

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 - 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)

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.

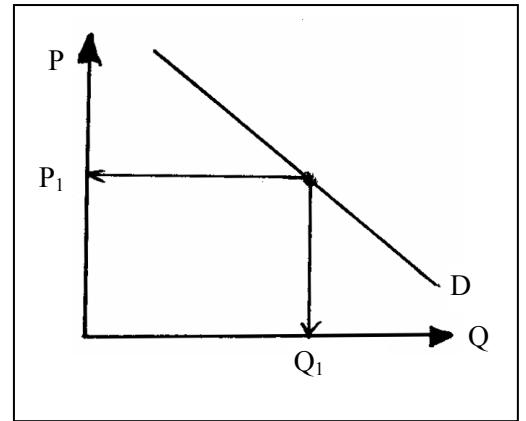
**REMEMBER TO RETURN THIS QUESTION PAPER WITH THE ANSWER BOOK(S) USED
 TO ANSWER THE QUESTIONS IN SECTION B**

SECTION A (100 Marks)

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

1. This diagram relates to a **Normal Good**.

- (i) On the diagram, show the effect which a **decrease** in the price will have on quantity. Use labels P_2 and Q_2 .
- (ii) Price elasticity of demand for this good is **negative**. Briefly explain the meaning of this statement.



(16 marks)

2. The following items are either substitute goods or complementary goods for cars. From the list below, identify which of the items are substitute goods (for cars) and which of the items are complementary goods (for cars). Write your answers in the spaces provided.

BICYCLES	TYRES	PETROL	PUBLIC TRANSPORT
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Answer:

Substitute goods →		
Complementary goods →		

(16 marks)

3. Complete the following statements:

Because economics is the study of human behaviour, it is a _____ science. It analyses how scarce _____ are used to satisfy man's _____ and _____.

(16 marks)

4. One of the assumptions of a firm in **Perfect Competition** is that the goods produced are *homogeneous goods*.

State **FOUR** other assumptions / characteristics of a firm in Perfect Competition.

- (i) _____
- (ii) _____
- (iii) _____
- (iv) _____

(16 marks)

5. Outline **TWO** advantages to a country of increased spending by the government on education.
- (i) _____
- (ii) _____
- (16 marks)
6. (i) The term '**incomes-in-kind**' (benefits-in-kind) is used in national income. Explain the underlined term.
- _____
- _____
- (ii) In national income accounts, Savings (S) = Y – C.
If S = €100m. and C = €900m., **calculate the value of Y**. Show your workings.
- _____
- _____
- (17 marks)
7. Outline **THREE** economic problems which **less developed economies** (LDCs) are currently experiencing.
- (i) _____
- (ii) _____
- (iii) _____
- (17 marks)
8. Outline **FOUR** aims of government economic policy.
- (i) _____
- (ii) _____
- (iii) _____
- (iv) _____
- (17 marks)
9. State **TWO** economic advantages of the decline in the number of people smoking within the Irish economy.
- (i) _____
- (ii) _____
- (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.

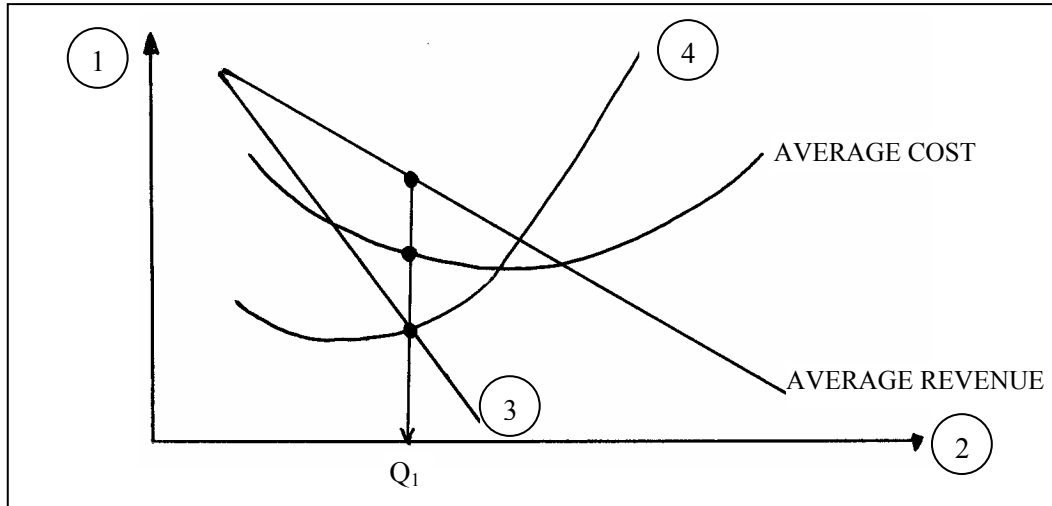
Write the answers in your answer book(s).

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. The diagram below represents a **Monopoly** firm in equilibrium.



- (a) (i) Copy the diagram into your answerbook. Clearly label each of the lines numbered 1 to 4.
 (ii) As shown in the diagram, the above firm produces Q_1 . Show on your diagram:
- the price the firm will charge for Q_1 (use label P_1)
 - the average cost of producing this output (use label C_1)
- (iii) State **TWO** examples of industries which you consider to be monopolies in Ireland.
(25 marks)
- (b) Explain each of the following barriers to entry and illustrate your answer with an example in each case.
- Patents and Copyrights;
 - Government Regulation;
 - Trade Agreements / Collusion.
- (25 marks)*
- (c) State and explain:
- (i) TWO **advantages** for the **employee** of a monopoly firm.
 (ii) TWO **disadvantages** for the **consumer** of a monopoly firm.

(25 marks)

[75 marks]

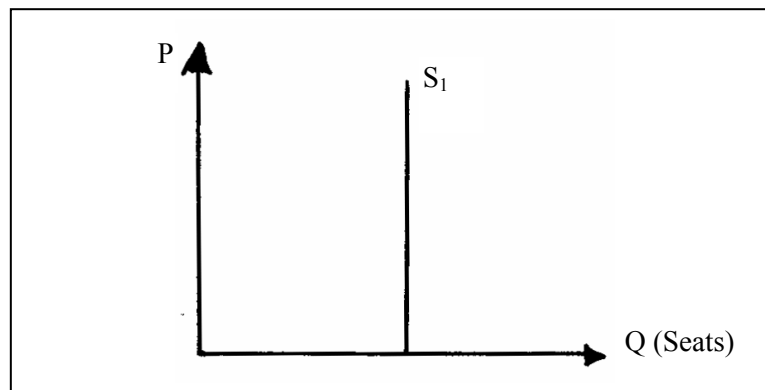
2. (a) The following factors cause **either** a demand curve **or** a supply curve to shift to the right or to the left:
- income levels in the economy **fall**;
 - costs of production for the product **rise**;
 - the firm's production methods **improve**.

In relation to **each** of the above factors:

- state whether the demand curve **or** supply curve will shift;
- state whether the curve you mention will shift to the right or the left;
- explain **why** the curve has shifted in the direction you have stated.

(30 marks)

- (b) The diagram below represents the supply of seats at Croke Park, the biggest sports stadium in Ireland.



- Explain the relationship between the price of tickets and the supply of seats shown in this diagram.
- Tickets may sell on the black market at very high prices.
 - Explain the term '**black market**'
 - Explain why tickets may sell for high prices on this market.
- Copy the diagram into your answerbook and show the effect on the supply curve of the building of additional seating. Use the label S_2 .

(25 marks)

- (c) In recent years the demand for the 'letter-post' service provided by An Post has fallen.

- State and explain **TWO** reasons for this fall in demand.
- State and explain **TWO** ways in which An Post could increase the level of demand for this service.

(20 marks)

[75 marks]

3. (a) A clothes producer pays rent to acquire the use of a building. The producer also pays wages each week to workers. Other expenses include the bill for cloth, and a monthly loan repayment on finance obtained to purchase equipment.
- (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.
- (20 marks)
- (b) An entrepreneur combines land, labour and capital to produce a product or provide a service.
- (i) Define **each** of the terms underlined above.
- (ii) State and explain **TWO** factors which encourage enterprise in Ireland.
- (25 marks)
- (c) Waste disposal is a serious problem in society. There are many social costs involved in waste disposal (i.e. disadvantages to communities / society in general).
- (i) State and explain **ONE** social cost associated with waste disposal.
- (ii) State and explain **ONE** way in which **EACH** of the following could help to reduce the social costs associated with waste disposal:
- Consumers;
 - Manufacturers;
 - The Government.
- (30 marks)
- [75 marks]**

4. (a) (i) Define the terms: **money** and **legal tender**.
- (ii) State the **TWO** items from the list below, which are *not considered legal tender*.

CHEQUES	€50 NOTE	50 CENT COIN	CREDIT CARDS
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Note: Do not state more than two items from the list.

- (20 marks)
- (b) (i) Name the financial institution which sets interest rates for the Irish economy at present.
- (ii) State and explain how an increase in interest rates in Ireland would affect **each** of the following:
- the level of consumption in Ireland;
 - property prices in Ireland;
 - the cost of repaying the National Debt.
- (25 marks)
- (c) (i) Explain the meaning of the term **savings**.
- (ii) Explain the effect which an increase in the rate of interest may have on a person's decision to save.
- (iii) State and explain **TWO** factors, other than the rate of interest, which may influence a person's decision to save.
- (30 marks)

[75 marks]

5. (a) The Irish economy is a small open economy which relies on exports to help our economic growth.
- (i) Explain each of the underlined terms.
- (ii) State and explain **TWO** factors which could make Irish exports cheaper abroad. (30 marks)
- (b) (i) Name **TWO** EU member states, other than the UK, which do **not** use the euro as their currency.
- (ii) If the UK decided to introduce the euro, state and explain **TWO** economic effects which this development may have for the Irish economy. (25 marks)
- (c) The economist, Adam Smith, contributed ideas to each of the following areas of economic thought:
- Canons of Taxation;
 - Division / Specialisation of Labour.
- Write brief notes on each of these contributions. (20 marks)
- [75 marks]**

6. (a) The **CSO** publishes information on price inflation each month.
- (i) What do the letters CSO represent?
- (ii) Explain what is meant by the term '**price inflation**'.
- (iii) State and explain the possible uses of information on price inflation to each of the following:
- Consumers;
 - Employees;
 - The Government.
- (25 marks)
- (b) State the effect which each of the following developments may have on the rate of inflation. Explain your answer in each case.
- A **decrease** in world oil prices;
 - An **increase** in the rates of indirect taxes;
 - An **increase** in lending by banks.
- (25 marks)
- (c) The CSO also publishes information on the size of Ireland's population. State and explain the possible effects which the rise in Ireland's population may have on each of the following:
- demand for goods and services;
 - provision of state services;
 - the Irish labour market.
- (25 marks)
- [75 marks]**

7. (a) (i) Explain what is meant by **visible exports**.
State **TWO** examples of visible exports.
(ii) Explain what is meant by **invisible exports**.
State **TWO** examples of invisible exports.

(25 marks)

- (b) Copy the partially completed Balance of Payments Account below into your answerbook.

Balance of Payments - extract

	€ million	€ million	Surplus or Deficit
Visible Exports	?		
Visible Imports	800		
Balance of Trade		+100	?

- (i) Calculate the figure for visible exports and state clearly whether the Balance of Trade is a surplus or deficit.
(ii) Explain the effects which an increase in the level of visible imports of €200m. will have on the above Balance of Trade.
Note: There is no change in the level of visible exports.

(20 marks)

- (c) Free International trade (i.e. trade without any barriers) is favoured by many governments.

- (i) State and explain **TWO** economic advantages of free international trade.
(ii) State and explain **TWO** economic disadvantages of free international trade

(30 marks)

[75 marks]

8. (a) In the case of each of the following taxes:

- a tax on company profits;
- a tax on an employee's wages;
- a tax levied on goods or services.

- (i) Name each tax and

- (ii) State whether the tax is an example of a direct tax or an indirect tax.

(25 marks)

- (b) A Minister for Finance prepares the following Current Budget for the year 2005.

Current Budget 2005

	€ million		€ million
Government Current Income	25,000	Government Current Spending	30,000
Current Budget Deficit	5,000		
	30,000		30,000

An unexpected boom in the economy results in the following changes:

- Current income **rises** by 20%
- Current spending **falls** by 10%

Re-draft the above Current Budget, taking the above changes into account.

Show all your workings.

(20 marks)

- (c) (i) State and explain **TWO** reasons why government Current Expenditure may **fall** during a boom in the economy.

- (iii) State and explain **TWO** reasons why government Current Income may **rise** during a boom in an economy.

(30 marks)

[75 marks]

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