

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, 2007

WEDNESDAY, 20 JUNE 2007, 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. State **FOUR** possible economic effects of rising **price inflation** on the Irish economy.

- (i) _____
 - (ii) _____
 - (iii) _____
 - (iv) _____
- (16 marks)**

2. State **THREE** assumptions underlying the **Law of Comparative Advantage**.

- (i) _____
 - (ii) _____
 - (iii) _____
- (16 marks)**

3. Consumers buy 50 units of a product when the price is €1.50. When the price is reduced to €1 consumers buy 90 units. Using an appropriate formula, calculate the consumers' **price elasticity of demand**. **Show your workings and explain your answer.**

Workings

Explanation:

(16 marks)

4. Firms attempting to enter a **monopoly** market must overcome barriers to entry. Outline **THREE** such barriers to entry.

- (i) _____
 - (ii) _____
 - (iii) _____
- (16 marks)**

5. Outline **THREE** functions/responsibilities of the **European Central Bank (ECB)**.

- (i) _____
 - (ii) _____
 - (iii) _____
- (16 marks)**

6. Outline **TWO** circumstances under which a factor of production can earn **Economic Rent**.

(i) _____

(ii) _____

(17 marks)

7. 'An Irish banking group owns thirty branch offices. There is no opportunity cost to the banking group using these offices as they are fully owned'. **True / False.**

Circle your choice and give a one sentence explanation of your answer.

(17 marks)

8. Define **Social Costs**. State **TWO** significant examples currently facing the Irish economy.

Definition: _____

Example 1: _____

Example 2: _____

(17 marks)

9. Energy costs (e.g. electricity) increased significantly in Ireland during 2006. Outline **TWO economic reasons** for the increase **and TWO economic consequences** of this specific development for the Irish economy.

Reasons:

(i) _____

(ii) _____

Consequences:

(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. (a) (i) Define the economic terms: **individual (firm) supply**; **market supply**.
(ii) Explain, with the aid of labelled diagrams, the relationship between individual (firm) supply and market supply. (20 marks)
- (b) Explain, with the aid of a labelled diagram, the supply curve of an individual firm in **each** of the following circumstances. State one example in **each** case.
(i) A firm is willing to increase supply as price rises, but there is a minimum price below which the firm will not supply at all.
(ii) A firm can supply only up to a maximum production capacity.
(iii) The product is fixed in supply (e.g. perishable good) and a firm is operating in the short run. (30 marks)
- (c) Outline **FOUR** factors, other than price, which affect the supply curve of an individual firm. In each case explain how the factor affects the supply curve. (25 marks)
[75 marks]
2. (a) (i) A firm operating under conditions of perfect competition is a '**price taker**'. Explain the concept of being a 'price taker'.
(ii) Explain, with the aid of a labelled diagram, the equilibrium position of a firm in **short run perfect competition**. (25 marks)
- (b) With the aid of a labelled diagram(s), explain the impact which the entry of new firms would have on the market **and** on the equilibrium position of this firm. (25 marks)
- (c) (i) Many firms today engage in **product differentiation**. Explain this underlined term showing, with suitable examples, how it can be achieved.
(ii) Explain the effect of product differentiation on the AR and MR curves of a firm, which previously operated under conditions of perfect competition. (25 marks)
[75 marks]

3. (a) The demand for labour as a factor of production is a **derived demand** and is affected by that factor's **Marginal Revenue Productivity** (MRP).
- (i) Explain each of the underlined terms.
- (ii) Outline **TWO** developments, other than a fall in MRP, which may result in a firm **reducing** its number of employees. (20 marks)
- (b) (i) State and explain **THREE** factors which are currently affecting the **supply** of labour to the Irish economy.
- (ii) The demand for labour has increased significantly in certain sectors of the Irish economy in recent years, e.g. construction. Discuss **THREE** economic consequences of this situation. (30 marks)
- (c) 'At a time of full (or near full) employment in the Irish economy, it is important that there should be the maximum **occupational mobility** and **geographical mobility** of labour.'
- (i) Distinguish between the two underlined terms.
- (ii) Outline **THREE** economic policies which could increase **either** occupational mobility of labour **or** geographical mobility of labour, in Ireland. (25 marks)
- [75 marks]**
4. (a) **Free Enterprise (Laissez Faire)** and a **Command Economy (Central Planning)** are examples of economic systems.
- (i) Explain each of the underlined terms.
- (ii) In relation to any **ONE** of the economic systems above, outline **TWO** possible economic advantages and **TWO** possible economic disadvantages. (25 marks)
- (b) (i) 'The Irish Economy can be described as a **Mixed Economy**'. Outline **FOUR** examples of economic activity in the Irish economy to support this view.
- (ii) Do you consider that the Irish economy is moving towards more free enterprise or towards more central planning in recent years? Explain your answer, using appropriate examples. (30 marks)
- (c) In the case of any **TWO** of the following economists, outline **TWO** contributions which **each** one has made to the development of economic ideas:
- Adam Smith; Alfred Marshall; John Maynard Keynes; Milton Friedman. (20 marks)
- [75 marks]**

5. (a) Explain the following economic terms, using appropriate examples in each case:
- (i) **Government Current Budget;**
 - (ii) **Government Capital Budget;**
 - (iii) **Revenue Buoyancy;**
 - (iv) **Regressive Taxation.**
- (25 marks)*

- (b) State and explain how a **government budget** could be affected by each of the following developments:
- (i) a rise in interest rates in the economy;
 - (ii) a fall in the rate of stamp duty on property purchased;
 - (iii) the introduction of subsidised child care for all families within the state.
- (30 marks)*

- (c) You are appointed Economic Advisor to the Minister for Finance. Outline the economic arguments you would identify for the Minister in favour of lowering Irish income taxation rates.
- (20 marks)*
[75 marks]

6. (a) The main components of National Income are: Consumption, Investment, Government Expenditure, Exports, Imports.
- (i) Show the equation which links all of these components with the level of National Income in the economy.
 - (ii) Explain what determines/influences the size of **each** of these components of National Income.
- (25 marks)*

- (b) The table below shows the level of National Income, Consumption, Investment, Exports and Imports at the end of Year 1 and Year 2.
(For the purpose of this question you may ignore the government sector.)

Year	National Income	Consumption	Investment	Exports	Imports
1	€10,000	€8,600	€1,000	€1,200	€800
2	€11,200	€9,500	€1,300		€1,100

Calculate the following, showing all your workings:

- (i) The level of Exports in Year 2;
 - (ii) The Marginal Propensity to Import;
 - (iii) The Marginal Propensity to Save;
 - (iv) The size of the Multiplier. Explain the economic meaning of this multiplier figure.
- (25 marks)*
- (c) Less developed countries (LDCs) are primarily concerned with achieving **economic development** while developed countries are concerned with achieving **economic growth**.
- (i) Distinguish between the two underlined terms.
 - (ii) Outline **THREE** characteristics which indicate that a country is a LDC.
- (25 marks)*
[75 marks]

7. (a) The Balance of Payments is made up of the **Current Account** and the **Capital Account**.

Explain each of the underlined terms. Include details of the main components of **each** account in your explanations.

(30 marks)

- (b) Suppose the euro (€) increases in value relative to the American dollar (\$) and sterling (£). Outline the likely effects this increase would have on any **THREE** components of the Balance of Payments, which you listed in answering (a) above.
[At least one component should be from the Capital Account.]

(25 marks)

- (c) The enlargement of the European Union (EU) continues with the addition of Bulgaria and Romania in January 2007. There are now 27 member states.

Discuss **FOUR** economic consequences for the Irish economy, of the EU enlargement process.

(20 marks)

[75 marks]

8. (a) Outline, using appropriate figures, how the Irish economy performed in the past twelve months in **each** of the following areas:

- (i) employment;
- (ii) interest rates;
- (iii) price inflation;
- (iv) government taxation.

(20 marks)

- (b) (i) State and explain **FOUR** economic aims of the Irish government.
- (ii) Discuss **TWO** examples where economic policies introduced to achieve one economic aim, may make it more difficult to achieve one of the other aims.

(25 marks)

- (c) ‘The **National Debt / GDP ratio** has fallen from over 90% during the first half of the 1990’s to an estimated 25.1 % at the end of 2006’. (National Treasury Management Agency)

- (i) Briefly explain each of the underlined terms.
- (ii) Outline the economic benefits of this changed situation for the Irish economy.

(30 marks)

[75 marks]

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