

WARNING

This Question Paper **MUST** be returned with your answer book(s) at the end of the Examination, otherwise marks will be lost.

Write your Examination Number here ⇒



Coimisiún na Scrúduithe Stáit State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2003

WEDNESDAY, 18 JUNE 2003, MORNING 9.30 – 12.00

ECONOMICS - ORDINARY LEVEL (400 Marks)

Answer **six** questions from Section A and **four** questions from Section B. Credit will be given for clear, precise answering and for orderly presentation of material.

SECTION A (100 marks)

Answer **six** of the **nine** short response type questions in the spaces provided.

SECTION B (300 marks)

Four questions to be answered in your answer book(s).

All questions carry equal marks (75 marks).

Note the sub-divisions in the questions.

**REMEMBER TO RETURN THIS QUESTION PAPER WITH THE ANSWER BOOK(S) USED
TO ANSWER THE QUESTIONS IN SECTION B**

SECTION A (100 marks)

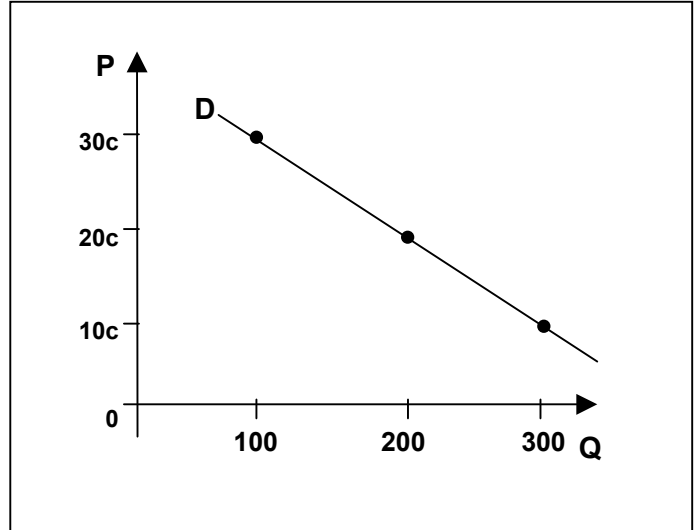
Answer **six** of the **nine** short response type questions in the spaces provided.

1. Consider the demand curve shown for Good 'x'

- (i) "Good 'x' obeys the law of demand". Explain this statement briefly.

- (ii) Use the diagram to determine what quantity of Good 'x' will be demanded if selling price is 20c.

Answer:



(16 marks)

2. Circle the correct word on **each** of the choices underlined below:

"An internal economy of scale is any factor which causes cost per unit to rise / fall as the firm / industry increases / reduces its scale (or size) of operations.

(16 marks)

3. (i) Fill in the missing symbols in the National Income equation below:

$$Y = \square + I + G + X - \square$$

(ii) Write **in full** the meaning of the symbols below:

I : _____

G : _____

(16 marks)

4. A good with many close substitutes will experience a significant decrease in demand if its price increases.

(i) Is the demand for such a good 'elastic' or 'inelastic'? _____

(ii) Briefly explain why demand will fall significantly in this case.

(16 marks)

5. Explain the term ‘**complementary good**’ (or complement) in relation to cars.

(16 marks)

6. In relation to barriers to free trade, match the method with the correct explanation.
(The first answer is shown for illustration purposes)

| <u>NAME</u> | <u>EXPLANATION</u> |
|----------------------------|------------------------------------|
| A. Administrative barriers | 1. A payment to exporters |
| B. Embargo | 2. A limit of quantity imported |
| C. Quota | 3. Regulations applying to imports |
| D. Tariff | 4. A complete ban on a product |
| E. Subsidy | 5. A tax on imports |

| NAME → | A | B | C | D | E |
|---------------|---|---|---|---|---|
| EXPLANATION → | 3 | | | | |

(17 marks)

7. Name the economist associated with the economic ideas listed below:

(i) Theory on population and food supply _____

(ii) The Canons of Taxation _____

(iii) The Multiplier Effect _____

(17 marks)

8. If the government’s overall budget outcome is a deficit, will this increase or decrease the National Debt?

Answer:

Explain your answer briefly.

(17 marks)

9. Explain **ONE** economic benefit of EU enlargement for the Irish economy.

(17 marks)

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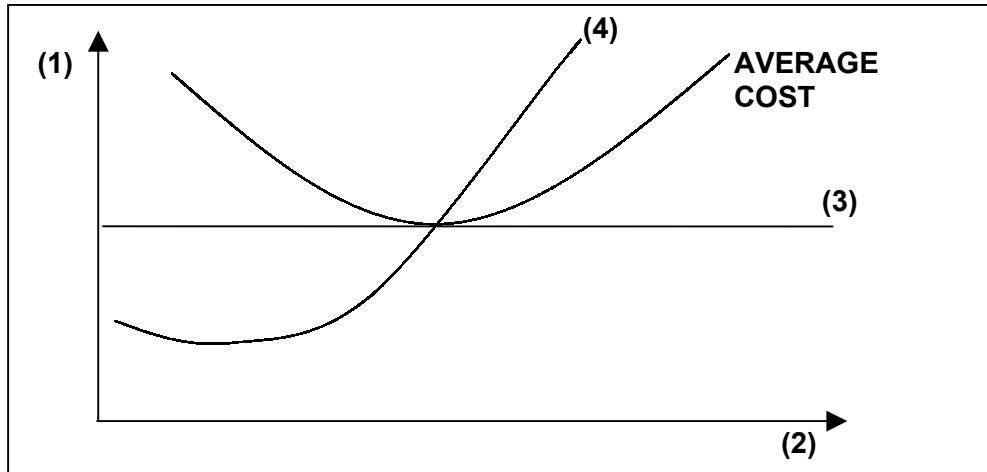
SECTION B (300 marks)

Four questions to be answered in your answer book(s).

All questions carry equal marks (75 marks).

Note the sub-divisions in the questions.

1. The diagram below represents long run equilibrium of a firm in **Perfect Competition**.



- (a) (i) Copy the diagram into your answer book.
Clearly label **each** of the lines numbered (1) to (4).
- (ii) Show on your diagram:
- the output the firm will produce in equilibrium (use label **Q**)
 - the average cost of producing this output (use label **C**)
 - the price it will charge for this output (use label **P**)

(25 marks)

(b) The firm's average cost curve is "U"-shaped on the above diagram.

- (i) Explain **ONE** reason why this curve slopes downwards initially.
- (ii) Explain **ONE** reason why it eventually slopes upwards.

(20 marks)

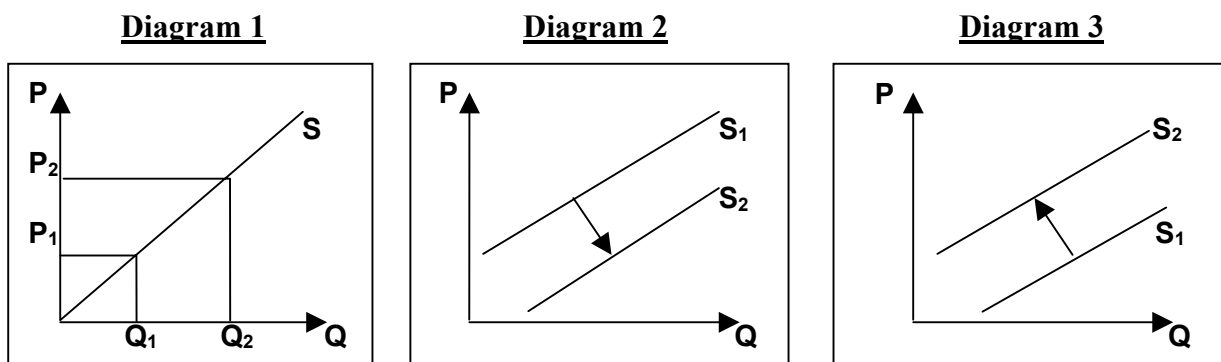
(c) In Perfect Competition, super-normal profits attract new firms into the industry in the long-run.

- (i) Briefly explain the term 'super-normal profits'.
- (ii) State **ONE** benefit of high profit levels in an industry to **each** of the following:
- the government
 - the employees of the industry concerned.

(30 marks)

[75 marks]

2. (a) The three diagrams below represent changes in the supply of wheat:



Each of the following developments cause one of the changes shown above:

- (i) the cost of wheat seed falls substantially
- (ii) some workers involved in harvesting wheat go on strike
- (iii) the selling price of wheat increases.

State which diagram represents each of the three developments listed above, and in **each** case, explain **why** the supply reacts as illustrated on your chosen diagram.

(25 marks)

- (b) A cereal producer pays rent to acquire the use of a field. The cereal producer also pays wages each week to workers. Other expenses include the bill for seed, and a monthly loan repayment on finance obtained to purchase machinery.

- (i) Define fixed costs and variable costs.
- (ii) State whether each of the four payments underlined above are examples of fixed costs or variable costs.

(30 marks)

- (c) Bad weather has reduced the supply of many agricultural goods in Ireland in recent years.

State and explain how this development might affect **each** of the following:

- (i) the selling price of these goods.
- (ii) Ireland's Balance of Trade.

(20 marks)

[75 marks]

3. (a) (i) Define the term 'labour force'.
- (ii) State and explain **TWO** reasons why different wage rates are paid for different jobs. (25 marks)
- (b) State and explain **TWO** developments which might result in a firm **reducing** the number of workers which it employs at present. (20 marks)
- (c) In the case of **each** of the statements listed below, state whether the *geographical mobility of labour* **OR** the *occupational mobility of labour* is affected and why.
- The price of housing increases greatly in industrial regions.
 - Many of the available jobs require a high standard of formal education.
 - The government removes restrictions on immigration into the country.
- (30 marks)
- [75 marks]**

4. (a) (i) Explain the term 'Balance of Trade Deficit'.
- (ii) State and explain **TWO** courses of action which a government could take to reduce a deficit on its Balance of Trade. (25 marks)
- (b) The following arguments are sometimes used in support of the existence of barriers to free trade:
- (i) jobs in the domestic economy need protection.
 - (ii) goods from 'low-wage economies' have an unfair advantage.
 - (iii) without restrictions, 'dumping' by other countries is possible.
- Briefly explain, what is meant by **ANY TWO** of the arguments listed above. (20 marks)
- (c) State and explain how exports from euro-zone countries would be affected by **each** of the following developments:
- (i) the American dollar falls in value against the *euro*.
 - (ii) the average rate of inflation in euro-zone countries falls below the rate of inflation in the USA.
 - (iii) an economic recovery begins in the USA.
- (30 marks)
- [75 marks]**

5. (a) Define **ANY THREE** of the following:

- Government Capital Spending
- Current Budget Surplus
- National Debt
- Indirect Tax.

(20 marks)

(b) State and explain **ONE** way in which the government could use **fiscal policy** to achieve **each** of the objectives listed below:

- Employment creation
- Controlling inflation
- Encouraging more foreign investment into Ireland.

(25 marks)

(c) Government taxes include the following:

PAYE

VAT

CORPORATION TAX

(i) State the item on which **each** of the above taxes is levied.

(ii) State and explain **TWO** economic effects of an increase in VAT rates in the Irish economy.

(30 marks)

[75 marks]

6. (a) “When inflation occurs in an economy, consumers’ living standards fall”. Explain this statement briefly.

(15 marks)

(b) (i) State and explain **TWO** causes of inflation in an economy.

(ii) State and explain how inflation affects **ANY TWO** of the following:

- The level of savings.
- The level of imports.
- The level of government spending.

(30 marks)

(c) The Minister for Health and Children recently proposed removing cigarettes from the CPI (the official measurement of inflation in Ireland).

(i) What do the letters CPI represent?

(ii) Briefly explain what effect the above proposal would have on Ireland’s rate of inflation.

(iii) State and explain **TWO** ways in which the Minister could discourage the consumption of cigarettes in Ireland.

(30 marks)

[75 marks]

7. (a) In 2002 the Central Statistics Office (CSO) conducted a count of Ireland's population.
- (i) What is the official term used for a count of population?
- (ii) Explain **ONE** possible use of information on population for **each** of the following:
- The government.
 - Producers of goods and services.
- (20 marks)*
- (b) The Central Statistics Office (CSO) estimates that Ireland's population has been rising in recent years.
- (i) State and explain **ONE** factor which has led to this development.
- (ii) State and explain **TWO** economic effects of increases in population for the Irish economy.
- (25 marks)*
- (c) The following figures relate to two countries for 2002:

| COUNTRY | TOTAL GNP | POPULATION |
|---------|------------|------------|
| A | €10,000 m. | 2 m. |
| B | €24,000 m. | 6 m. |

- (i) Calculate GNP **per head** (per person) for each country.
- (ii) State and explain **TWO** reasons why GNP per head differs across countries.
- (30 marks)*
[75 marks]
8. (a) Explain **ANY THREE** of the following:
- Barter
 - Plastic Money
 - Monetary Policy
 - Devaluation (in relation to currencies).
- (20 marks)*
- (b) State and explain **TWO** functions of **each** of the following:
- The Central Bank of Ireland
 - Commercial banks.
- (30 marks)*
- (c) (i) Name **ONE** EU member state, other than the UK, which does not use the *euro* as its currency.
- (ii) If the UK decided to introduce the *euro*, state and explain **TWO** economic effects which this development would have for the Irish economy.
- (25 marks)*
[75 marks]

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