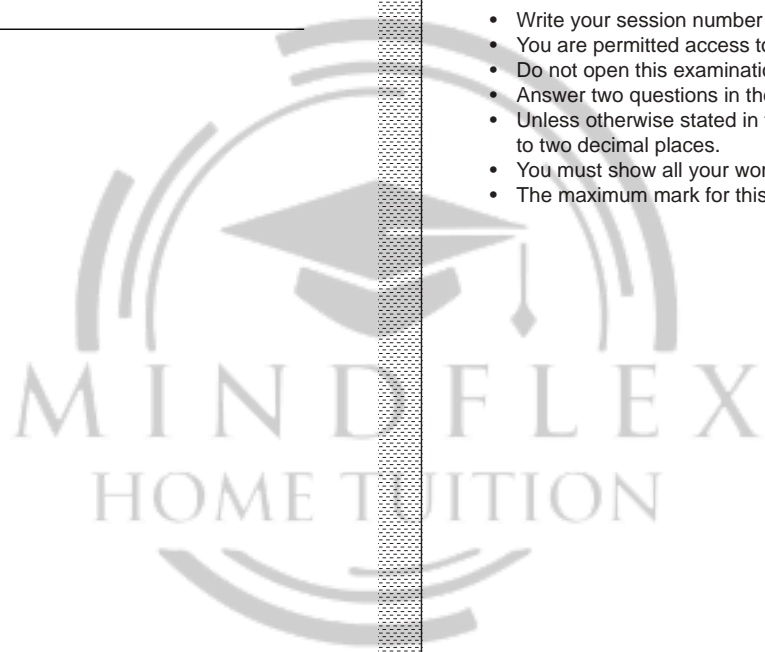
Candidate session number

1 hour

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**Instructions to candidates**

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- Answer two questions in the boxes provided.
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- The maximum mark for this examination paper is **[50 marks]**.



14 pages

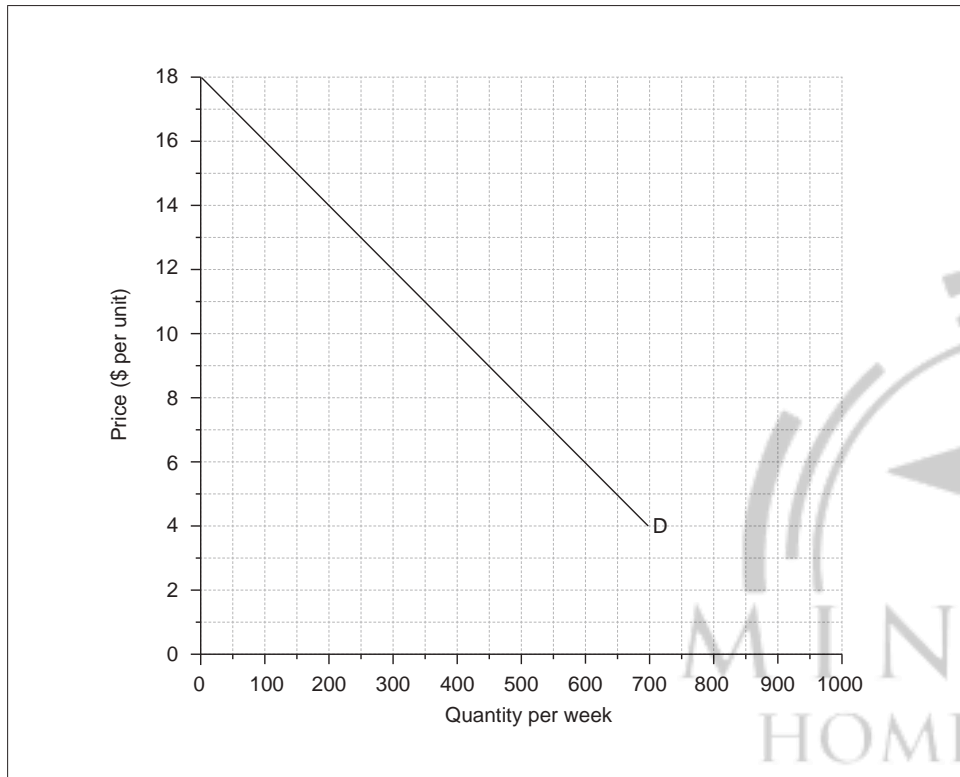
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16EP01

Answer **two** questions. Each question is worth **[25 marks]**. Write your answers in the boxes provided.

1. The following diagram illustrates the weekly demand for sunglasses in the town of Picton.



The market supply for sunglasses in Picton is given by the equation

$$Q_s = -450 + 100P$$

where  $Q_s$  is the quantity supplied per week and  $P$  is the price per pair of sunglasses in dollars (\$).

(a) (i) On the diagram, plot and label the supply curve for sunglasses in Picton. [2]

(This question continues on the following page)

(Question 1 continued)

(ii) Using the diagram, identify the equilibrium price and quantity. [1]

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(iii) State the price at which 50 pairs of sunglasses will be supplied. [1]

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(b) The government decides to grant a subsidy of \$3 per pair of sunglasses.

(i) On the diagram, plot and label an appropriate curve to show the effect of the subsidy. [2]

(ii) Calculate the excess demand or supply at the original equilibrium price. [2]

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(iii) State the new equilibrium price and quantity. [1]

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(This question continues on the following page)



16EP02



16EP03

(Question 1 continued)

- (c) With reference to the diagram on page 2, analyse how the subsidy results in a new market equilibrium and therefore a reallocation of resources used for the supply of sunglasses. [4]

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- (d) (i) Define the term *producer surplus*. [2]

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- (ii) Calculate the level of government expenditure necessary to fund this subsidy. [2]

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(This question continues on the following page)



(Question 1 continued)

- (iii) Calculate the change in consumer surplus resulting from the subsidy. [2]

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- (iv) Calculate the change in producer surplus resulting from the subsidy. [2]

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- (e) With reference to the diagram on page 2 and your answers to part (d), explain how the subsidy will impact on allocative efficiency in the market for sunglasses in Picton. [4]

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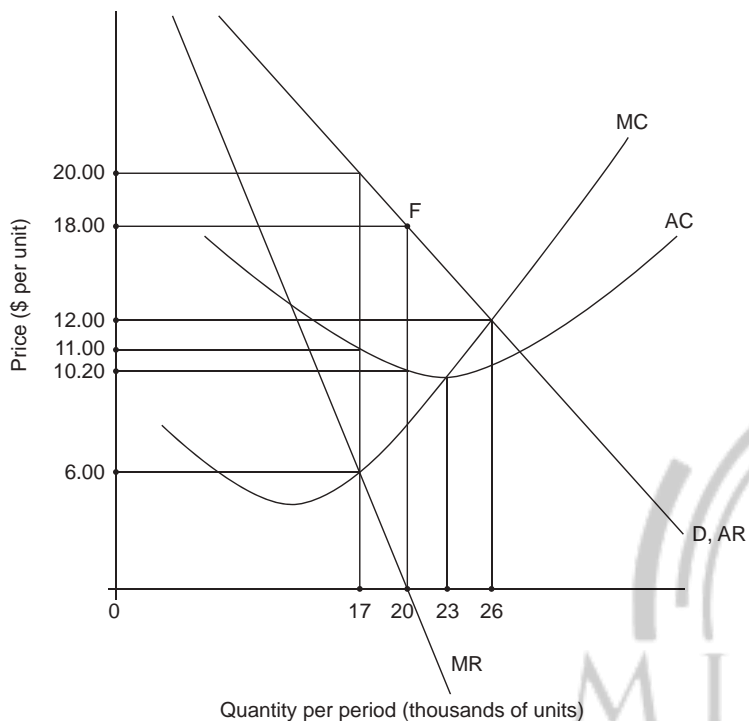
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2. The following diagram illustrates the demand and cost conditions of a firm.



(a) Identify whether this firm is in perfect competition. You **must** give a reason for your choice. [2]

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(This question continues on the following page)

(Question 2 continued)

(b) Identify the profit maximizing level of output for this firm. You **must** give a reason for your choice. [2]

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(c) Calculate the total revenues **and** the total costs **and** the profits or losses for this firm at the profit maximizing level of output. [3]

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(d) Identify the level of output this firm would choose if instead of profit it aimed at maximizing revenues. You **must** give a reason for your choice. [2]

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(This question continues on the following page)



(Question 2 continued)

- (e) Explain the meaning of the term "allocative efficiency" and its implication for social (community) surplus. [4]

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- (f) Referring to the diagram on page 6, identify the level of output that should be produced for allocative efficiency to be achieved. You **must** give a reason for your choice. [2]

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- (g) Define the term *productive efficiency*. [2]

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(This question continues on the following page)



(Question 2 continued)

- (h) Calculate the price elasticity of demand when the price decreases from \$18.00 per unit to \$12.00 per unit. [2]

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- (i) With reference to the firm's revenues, comment on the price elasticity of demand at point F of the demand curve in the diagram on page 6. [2]

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- (j) Explain why a profit maximizing firm with monopoly power will never choose to operate on the inelastic portion of its average revenue curve. [4]

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3. In Aceland, the "typical basket of goods" purchased by the average consumer consists of 48 pizzas, 120 litres of chocolate milk and 18 jazz concerts. The following table shows the prices for these products in 2013 and 2014.

Table 1

	Price per unit in dollars (\$)	
	2013	2014
Pizza	12.50	12.90
Chocolate milk (litres)	1.15	1.25
Jazz concert	45.00	46.00
Total cost of the typical basket		

- (a) (i) Calculate the cost of this basket in 2013 and 2014. Enter your answers in Table 1. [2]

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- (ii) Using your results from part (a)(i), calculate a consumer price index (CPI) with 2013 as the base year. [1]

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(This question continues on the following page)

(Question 3 continued)

- (iii) Calculate the rate of inflation in Aceland in 2014. [1]

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- (b) Outline the reason why, in addition to a consumer price index (CPI), a producer price index may also be useful to economists. [2]

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(This question continues on the following page)



16EP10



16EP11

(Question 3 continued)

The following table shows data for Boarland (all figures in billions of dollars (\$)).

Table 2

Year	2007	2008	2009	2010
Nominal GDP	20.7	21.9	22.6	22.3
GDP deflator	100.0	102.3	107.6	103.7
Real GDP	20.7			21.5

- (c) (i) Calculate Boarland's real GDP for 2008 and 2009 expressed in 2007 prices. Enter your answers in **Table 2**. [2]

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- (ii) State the reason why a country's gross domestic product (GDP) may be greater than its gross national income (GNI). [1]

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(This question continues on the following page)



(Question 3 continued)

- (iii) Calculate the rate of economic growth for Boarland in 2007–2008, 2008–2009 and 2009–2010. [3]

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- (iv) Using your answer to part (c)(iii), identify the year Boarland was in recession. [1]

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- (v) Using the data in **Table 2** and your answers to part (c), explain how real GDP could decrease while nominal GDP is increasing. [4]

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(This question continues on the following page)





(Question 3 continued)

The Boarland statistical agency has also collected the following data:

Table 3

	2013
Population	5 394 735
Number of employed	2 803 600
Working age population	3 895 538
Number of unemployed	456 400

(d) (i) Calculate the unemployment rate for Boarland in 2013. [2]

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(ii) Outline **one** difficulty in measuring unemployment. [2]

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(iii) Explain **two** economic consequences of unemployment. [4]

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Answers written on this page  
will not be marked.



16EP14



16EP15

**Economics  
Higher level  
Paper 1**

Wednesday 2 November 2016 (afternoon)

1 hour 30 minutes

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**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]**.

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3 pages

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16EP16

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**Section A**

Answer **one** question from this section.

**Microeconomics**

1. (a) Using a production possibilities curve (PPC) diagram, explain why choices have to be made in all economies. [10]
- (b) Discuss the view that governments should not intervene in housing markets. [15]
2. (a) Explain why the under-consumption of merit goods causes market failure. [10]
- (b) Discuss whether there should always be direct provision of public goods by the government. [15]

**Section B**

Answer **one** question from this section.

**Macroeconomics**

3. (a) Explain how expansionary monetary policy might lead to a rise in inflation. [10]
- (b) Discuss the view that the most significant impact of high inflation in a country is a loss of export competitiveness. [15]
4. (a) Explain what effect an increase in interest rates might have on unemployment. [10]
- (b) Evaluate the effectiveness of fiscal policy as a tool to reduce unemployment. [15]





**Economics**  
**Higher level**  
**Paper 2**

Thursday 3 November 2016 (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 the text/data where appropriate.
- The maximum mark for this examination paper is **[40 marks]**.

**Section A**

Answer **one** question from this section.

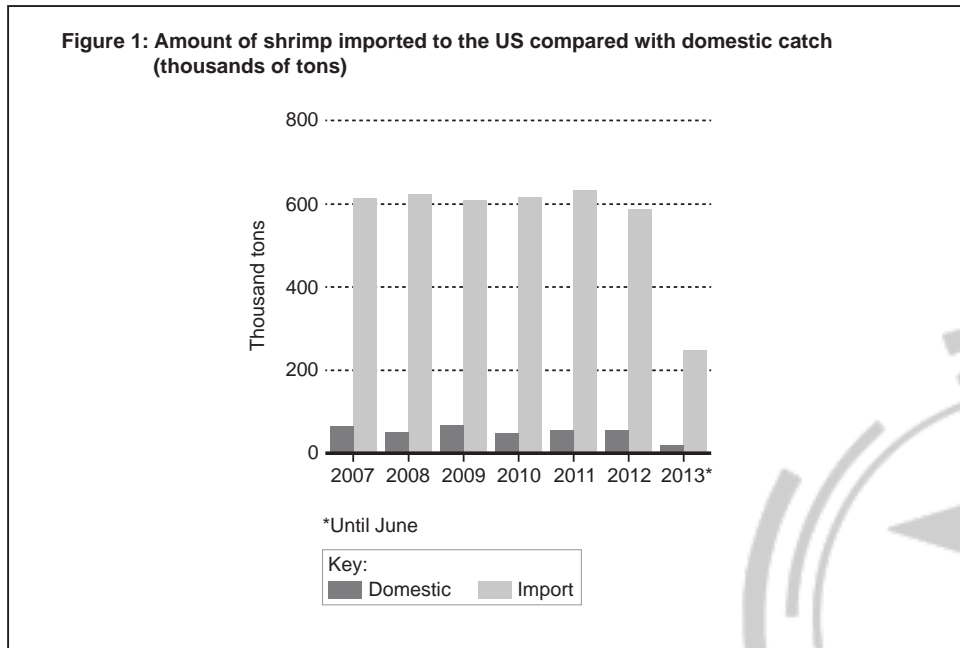
1. Study the extract and data below and answer the questions that follow.

**American shrimp farmers taste victory**

- 1 American shrimp farmers have received good news from a United States (US) ruling that could lead to tariffs being imposed on imports from competing countries.
- 2 US producers in the Gulf Coast were suffering from a significant oil spill in 2010. The higher fuel costs as a result of the spill have made it hard to compete with foreign shrimp farms, which they say receive government **subsidies**. The US producers claim such subsidies threaten to destroy the domestic shrimp business. The US imported 1200 million pounds (lb) of shrimp last year and produced 100 million pounds (lb) of shrimp domestically.
- 3 The US Department of Commerce ruled that five countries – China, Ecuador, India, Malaysia and Vietnam – improperly subsidized shrimp that were exported to the American market. The department rejected accusations of improper subsidies by Thailand and Indonesia, two of the biggest US shrimp suppliers.
- 4 The US International Trade Commission will now have to decide whether the subsidies harmed the American industry. If so, the US would impose tariffs on shrimp imports from the five countries. The proposed US tariffs could be as much as 54.5%.
- 5 The US shrimp farmers claim that the Indian government pays extra to cover shipping costs on shrimp going to the US and that China provides subsidized loans to its shrimp farmers. They argue that these violate World Trade Organization (WTO) rules.
- 6 The five countries disputed the US Department of Commerce's decision. The Vietnamese producers state that, "This is an unfair decision affecting the lives of more than 600 000 shrimp farmers and processors in Vietnam". Chinese officials have said that there was no evidence of improper Chinese subsidies and that US tariffs on Chinese shrimp would violate WTO rules.
- 7 The US shrimp farmers say they need tariffs to allow them to compete fairly with Asian farmers, noting that high fuel prices are keeping some shrimp boats at the dock. "The price received by our farmers is not enough to cover their **variable costs**," said a lawyer, who represents the US shrimp farmers.
- 8 Large US retailers and food distributors oppose the tariffs saying that the US shrimp industry had support from the oil company, BP, which has paid billions of US dollars to those affected by its 2010 oil spill.
- 9 US politicians and shrimp farmers commented on problems they are facing, saying that, "not only is shrimping an industry, but it is a way of life".

(Question 1 continued)

2. Study the extract below and answer the questions that follow.



[Source: adapted from <http://online.wsj.com/news>, 13 August 2013]



- (a) (i) Define the term *subsidies* indicated in bold in the text (paragraph ②). [2]
- (ii) Define the term *variable costs* indicated in bold in the text (paragraph ⑦). [2]
- (b) Using a supply and demand diagram with international trade values from the text, explain the statement that “The US imported 1200 million pounds (lb) of shrimp last year and produced 100 million pounds (lb) of shrimp domestically” (paragraph ②) (Does not need to be to scale). [4]
- (c) Using an average costs diagram, explain the short-run consequence for shrimp farmers if the price received “is not enough to cover their variable costs” (paragraph ⑦). [4]
- (d) Using information from the text/data and your knowledge of economics, discuss the view that the US should impose tariffs on the imported shrimp. [8]

(This question continues on the following page)

(Question 2 continued)

- (a) (i) Define the term **interest rates** indicated in bold in the text (paragraph 1). [2]
- (ii) Define the term **normal profit** indicated in bold in the text (paragraph 5). [2]
- (b) Using an exchange rate diagram, explain how speculation is contributing to the rising value of the British pound (paragraph 1). [4]
- (c) Using an appropriate diagram, explain why it is possible that "British firms producing exported goods that have few substitutes have reported no reduction in export revenue despite the appreciation" (paragraph 5). [4]
- (d) Using information from the text/data and your knowledge of economics, discuss possible consequences of the appreciation of the British pound. [8]

Section B

Answer **one** question from this section.

3. Study the extract and data below and answer the questions that follow.

**Inequality in China**

- 1 As China's economy first began to use **market-oriented policies** in the 1970s, it was famously suggested that some citizens, particularly through hard work, "should be allowed to get rich before others". The government still plays a dominant role in the allocation of resources and benefits, keeping most of the gains for itself and its employees. Civil servants, who are assigned government housing, have benefited more and accumulated more wealth than the private sector employees.
- 2 Income inequality is a politically sensitive issue in China and the government has not reported on it for 26 years. In 1988, the Gini coefficient was 0.38 and the next set of figures released in 2014 give a value of 0.47.
- 3 According to research by the China Reform Foundation (CRF), "hidden income" amounts to more than US\$1.4 trillion, or the equivalent of Australia's annual gross domestic product (GDP). "Hidden incomes" refer to money gained from bribery or other corrupt behaviour, for example, bribes for officials or corrupt payments for doctors.
- 4 Low-income households are stuck with an outdated tax system that fails to address the inequality issue. They carry the burden of tax payments while the rich and powerful operate largely outside the tax system. Low-income households also have difficulty accessing credit.
- 5 Although the Chinese government expenditure is high, there tends to be inadequate spending on social protection programmes relating to health and old age. The lack of social protection has resulted in a high marginal propensity to save (MPS) amongst the low-income households as they put money away to provide for future health, education and retirement needs. The high savings result in a low marginal propensity to consume at 37% of household income (compared to an average of more than 50% of household income in more developed-market economies). The low marginal propensity to consume and the associated high savings rate have received significant attention in domestic and international policy circles and are viewed as a key barrier to China's continuing road to development.

[Source: adapted from [www.theage.com.au](http://www.theage.com.au), 27 February 2012 and 29 July 2014;  
<http://data.worldbank.org>, accessed 2 August 2014; [www.oecd-ilibrary.org](http://www.oecd-ilibrary.org), 17 January 2014;  
<http://stats.oecd.org>, accessed 3 August 2014, [hdr.undp.org](http://hdr.undp.org), accessed 3 August 2014 and  
[www.imf.org](http://www.imf.org), March 2010]

(This question continues on the following page)

(Question 3 continued)

Figure 1: Selected economic data for China and very high human development countries

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- (a) (i) Define the term *market-oriented policies* indicated in bold in the text (paragraph ❶). [2]
- (ii) Define the term *GDP per capita* indicated in bold in the text (Figure 1). [2]
- (b) Explain why the Human Development Index (HDI) is considered to be a better indicator of economic development than GDP per capita. [4]
- (c) With reference to the figures on the marginal propensity to consume (paragraph ❸), explain how the value of the multiplier in China would compare with the value of the multiplier in a more developed-market economy (no calculation required). [4]
- (d) Using information from the text/data and your knowledge of economics, to what extent does unequal income distribution impact economic development in China? [8]

4. Study the extract below and answer the questions that follow.

Ghana to seek help from International Monetary Fund

- ❶ Ghana has said it will seek financial aid in the form of a loan from the International Monetary Fund (IMF) to help stop the rapid decline in the value of the cedi, Ghana's currency, and close a large **budget deficit**. Ghana's transformation from one of Africa's fastest growing economies to the home of the world's worst-performing currency has become a concern. The exchange rate depreciated by 40% against the US dollar in 2014. The fall in the currency has led to increases in the price of consumer goods such as sugar and fuel; inflation is at an unacceptable 15%.
- ❷ Despite being a major exporter of gold, oil and cocoa, Ghana's current account deficit has risen sharply to 12% of its gross domestic product (GDP). This is partly due to a rapid increase in demand for imports and falling gold prices. Additionally, oil revenues have not been as strong as expected.
- ❸ The government is also struggling with a wide budget deficit, which stood at 10% of GDP last year. Ghana's good reputation for fiscal responsibility has worsened considerably as the government tripled salaries for police officers and soldiers.
- ❹ It is expected that the news of talks with the IMF will be positively received in international financial markets. The finance minister has said the step would help to stabilize the currency, to bring domestic prices under control, and also to restore investors' confidence in Ghana's economy.
- ❺ A Ghanaian spokesperson noted that the IMF would insist on the government introducing measures to tackle inflation and reduce its budget deficit. The IMF says that Ghana needs to tighten its budget immediately, by reducing public sector wages, lowering subsidies and increasing taxes. The IMF is likely to demand a limit on borrowing and perhaps some privatization of power and water companies.
- ❻ Earlier this year, problems in the economy had led to nationwide protests, with thousands of workers across the country protesting in the streets about the rise in the cost of living. The country's largest trade union says the government has been mismanaging the economy. In response to the protests, a government minister said that the government would work very hard to achieve **economic development** to make life easier for the working people of Ghana but that all Ghanaians would have to make "some sacrifices for the economy to recover".

[Source: adapted from <http://news.yahoo.com>, 3 and 4 August 2014; <http://online.wsj.com>, 3 August 2014 and [www.bbc.com/news](http://www.bbc.com/news), 24 July 2014 and 4 August 2014]

(This question continues on the following page)

(Question 4 continued)

- (a) (i) Define the term ***budget deficit*** indicated in bold in the text (paragraph ❶). [2]
- (ii) Define the term ***economic development*** indicated in bold in the text (paragraph ❸). [2]
- (b) Using an exchange rate diagram, explain how the large current account deficit may have affected the value of the Ghanaian cedi. [4]
- (c) Using an AD/AS diagram, explain how the falling value of the Ghanaian cedi may have contributed to inflation. [4]
- (d) Using information from the text/data and your knowledge of economics, discuss possible consequences of International Monetary Fund (IMF) financial aid on Ghana's economic growth and development. [8]

Economics Higher level Paper 3

Thursday 3 November 2016 (afternoon)

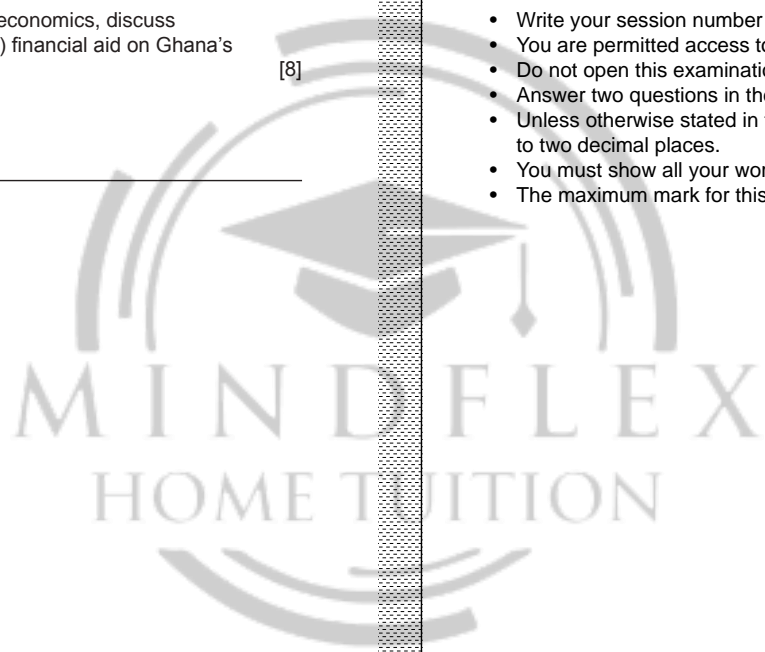
Candidate session number

1 hour

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- Answer two questions in the boxes provided.
- Unless otherwise stated in the question, all numerical answers must be given exactly or correct to two decimal places.
- You must show all your working.
- The maximum mark for this examination paper is [50 marks].





Answer **two** questions. Each question is worth **[25 marks]**. Write your answers in the boxes provided.

- 1. Firm A, a firm with monopoly power, is producing at a level of output Q' equal to 150 000 units per month for which the following are true (all figures are in dollars (\$)):

**Table 1**

Average revenue (AR)	140.00
Price (P)	140.00
Marginal revenue (MR)	80.00
Average cost (AC)	60.00
Marginal cost (MC)	50.00

The values in **Table 1** imply the following:

$$P=AR>MR>AC>MC$$

- (a) Define the term *monopoly power*. [2]

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- (b) Using the figures provided in **Table 1**, calculate the monthly level of profits Firm A is making at the current level of output, Q'. [3]

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Answers written on this page will not be marked.



**(Question 1 continued)**

(c) Using the relationship  $P=AR>MR>AC>MC$  and/or figures provided in **Table 1**:

(i) State the reason Firm A cannot be a perfect competitor. [1]

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(ii) Determine whether Firm A should increase or decrease its level of output in order to maximize profits. You **must** give a reason for your choice. [2]

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(iii) Determine whether total revenue collected will increase, decrease or remain unchanged if Firm A increases its level of output. You **must** give a reason for your choice. [2]

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(iv) Describe how average cost will be affected if Firm A increases its level of output. [2]

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**(This question continues on the following page)**



**(Question 1 continued)**

(v) Determine whether Firm A is productively efficient at the current level of output. You **must** give a reason for your choice. [2]

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(d) Explain why allocative efficiency is achieved, in the absence of externalities, at a level of output where price (average revenue) is equal to marginal cost. [4]

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**(Question 1 continued)**

- (e) On the following axes, sketch a fully labelled diagram showing the level of output  $Q'$  for which the relationship  $P=AR>MR>AC>MC$  is true. The use of figures provided in **Table 1** is **not** required. [3]

(This question continues on the following page)



20EP06

**(Question 1 continued)**

Now assume that the market in which Firm A operates has evolved into an oligopoly with only two firms, Firm A and Firm B. Each firm can cut price or maintain the current price. The following payoff matrix shows the profits they face. The profit payoffs for Firm A are in bold.

		Firm A	
		Maintain price	Cut price
Firm B	Maintain price	\$18.00 million \$18.00 million <b>\$18.00 million</b>	\$3.00 million \$24.00 million <b>\$24.00 million</b>
	Cut price	\$24.00 million \$3.00 million <b>\$3.00 million</b>	\$8.00 million \$8.00 million <b>\$8.00 million</b>

- (f) Using the profit figures in the payoff matrix, explain why strategic interdependence will lead both firms to cut price. [4]

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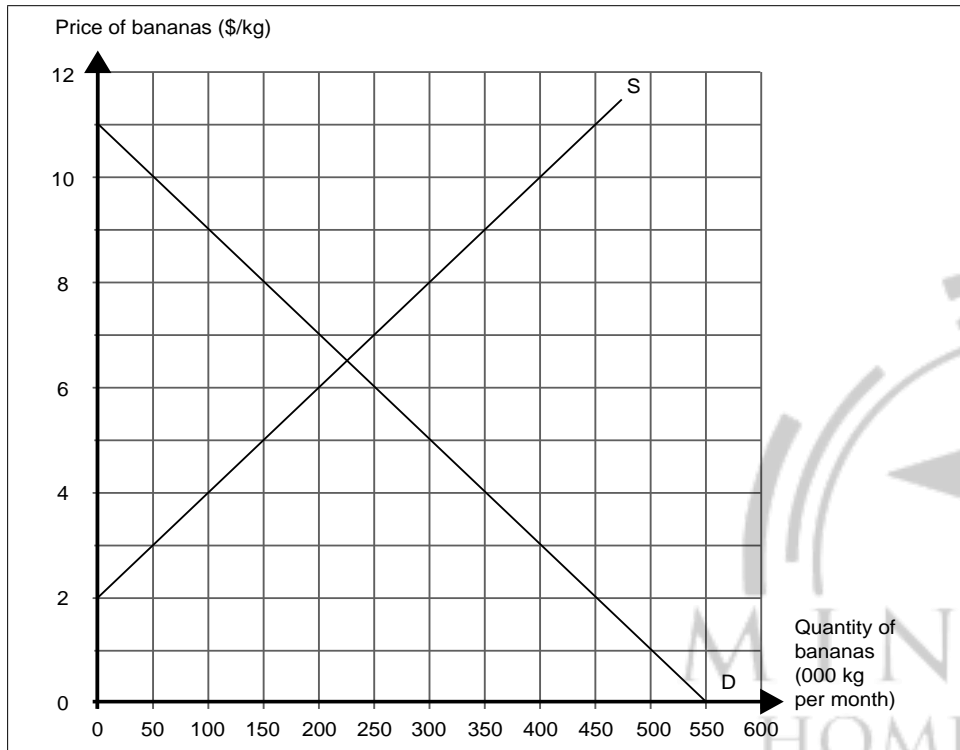
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20EP07

2. The following diagram illustrates the market for bananas in Country A. D and S represent the domestic demand and supply for bananas, while bananas can be imported at the current world price of \$3 per kg.



(a) Assuming that there are no restrictions on the importing of bananas into Country A:

- (i) State the quantity of bananas which will be purchased each month in Country A. [1]

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(This question continues on the following page)



20EP08



20EP09

(Question 2 continued)

- (ii) Calculate the monthly expenditure on bananas imported into Country A. [1]

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- (iii) Calculate the domestic producer surplus. [1]

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(This question continues on the following page)

**(Question 2 continued)**

The government of Country A decides to impose a quota on banana imports of 150 000kg per month.

- (b) (i) Identify the price which would be paid by consumers in Country A per kg of bananas following the imposition of the quota. [1]

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- (ii) Identify the quantity of bananas which would be purchased in Country A per month following the imposition of the quota. [1]

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- (iii) Calculate the change in revenue earned by domestic producers of bananas in Country A as a result of the quota. [3]

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20EP10

**(Question 2 continued)**

- (c) With reference to the diagram, explain why the welfare loss from the imposition of the quota is likely to be greater than the welfare loss resulting from a tariff of \$2 per kg. [4]

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20EP11

**(Question 2 continued)**

The demand and supply functions for the currency of Country A (the dollar (\$) are given by:

$$Q_d = 1900 - 18P$$

$$Q_s = 580 + 12P$$

where  $Q_d$  is the quantity of dollars demanded per month,  $Q_s$  is the quantity of dollars supplied per month and  $P$  is the price of the dollar, measured in yen (¥).

- (d) (i) Outline the reason why a fall in the price of the dollar should lead to an increase in the quantity of dollars demanded. [2]

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- (ii) Assume that the dollar/yen exchange rate is in equilibrium. Using the functions above, calculate the cost, in dollars, of a motorbike which costs ¥552 640. [3]

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Please **do not** write on this page.  
Answers written on this page will not be marked.

**(This question continues on page 14)**



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**(Question 3 continued)**

The following table illustrates the distribution of income in Country X and Country Y in 2015 before taxes and transfer payments.

**Table 2**

Quintile	Total income received in Country X (%)	Total income received in Country Y (%)
Lowest 20 %	3.00	10.00
Second 20 %	6.80	15.00
Third 20 %	12.00	20.00
Fourth 20 %	20.10	25.00
Highest 20 %		30.00

- (c) (i) Calculate the percentage of income received by the highest 20% in Country X. Enter your answer in **Table 2**. [1]

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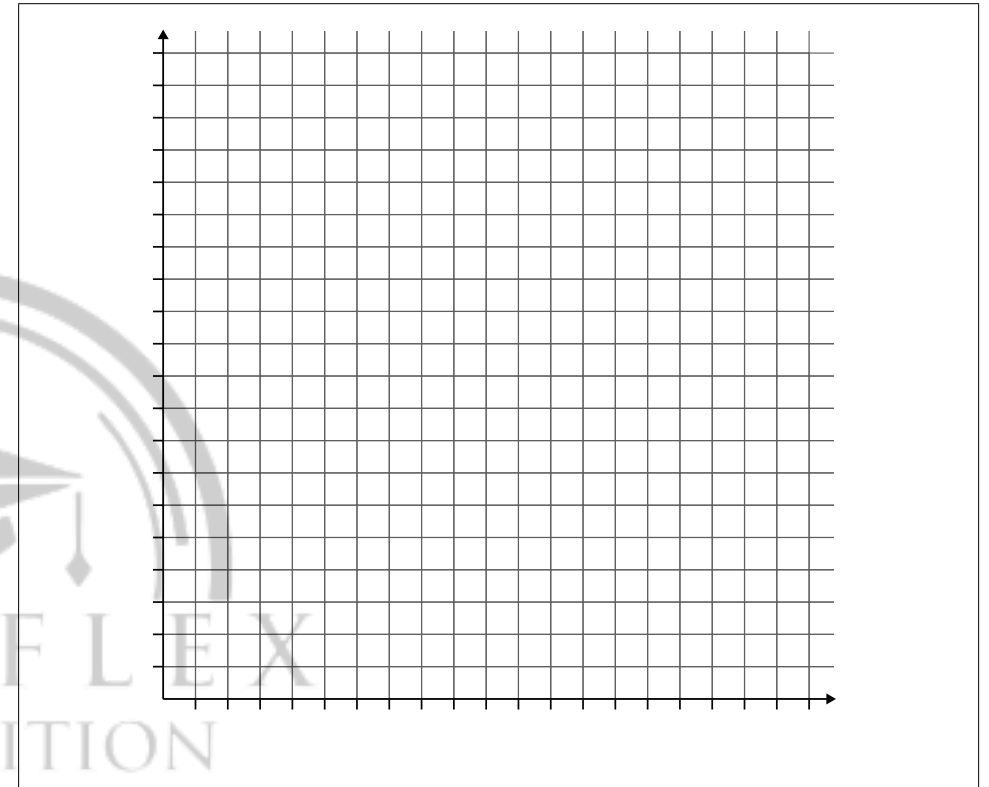
- (ii) Outline why Country X has a higher Gini coefficient, using the data in **Table 2**. [2]

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**(Question 3 continued)**

- (iii) On the following axes, plot the Lorenz curve for Country Y. [3]



- (iv) Outline why the Gini coefficient must have a value between 0 and 1 (or between 0 and 100). [2]

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(Question 3 continued)

(d) Country X raises the level of transfer payments. Explain **two** reasons why this policy could help to break the poverty cycle.

[4]

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Economics Higher level Paper 1

Wednesday 1 November 2017 (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]**.



20EP20

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