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].
Section A

Answer one question from this section.

Microeconomics

1. (a) Distinguish between the effect of an increase in income and an increase in the price of a good on the demand for the good. [10]
   
   (b) Discuss the significance of price elasticity of demand for firms that produce luxury cars and firms that produce less expensive cars. [15]

2. (a) Explain one supply factor and one demand factor that might lead to a rise in the price of rented housing. [10]
   
   (b) Discuss the view that price controls imposed by governments on the market for rented housing should never be used. [15]
Section B

Answer one question from this section.

**Macroeconomics**

3. (a) Explain how an increase in interest rates might affect the level of aggregate demand in an economy. [10]
   
   (b) Evaluate the effectiveness of monetary policy when an economy is in deep recession. [15]

4. (a) Using the Keynesian AD/AS diagram, explain why an economy may be in equilibrium at any level of real output. [10]
   
   (b) Evaluate the view that increased investment is the most important factor in achieving a faster rate of economic growth. [15]