

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, 2005

WEDNESDAY, 22 JUNE 2005, MORNING 9.30 – 12.00

ECONOMICS - HIGHER 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)

Answer **Four** questions.

Write the answers in your answer book(s).

Do **not** write answers to Section B on this question paper.

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. Explain the concept **Opportunity Cost**. Why is the concept central to the study of Economics?

(16 marks)

2. Outline **THREE** reasons for the survival of small firms in the Irish economy, even though they do not have the benefits of economies of scale.

(i)

(ii)

(iii)

(16 marks)

3. Explain what is meant by **Consumer Surplus**.

(16 marks)

4. A consumer in equilibrium buys 10 cups of coffee at €2 each and 10 phone cards at €6 each. The marginal utility of the cups of coffee is 5 utils. What is the marginal utility of phone cards? **Show your workings**.

Workings

Answer: _____

(16 marks)

5. Explain what is meant by the term **Public Sector Borrowing Requirement**.

(16 marks)

6. For a composite (weighted) price index covering the three types of expenditure given in the following table, calculate the price index for the current year. The base value is 100. **Show your workings.**

Category	% income spent on item(s)	Prices of item(s) base year	Prices of item(s) current year	Calculation of Simple Price Index	Weight	Result
		€	€			
Food	30%	10.00	11.50			
Clothing & Footwear	20%	40.00	36.00			
Other Items	50%	20.00	22.00			
	100%			Price Index for the Current Year	→	

(17 marks)

7. “When a firm produces at a level of output at which marginal cost is greater than marginal revenue the firm is maximising profit (or minimising losses)”. **True/False**
(Place a circle around your choice and write a one-sentence explanation of your answer).

(17 marks)

8. Outline **THREE** key ideas, which John Maynard Keynes contributed to economic thought.

(i) _____

(ii) _____

(iii) _____

(17 marks)

9. Given that Gross National Product at Current Market Prices is €180 million; Price Subsidies €4 million; Depreciation €15 million; Indirect Taxes €25million; complete the following calculations. **Show your workings**

- (i) **Gross National Product at Factor Cost**

_____ = € _____

- (ii) **Net National Product at Factor Cost/National Income**

_____ = € _____

(17 marks)

Remember to return this question paper with the answer book(s) used to answer the questions in Section B.

SECTION B (300 Marks)

Answer **Four** questions.

Write the answers in your answer book(s).

Do **not** write answers to Section B on this question paper.

All questions carry equal marks (75 marks).

Note the sub-divisions in the questions.

1. (a) State and explain **FIVE** factors which affect a consumer's demand schedule. (25 marks)

(b) (i) Show, by means of a labelled diagram, the market demand and supply for a product. Indicate the equilibrium price and quantity in this market.

(ii) Explain, with the aid of a separate diagram in each case, the effects which **each** of the following may have on the above equilibrium position:

- A successful advertising campaign in favour of the product is introduced;
- A tariff on imports of the product is removed.

(30 marks)

(c) Assume that the average spending on energy by a low-income family is €40 weekly. The price of energy rises by 20% so that the same consumption by a low-income family would now cost €48 weekly.

The government is considering introducing one of the following policy measures to assist low-income families:

- giving low-income families an increased allowance of €8 weekly (income supplement);
- subsidising the producers of energy so that energy can continue to be sold at the initial price (price subsidy).

Which policy measure would you advise the government to take? Explain the economic reasons for your answer.

(20 marks)

[75marks]

2. (a) State and explain the assumptions underlying the theory of **imperfect competition**.

(20 marks)

(b) (i) Explain, with the aid of a clearly labelled diagram the long run equilibrium position of a firm in **imperfect competition**.

(ii) State and explain **ONE** feature of this firm in long run equilibrium which would be common to a firm in long run equilibrium under **perfect competition**.

(iii) State and explain **ONE** feature of this firm in long run equilibrium which would be common to a firm in long run equilibrium under **monopoly**.

(40 marks)

(c) Consider the retail market for petrol.

Do you believe that this market operates under conditions of imperfect competition? State reasons for your answer.

(15 marks)

[75marks]

3. (a) Marginal Revenue Product (MRP) equals Marginal Physical Product (MPP) multiplied by Marginal Revenue (MR).
- (i) Explain the underlined terms.
 - (ii) Outline the factors which influence MPP and MRP.
- (25 marks)*
- (b)
- (i) Define **LAND** as a factor of production.
 - (ii) Outline **TWO** economic characteristics of land.
 - (iii) Explain the concept of **Economic Rent** and illustrate with a relevant example.
- (30 marks)*
- (c) The price of residential property has increased in Ireland in recent years. Discuss **FOUR** reasons for this development.
- (20 marks)*
[75marks]
4. (a) In each of the following distinguish between the terms:
- (i) monetary policy and fiscal policy;
 - (ii) progressive taxation and regressive taxation;
 - (iii) tax avoidance and tax evasion.
- (30 marks)*
- (b) There has been an increase in government income from taxation in the past year.
- (i) Outline **THREE** reasons for this outcome.
 - (ii) State **ONE** revenue opportunity and **ONE** expenditure opportunity for the government arising from this increased income. Which of these would you consider a priority? Explain your choice.
- (25 marks)*
- (c) Explain how an understanding by the Minister for Finance of the concept of **Price Elasticity of Demand** would help in setting levels of indirect taxation. Use examples to illustrate your answer.
- (20 marks)*
[75marks]

5. (a) Explain the following terms:
- (i) Balance of Trade;
 - (ii) Balance of Payments on Capital Account;
 - (iii) Terms of Trade.

(25 marks)

(b)

Country	Output (production per worker per week)	
	MACHINES	CARS
SPAIN	20	5
JAPAN	40	15
Total Output	60	20

- (i) Explain how benefits for both countries arise from international trade, in the above example.
- (ii) Calculate the Total Output when specialisation takes place. **Show your workings.**
- (iii) Calculate the **terms of trade** for both commodities. **Show your workings.**

(25 marks)

(c) Ireland is promoted abroad as an attractive location for investment by foreign firms.

- (i) Discuss **THREE** economic reasons why foreign firms choose to invest here.
- (ii) Describe how these foreign firms, operating in Ireland, may affect Ireland's Balance of Payments.

(25 marks)

[75marks]

6. (a) (i) Explain, with the aid of a diagram of **Circular Flow of Income** for an open economy, the main elements of aggregate demand.

(ii) Outline the expected effects which an injection of government spending into the economy, could have in each of the following cases:

- a closed economy at less than full employment;
- an open economy at full employment.

(30 marks)

(b) It has been estimated that $MPM = 0.2$, $MPT = 0.1$ and $MPC = 0.9$. Calculate the following, showing all your workings:

(i) The size of the Multiplier;

(ii) The increase in the level of national income if there was an injection of government spending of €500 million.

(20 marks)

(c) "GNP growth of 5% is forecast for 2005". (Report of the Central Bank and Financial Services Authority of Ireland-Autumn 2004).

Discuss the economic consequences (positive **and** negative) of economic growth on the Irish economy.

(25 marks)

[75marks]

7. (a) A bank needs to keep a balance between its twin objectives of **liquidity** and **profitability**. Explain the underlined terms. How does the bank reconcile these twin objectives? (20 marks)
- (b) The Central Bank (now called the Central Bank and Financial Services Authority of Ireland) continues to play a very important economic role in the Irish economy. Explain the role it plays in the Irish economy. (30 marks)
- (c) The **euro** is now well established as a currency in Ireland. Discuss the economic effects which the introduction of the euro has had on:
- Irish consumers;
 - Irish exporters and importers. (25 marks)
- [75marks]
8. (a) The last census of population (in 2002) showed that the Irish population continues to grow and now exceeds 3.9 million. Discuss the economic consequences of an increasing population. (25 marks)
- (b) Discuss the main economic benefits of the inflow of labour into the Irish Economy. (20 marks)
- (c) (i) One of the government's economic aims is to achieve balanced regional development. Outline **FOUR** possible government policies to achieve this aim.
(ii) "Policies to achieve balanced regional development may make it more difficult for the government to achieve other economic aims". Explain this statement, using examples to support your answer. (30 marks)
- [75marks]

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