

Microeconomics SL

1. (a) Carefully distinguish between merit goods, demerit goods and public goods.
(b) Evaluate the view that governments should always intervene in markets for such goods as cigarettes and alcohol.

[May 2006]
2. (a) Explain the importance of price in allocating scarce resources.
(b) Evaluate the possible consequences of implementing maximum and minimum price controls.

[Nov 2005]
3. (a) The basic economic problem is one of scarcity of productive resources. Explain how resources are allocated between competing uses in a market economy.
(b) Discuss the view that there is strong justification for government intervention in the market for health care.

[May 2006]
4. (a) Explain why underprovision of merit goods in an economy is considered to be a market failure.
(b) Evaluate the possible measures that a government might use to correct such a market failure.

[Nov 2006]
5. (a) Explain the signalling and incentive functions of price in a market economy.
(b) Evaluate the proposition that government intervention in the market for tobacco is justified.

[May 2007]
6. (a) Using supply and demand analysis, explain why the price of agricultural goods tends to fluctuate more than the price of manufactured goods.
(b) Evaluate the possible role of price controls in agricultural markets.

[Nov 2007]
7. (a) "The price elasticity of demand and the price elasticity of supply for many primary commodities tend to be low." Explain what is meant by this statement, and how this contributes to the problem of price instability for primary commodity producers.
(b) Evaluate the view that it is best to allow primary commodity prices to be determined purely through the free interaction of market forces.

[May 2008]
8. (a) Using an appropriate diagram, explain how negative externalities are a type of market failure.
(b) Evaluate the measures that a government might adopt to correct market failure arising from negative externalities.

[May 2009]

9. (a) With the aid of **at least one** diagram, explain the difference between a movement along an existing demand curve for a good and a shift of the demand curve for a good.

(b) Evaluate the view that the market forces of demand and supply will always lead to the best allocation of resources.

[May 2010]

10. (a) "World food prices have increased sharply over the past five years." With the aid of **at least one** diagram, explain how **one** possible demand factor and **one** possible supply factor may have caused this increase.

(b) Consider the following **two** conflicting views:

"Food prices are best left to market forces."

"Government should intervene to control rising food prices."

Evaluate whether rising food prices should be left to market forces or controlled by government.

[May 2010]

11. (a) Explain how taxes and subsidies differ in their effect on the market price and quantity of a good.

(b) "It is essential that a government supports its farmers by subsidizing agricultural output." Evaluate this view.

[Nov 2010]

12. (a) Explain the importance of price elasticity of demand **and** cross-elasticity of demand for business decision-making.

(b) Studies have shown that the demand for tobacco tends to be highly price inelastic.

Evaluate the view that governments can best reduce smoking by substantially increasing taxes on cigarettes.

[May 2010]

13. (a) Explain why negative externalities are an example of market failure.

(b) Evaluate **three** policies that governments might implement to reduce negative externalities associated with the environment.

[Nov 2010]

14. (a) Explain the distinction between public goods and merit goods and why these goods are examples of market failure.

(b) "The operation of the free market is always the best way to allocate scarce resources."

Evaluate this statement.

[May 2011]

15. (a) Explain the roles of market forces and government in allocating resources in a mixed economy.

(b) Evaluate the extent to which market forces should be used to lessen the problem of environmental pollution.

[May 2011]

16. (a) Explain the differences between price elasticity of demand (PED) and cross-elasticity of demand (XED).

(b) Discuss the usefulness of price elasticity of demand (PED) and cross-elasticity of demand (XED) to businesses trying to increase their sales revenue.

[Nov 2011]

17. (a) Explain the possible economic advantages to consumers that arise from living in a free market economy.

(b) Evaluate the economic implications of a government policy to provide merit goods free of charge.

[May 2012]

18. (a) Explain how, in a market system, changes in demand and supply allocate scarce resources through the signalling and incentive functions of price.

(b) Evaluate the view that government intervention in agricultural markets will create more problems than it solves.

[May 2012]

19. (a) Explain why merit goods are an example of market failure.

(b) Evaluate the policies a government might use to deal with the market failure associated with merit goods.

[Nov 2012]

20. (a) Explain the possible negative externalities that might arise from the increased use of cars.

(b) Discuss economic policy options that a government could use to reduce the negative externalities that might arise from the increased use of cars.

[Spec 2013 HL]

21. (a) Explain why a government might introduce subsidies for food.

(b) Discuss possible negative consequences that may arise from a government decision to subsidize food.

[Spec 2013 SL]

22. (a) Suggest reasons why the price elasticity of demand for cigarettes might have a different value from the price elasticity of demand for foreign holidays.

(b) Examine the usefulness of a knowledge of price elasticity of demand to firms and governments.

[Spec 2013 SL]

23. (a) Explain the factors which might influence the cross price elasticity of demand between different products.

(b) Examine the importance of income elasticity of demand for the producers of primary products, manufactured goods and services.

[May 2013 HL]

24. (a) Explain why a government might impose a price ceiling on the market for rented accommodation and a price floor on a market for agricultural products.

(b) Evaluate the possible consequences of price controls on the stakeholders in a market.

[May 2013 SL]

25. (a) Explain why common access resources such as fishing grounds might become depleted in the absence of a price mechanism.
(b) Evaluate the view that carbon taxes represent the most effective government response to the threat to sustainability posed by the use of fossil fuels.
[May 2013 SL]
26. (a) Explain why the price elasticity of demand for primary commodities tends to be relatively low while the price elasticity of demand for manufactured products tends to be relatively high.
(b) "The income elasticity of demand for primary products tends to be lower than that for manufactured products and services." Examine the implications of this for producers and for the economy as a whole.
[May 2013 SL]
27. (a) Analyse the consumption externalities which might arise from the provision of education and health care for the citizens of a country.
(b) Evaluate the use of government policies to increase the consumption of health care.
[May 2013 SL]
28. (a) Using diagrams, explain how the incidence of an indirect tax may be affected by the price elasticity of demand.
(b) To what extent might the problems of negative externalities of consumption be resolved by the use of indirect taxation?
[May 2013 HL]
29. (a) Using a price ceiling diagram, analyse the impact a maximum price might have on the market for food.
(b) Discuss the policies a government might use to make food more affordable to low income groups.
[Nov 2013 HL]
30. (a) Explain why governments impose indirect taxes.
(b) Discuss two possible government responses to threats to sustainability.
[Nov 2013 HL]
31. (a) Using a diagram, explain why demerit goods are considered to be an example of market failure.
(b) Evaluate two possible government responses that could be used to address the problem of demerit goods.
[May 2013 HL]
32. (a) Explain three determinants of price elasticity of demand (PED).
(b) Examine the role of PED for firms making decisions regarding price changes and their effect on total revenue.
[May 2013 HL]
33. (a) Using a price ceiling diagram, analyse the impact a maximum price might have on the market for food.

(b) Discuss the policies a government might use to make food more affordable to low income groups.

[Nov 2013 HL]

34. (a) Explain why governments impose indirect taxes.

(b) Discuss two possible government responses to threats to sustainability

[Nov 2013 HL]

35. (a) Using a diagram, explain why demerit goods are considered to be an example of market failure.

(b) Evaluate two possible government responses that could be used to address the problem of demerit goods.

[Nov 2013 SL]

36. (a) Explain three determinants of price elasticity of demand (PED).

(b) Examine the role of PED for firms making decisions regarding price changes and their effect on total revenue.

[Nov 2013 SL]

Microeconomics HL

1. (a) Explain how a monopolist may be able to earn supernormal (abnormal) profits in the long run.
(b) 'Production by a monopolist will always be against the interests of consumers'. Discuss.
[Spec]
2. (a) Explain how profit is determined in perfect competition.
(b) 'Whatever the type of market structure, profit maximization will always be the only goal of firms'. Discuss.
[May 2005]
3. (a) Explain the differences between monopolistic competition and oligopoly as market structures.
(b) Discuss the differences between a collusive and a non-collusive oligopoly.
[Nov 2005]
4. (a) Explain the necessary conditions for price discrimination to take place.
(b) Discuss the advantages and disadvantages of price discrimination for consumers and producers.
[Nov 2006]
5. (a) Explain how barriers to entry may affect market structure (10 marks)
(b) Evaluate the view that monopoly is an undesirable type of market structure (15 marks)
[May 2007]
6. (a) Explain the difference between short run equilibrium and long run equilibrium in monopolistic competition (10 marks)
(b) 'Perfect competition is a more desirable market form than monopolistic competition'. Discuss. (15 marks)
[Nov 2007]
7. (a) Explain how a firm operating in an oligopolistic market might attempt to increase its market share (10 marks)
(b) Evaluate the view that producers, and not consumers, are the main beneficiaries of oligopolistic market structures.
[May 2008]
8. (a) Explain the concepts of allocative and productive (technical) efficiency.
(b) "Monopolies are inefficient and therefore always act against the public interest."
Discuss this statement.
[Nov 2008]
9. (a) In the theory of the firm, a distinction is made between short-run cost curves and long-run cost curves. Using appropriate cost curve diagrams, explain this distinction.

(b) Evaluate the view that greater economic efficiency will always be achieved in perfect competition as compared to monopoly.

[May 2009]

10. (a) Using an appropriate diagram, explain how a monopolist might be able to make supernormal (abnormal) profits in the short-run, and why these profits might continue to be earned in the long-run.

(b) Evaluate the view that monopolistic competition is a more economically desirable market form than monopoly.

[May 2011]

11. (a) Using **at least one** diagram, explain why a firm in perfect competition might only be able to make supernormal (abnormal) profits in the short-run and not in the long-run.

(b) Evaluate the view that perfect competition is a more desirable market form than oligopoly.

[May 2011]

12. (a) Explain the different objectives that a firm in an oligopolistic market structure might try to achieve.

(b) Evaluate the view that an oligopolistic market is an inefficient market structure.

[Nov 2011]

13. (a) Explain the economic factors which may encourage the formation of a monopoly.

(b) Evaluate the view that natural monopoly is a more desirable market structure than perfect competition

[May 2012]

14. (a) Explain why, in markets dominated by a few firms, prices may remain relatively stable.

(b) "An industry with a larger number of firms will experience lower prices and greater efficiency than an industry with a smaller number of firms." Evaluate this view.

[May 2012]

15. (a) Explain why a monopoly can earn supernormal (abnormal) profits in the long run.

(b) Evaluate the reasons why a government might allow a competitor into an industry that was previously a monopoly.

[Nov 2012]

16. (a) Distinguish between decreasing returns to scale and the law of diminishing returns.

(b) Using diagrams, compare and contrast the market structure of monopoly with that of perfect competition.

[May 2013HL]

17. (a) Explain why firms in monopolistic competition can make economic profit in the short run only.

(b) Compare and contrast the market structures of monopoly and monopolistic competition.

[2013 Spec HL]

18. (a) Explain how welfare loss may result from monopoly power.

(b) Discuss the effectiveness of government policies (legislation and regulation) to reduce monopoly power.

[May 2013 SL]

Macroeconomics SL/HL

1. (a) What are the possible causes of inflation?
(b) Evaluate possible policies that might be used to lower the natural rate of unemployment
[Spec]
2. (a) Describe the main causes of inflation.
(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?
[May 2005]
3. (a) Explain the costs of inflation and the costs of deflation.
(b) Evaluate demand-side policies as a means of reducing inflation.
[Nov 2005]
4. (a) Explain the relationship between the Lorenz curve and the Gini coefficient.
(b) Evaluate the effectiveness of the various methods that government may use to redistribute income .
[Nov 2005]
5. (a) Explain the difference between demand-side and supply-side policies.
(b) 'Higher economic growth can only be achieved through the implementation of supply-side policies.' Discuss.
[May 2006]
6. (a) Identify the components of aggregate demand and briefly explain two factors which might determine each of these components.
(b) Evaluate the likely impact on an economy of a substantial rise in the level of interest rates
[May 2006]
7. (a) Explain the following different types of unemployment:
 - frictional unemployment
 - cyclical/demand-deficient unemployment
 - real wage/classical unemployment(b) Evaluate the effectiveness of the different measures available to governments to deal with the types of unemployment in (a).
[Nov 2006]
8. (a) Explain how interest rates can be used to bring about an increase in economic activity.
(b) Discuss the strengths and weaknesses of demand-side policies.
[Nov 2006]
9. (a) What are the causes of inflation.
(b) Evaluate the possible effects of a persistently high inflation rate on a country's current account balance and its exchange rate.
[Nov 2006]
10. (a) Explain why a government might find it difficult to maintain a low rate of inflation as the economy approaches full employment.

(b) Evaluate the proposition that the priority in economic management should be the maintenance of low unemployment.

[May 2007 HL]

11. (a) Use AD/AS (aggregate demand/aggregate supply) diagrams to explain the causes of inflation.

(b) Evaluate the view that governments should make the control of inflation their highest priority.

[May 2007]

12. (a) Using one or more diagrams, explain the difference between the equilibrium level of national income and the full employment level of national income.

(b) Evaluate the policies a government may use to increase the full employment level of national income.

[Nov 2007]

13. (a) Distinguish between cost push inflation and demand pull inflation.

(b) Evaluate the view that the consequences of inflation are more harmful to an economy than the consequences of unemployment.

[Nov 2007]

14. (a) 'The effect of a decrease in aggregate demand on output and the price level depends on the shape of the aggregate supply curve'. Explain this statement.

(b) Evaluate the likely effects of a falling rate of inflation on the performance of an economy.

[May 2008]

15. (a) Explain how fiscal policy could be used to increase aggregate demand.

(b) "In the long-run, a country's economic performance can only be improved through the implementation of supply-side policies." Evaluate this statement.

[May 2008]

16. (a) Explain the difference between progressive taxation and regressive taxation. (10 marks)

(b) Evaluate the possible effects of a decrease in direct taxation on a country's inflation rate, unemployment rate and balance of payments. (15 marks)

[Nov 2008]

17. (a) With the aid of diagrams, explain the causes of inflation.

(b) Evaluate the effectiveness of demand-side policies in reducing inflation.

[Nov 2008]

18. (a) Explain the possible causes of a rise in the rate of inflation in an economy.

(b) Evaluate the possible impact on economic performance that may result from a government decision to bring inflation under control.

[May 2009]

19. (a) There are various types of unemployment. Explain how any **three** types of unemployment may cause a rise in the unemployment rate of an economy.

(b) Evaluate the view that the unemployment rate can be most effectively reduced through the use of measures designed to increase aggregate demand in an economy.

[May 2009]

20. (a) Aggregate demand consists of consumption, investment, government spending and net exports (exports minus imports). Explain **two** factors that may influence consumption and **two** factors that may influence government spending.
(b) Evaluate the possible impact of an increase in consumption expenditure on the performance of an economy.
[May 2010]
21. (a) Aggregate demand consists of consumption, investment, government spending and net exports (exports minus imports). Explain **two** factors that may influence investment and **two** factors that may influence net exports.
(b) Evaluate the effectiveness of an increase in investment expenditure on the performance of an economy.
[May 2010]
22. (a) Explain why a country may wish to reduce its rate of inflation.
(b) Evaluate the likely impact on the economy of relying on higher interest rates to reduce the rate of inflation.
[May 2010]
23. (a) Explain why a country may wish to reduce its unemployment rate.
(b) Evaluate the likely effects on the economy of relying on demand-side policies to reduce the unemployment rate.
[May 2010]
24. (a) Explain how supply-side improvements to an economy may be achieved through the use of taxes and government spending.
(b) Evaluate the use of supply-side policies to reduce unemployment.
[Nov 2010]
25. (a) Using appropriate diagrams, explain the difference between demand-side and supply-side economic policies.
(b) Evaluate the use of supply-side policies to improve the performance of an economy.
[Nov 2010]
26. During the global financial crisis of 2008–2009, there was a fall in consumer spending in many countries.
(a) Explain the factors which might be responsible for causing consumer spending to fall.
(b) Evaluate the possible consequences of falling consumer spending for a country's macroeconomic performance.
[May 2011]
27. (a) Explain **two** policies a government might use to redistribute income.
(b) "Measures to promote greater income equality should be a key feature of government economic policy." Evaluate this proposition.
[May 2011]
28. (a) Using appropriate diagrams, explain how an increase in government spending could affect both aggregate demand and aggregate supply in an economy.
(b) "The lower the level of government spending, the better." Evaluate this view.

[May 2011]

29. (a) Using appropriate diagrams, explain how a reduction in income tax could affect both aggregate demand and aggregate supply in an economy.

(b) "The lower the level of both direct and indirect taxation, the better." Evaluate this view.
[May 2011]

30. (a) Explain what the multiplier is and, using a numerical example, demonstrate how it can be calculated.

(b) Evaluate whether real Gross Domestic Product (GDP) can be increased by the use of demand-side policies.

[Nov 2011 HL]

31. (a) Explain **three** factors that could cause an economy to go into recession.

(b) Evaluate the effectiveness of governments using demand-side policies to take an economy out of a recession.

[Nov 2011]

32. (a) Explain why countries measure national income.

(b) Evaluate the view that demand-side policies are the most effective method of increasing the level of national income.

[May 2012]

33. (a) Explain why governments may view deflation as a threat.

(b) Evaluate the view that a low and stable rate of inflation is beneficial for an economy.

[May 2012 HL]

34. (a) Using AD/AS diagrams, explain how inflation may be caused by demand pull and cost push factors.

(b) Evaluate the view that the consequences of deflation are likely to be more harmful to an economy than the consequences of inflation.

[May 2012]

35. (a) Explain why governments may pursue the macroeconomic goals of low inflation and low unemployment.

(b) Evaluate the extent to which the use of expansionary demand-side policies may lead to conflicts between the various goals of macroeconomic policy.

[May 2012 HL]

36. (a) Explain how a government could bring about a more equal distribution of income.

(b) Evaluate the effectiveness of government policies designed to reduce inequalities in income.

[Nov 2012 HL]

37. (a) Explain the difference between cyclical/demand-deficient and structural unemployment.

(b) Evaluate the view that high unemployment is the most serious economic problem a country can face.

[Nov 2012]

38. (a) Explain what might happen to the level of inflation if a government decides to move from a budget surplus to a budget deficit.

(b) To what extent is an increase in interest rates the most effective cure against inflation.
[Spec 2013]

39. (a) Analyse the methods by which Gross Domestic Product (GDP) may be measured.
(b) "Using real Gross Domestic Product data is a very useful means of comparing economic activity between countries". Discuss this statement.
[Spec 2013]

40. (a) Using a diagram, explain how expansionary monetary policy might be used to close a deflationary (recessionary) gap.
(b) Discuss why, in contrast to the monetarist/new classical model, an economy can remain stuck in a deflationary (recessionary) gap according to the Keynesian model.

[May 2013 HL]

41. (a) Explain how labour market reforms may be used to promote economic growth.
(b) "Market-oriented supply-side policies will always be more effective in promoting economic growth than demand-side policies." To what extent do you agree with this statement?

[May 2013 SL/HL]

42. (a) Explain the difficulties involved in measuring the level of unemployment.
(b) Examine the reasons why the maintenance of a low level of unemployment is considered to be an important macroeconomic objective.

[May 2013 SL]

43. (a) Explain the difficulties involved in measuring the rate of inflation. [10 marks]
(b) Discuss the view that deflation is a more serious problem than inflation for the economy of a country. [15 marks]

[May 2013 HL]

44. (a) Explain why the market system may not result in an equitable distribution of income.
(b) Evaluate government policies to promote equity in terms of their effects on efficiency in the allocation of resources.

[May 2013 HL]

45. (a) Explain how changes in the size of the circular flow depend on the relative size of injections and leakages.
(b) Evaluate the use of national income statistics for making comparisons of the standard of living over time.

[Nov 2013 HL]

46. (a) Explain why measuring the rate of inflation using a consumer price index (CPI) may not be accurate.
(b) Evaluate **two** government policies to reduce inflation.

[Nov 2013 HL]

47. (a) Distinguish between the causes of cyclical (demand-deficient) unemployment and structural unemployment
(b) Evaluate government policies used to deal with cyclical unemployment.

[Nov 2013 SL]

48. (a) Explain how a producer price index could be useful in predicting future inflation.
(b) To what extent can supply-side policies help in fighting inflation?

[Nov 2013 SL]