

I.B. Past Papers

Microeconomics

SECTION A

Answer one question from this section.

Microeconomics

1. (a) Explain why a government might introduce subsidies for food. [10 marks]
(b) Discuss possible negative consequences that may arise from a government decision to subsidize food. [15 marks]
2. (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. [10 marks]
(b) Examine the usefulness of a knowledge of price elasticity of demand to firms and governments. [15 marks]
1. (a) Explain why underprovision of merit goods in an economy is considered to be a market failure. [10 marks]
(b) Evaluate the possible measures that a government might use to correct such a market failure. [15 marks]
1. (a) Using **at least one** production possibility curve diagram, explain the concepts of scarcity, choice, opportunity cost and resource allocation. [10 marks]
(b) “The process of resource allocation is most efficiently carried out through the free interaction of demand and supply. This means the provision of merit goods, such as health care and education, should always be left to market forces.” Evaluate this statement. [15 marks]
1. (a) The basic economic problem is one of scarcity of productive resources.
Explain how resources are allocated between competing uses in a market economy. [10 marks]
(b) Discuss the view that there is strong justification for government intervention in the market for health care. [15 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]

1. (a) Using supply and demand analysis, explain why the price of agricultural goods tends to fluctuate more than the price of manufactured goods. [10 marks]
- (b) Evaluate the possible role of price controls in agricultural markets. [15 marks]

1. (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. [10 marks]
- (b) Evaluate the view that it is best to allow primary commodity prices to be determined purely through the free interaction of market forces. [15 marks]

1. (a) Using an appropriate diagram, explain how negative externalities are a type of market failure. [10 marks]
- (b) Evaluate the measures that a government might adopt to correct market failure arising from negative externalities. [15 marks]