

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 - 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. What do the following initials stand for?

- (i) GNP _____ (16 marks)
- (ii) WTO _____

2. One of the possible barriers to entry to a **Monopoly** market is '**Government Regulation**'. Explain the underlined term and illustrate your answer with **ONE** example.

Explanation: _____

Example: _____ (16 marks)

3. (i) An economic good is described as being **transferable**.

Tick (✓) the statement, below, which explains the underlined term correctly:

- (a) It must be possible to transport the good from one place to another.
- (b) It must be possible to pass the good from one person to another.

(ii) State **ONE** example of a good that is **NOT** transferable: _____ (16 marks)

4. Complete the following statements:

Enterprise, as a factor of production, is defined as that factor which _____ the other factors into a production unit. It undertakes the _____ involved in running a business. The return / payment for enterprise is called _____.

(16 marks)

5. Explain what is meant by the term '**price inflation**'.

_____ (16 marks)

6. Given: **National Income as $Y = C + I + G + X - M$** .
 $Y = €1,000m$; $I = €200m$; $G = €300m$; $X = €250m$ and $M = €100m$.
 Calculate, using the above figures, the level of **consumption (C)**. Show all your workings.

WORKINGS	ANSWER
	€ _____

(17 marks)

7. Many Irish banks offer internet banking services. State **ONE** economic advantage of this development for the bank **customer** and state **ONE** economic advantage for the **bank**.

CUSTOMER: Economic advantage: _____

BANK: Economic advantage: _____

(17 marks)

8. (i) Complete the following sentence:

Price Elasticity of Demand (PED) measures the percentage change in

_____ for a good caused by a percentage change in the

_____ of the good itself.

- (ii) 'Price Elasticity of Demand for a normal good is **negative**'. Explain this statement.

(17 marks)

9. In relation to the economic ideas listed below, match the idea with the associated economist.

<u>Economic Idea</u>	<u>Economist</u>
A. Theory on Population and Food Supply	1. Adam Smith
B. Canons of Taxation	2. David Ricardo
C. The Multiplier Effect	3. Thomas Malthus
D. Law of Comparative Advantage	4. John Maynard Keynes

Economic Idea	A	B	C	D
Economist				

(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.

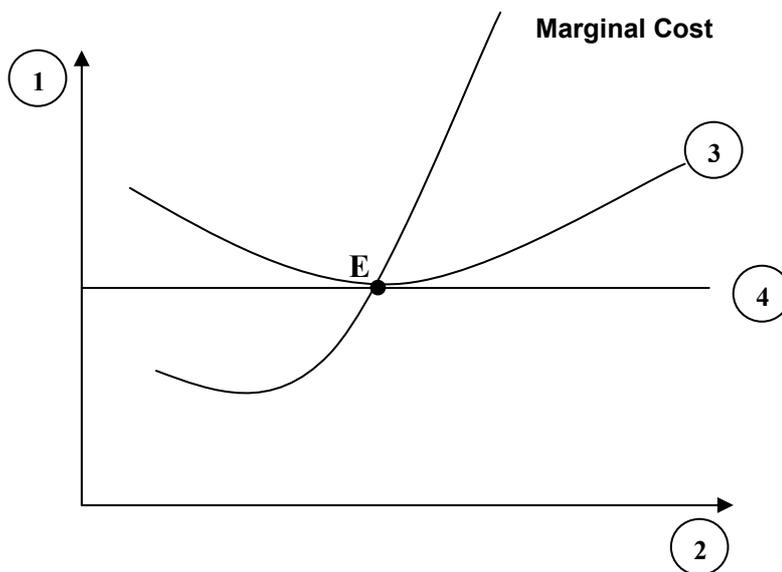
Write the answers in your answer book(s).

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 the long run equilibrium of a firm in **Perfect Competition**.

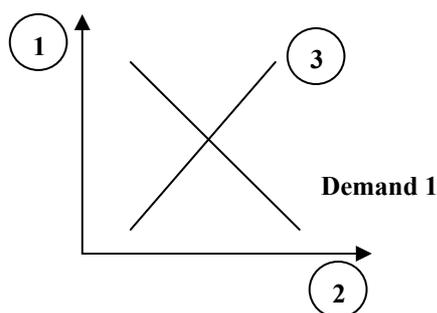


- (a) (i) Copy the diagram into your answer book. Clearly label each of the lines numbered 1 to 4.
- (ii) Equilibrium occurs at **point E** on the diagram.
Show on your diagram:
- the output the firm will produce in equilibrium (use label Q_1)
 - the price charged for this output (use label P_1)
 - the average cost of producing this output (use label C_1)
- (iii) Perfect Competition is described as being efficient.
Explain the meaning of this sentence. You may refer to your diagram in your explanation. (30 marks)
- (b) (i) State **THREE** characteristics /assumptions of Perfect Competition.
- (ii) Write brief notes on each of these. (25 marks)
- (c) The Government has recently **privatised** a state company.
- (i) What is meant by the term '**privatisation**'?
- (ii) Name the company which the government recently privatised.
- (iii) State and explain **ONE** way **each** of the following may be affected by privatisation:
- the consumers of the service;
 - the employees of the privatised company.

(20 marks)

[75 marks]

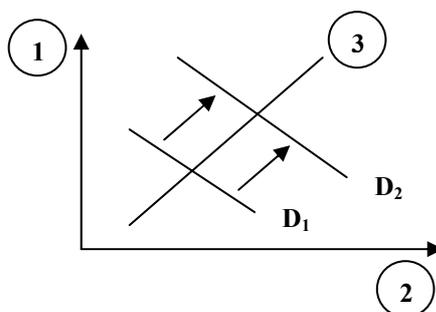
2. (a) The diagram below shows the demand and supply of iPods in Ireland.



- (i) Copy the diagram into your answer book. Clearly label each of the lines marked 1 to 3.
 (ii) Show on your diagram:
- equilibrium price (use label P_1)
 - equilibrium quantity (use label Q_1)

(20 marks)

- (b) Suppose the demand curve for iPods shifts to the right, as shown below.



Copy the diagram into your answer book.

- (i) State and explain **TWO** possible reasons why the demand curve for iPods has shifted to the right.
 (ii) Show on your diagram:
- the new equilibrium price (use label P_2)
 - the new equilibrium quantity (use label Q_2)
- (iii) State **ONE** complementary good for iPods and explain the effect **on the demand for this complementary good** if the demand for iPods continues to increase.

(25 marks)

- (c) The demand for foreign holidays by Irish citizens has increased in recent years.

- (i) State and explain **TWO** possible reasons for this development.
 (ii) State and explain **THREE** measures which the Irish Tourist Industry could take to encourage more people to holiday in Ireland.

(30 marks)

[75 marks]

3. (a) A furniture producer pays rent of €5,000 to use premises. The producer also pays wages of €50,000 each month to workers. Other costs include the bill for timber €35,000, and a monthly loan repayment of €10,000 on finance obtained to purchase equipment.

- (i) Define the terms: **fixed costs** and **variable costs**.
- (ii) State whether each of the four costs underlined above are examples of fixed costs or variable costs.
- (iii) If this producer receives €120,000 from the sale of the furniture produced, calculate the **profit** he makes. Show your workings.

(30 marks)

(b) Entrepreneurs are important for an economy.

- (i) State and explain **TWO** reasons why entrepreneurs are important for the Irish economy.
- (ii) State and explain **TWO** ways in which the Irish government could encourage more individuals to become entrepreneurs.

(20 marks)

(c) Entrepreneurs employ labour to help in the production process.

- (i) Define the underlined term.
- (ii) State and explain **TWO** reasons why an entrepreneur might employ additional workers.
- (iii) Outline **ONE** reason why workers who train for longer periods generally receive higher wage rates.

(25 marks)

[75 marks]

4. (a) (i) Define the terms: **money** and **legal tender**.

(ii) State the **TWO** items from the list below which **are** considered legal tender.

CHEQUES	€50 NOTE	€1 COIN	CREDIT CARDS
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Note: Do not state more than two items from the list.

(20 marks)

(b) The **ECB** has been increasing interest rates throughout the euro zone.

- (i) What do the initials **ECB** represent?
- (ii) State and explain how an increase in interest rates could affect each of the following:
 - Individual households;
 - Businesses;
 - The Economy.

(25 marks)

(c) Many people have saved in the Special Savings Incentive Accounts (SSIAs), over the past number of years. They are now accessing these savings and using them for various purposes.

- (i) Explain the underlined term.
- (ii) State and explain **TWO** economic advantages of this increased flow of money in the Irish economy.
- (iii) State and explain **TWO** economic disadvantages of this increased flow of money in the Irish economy.

(30 marks)

[75 marks]

5. (a) (i) Distinguish between a **Balance of Trade surplus** and a **Balance of Trade deficit**.

The table below shows Ireland's exports and imports with other countries / regions.

	Countries / Regions	Visible Exports € million	Visible Imports € million	Balance of Trade € million	Surplus <i>or</i> Deficit
A	United Kingdom	15,500	18,000		
B	Other EU countries	40,000	15,000		
C	USA	16,500	8,000		
D	Rest of World	16,000	16,500	-500	Deficit

- (ii) Using the partially completed table above calculate Ireland's Balance of Trade with each country / region (A, B, C above) and state whether it is a surplus or deficit in each case.

(25 marks)

- (b) (i) State and explain **THREE** reasons why **exports** are important for the Irish economy.

- (ii) Foreign golf supporters who travelled to Ireland to view the Ryder Cup in 2006 are an example of an invisible export for Ireland.
State **TWO** other examples of **invisible exports**.

(25 marks)

- (c) You are given the following information about the Euro (€) to US dollar (\$) exchange rate.

Year 1: €1 = \$1.20

Year 2: €1 = \$1.30

- (i) State whether the euro (€) has gone up or down in value relative to the dollar (\$).
Explain your answer.
- (ii) State and explain the possible effect which the above change may have on Ireland's **exports** to the US and Ireland's **imports** from the US.

(25 marks)

[75 marks]

6. (a) In 2006 the **CSO** conducted a count of Ireland's population.
- What do the initials **CSO** represent?
 - What is the official term used for a count of population?
 - Explain **ONE** possible use of information on population by **each** of the following:
 - Irish Government;
 - Business firms.
- (25 marks)
- (b) The CSO has found that Ireland's population has increased in recent years.
- State and explain **TWO** factors which have led to this development.
 - State and explain **TWO** economic effects of the increase in population for the Irish economy.
- (25 marks)
- (c) A high rate of population growth has been experienced by less developed countries (LDCs).
- State and explain **THREE** other economic problems which these countries are experiencing.
 - State and explain **TWO** measures which governments in the **developed world** could take to help reduce the problems experienced by LDCs.
- (25 marks)
[75 marks]

7. (a) In the case of **each** of the following types of taxes:
- a tax levied on a good or service;
 - a tax on company profits;
 - a tax on an employee's wages.
- Name **each** type of tax.
 - State whether each tax is an example of a **direct tax** or an **indirect tax**.
- (25 marks)
- (b)
 - State and explain **TWO** reasons for taxation in an economy.
 - Outline **ONE** reason why the Minister for Finance might increase taxes on goods such as alcohol, petrol and tobacco.
 - The Government introduced a plastic bag tax in recent years. Discuss **TWO** advantages of this tax for the Irish economy.
- (25 marks)

- (c) A Minister for Finance prepares the following Current Budget for 2006:

Current Budget - 2006			
Government Current Income	€10,000m	Government Current Spending	€9,500m

- Calculate the Current Budget balance for the above budget and state whether it is a **surplus** or a **deficit**. Show your workings.
- The actual figures for 2006 differed from the budgeted figures as follows:
 - Current income **was lower by 5%**
 - Current spending **was higher by 10%**
 Calculate the Current Account balance, taking these changes into account. Show all your workings.

(25 marks)
[75 marks]

8. (a) The increasing worldwide consumption of oil is causing problems for economies.
- (i) State and explain **TWO** economic reasons why the worldwide consumption of oil is increasing.
 - (ii) State and explain how **EACH** of the following could help to reduce this problem:
 - Consumers;
 - Business Firms;
 - The Irish Government.
- (25 marks)
- (b) The Irish Government is investing heavily in the country's **infrastructure**.
- (i) Explain the underlined term.
 - (ii) State and explain **TWO** reasons why improvements in infrastructure are important for the Irish economy.
 - (iii) Outline **TWO** areas of infrastructure which you consider need further investment **and** explain the reasons for your choices.
- (25 marks)
- (c) The Irish Government has decided to construct a Metro transport system linking Dublin City centre with Dublin Airport.
- (i) State and explain **TWO** possible advantages of this development for the Irish economy.
 - (ii) State and explain **TWO** possible disadvantages of this development for the Irish economy.
- (25 marks)
- [75 marks]**

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