

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, 2008

WEDNESDAY, 18 JUNE 2008, 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. Enter the factors of production and / or the payment for the factor in the appropriate spaces below:

FACTOR			CAPITAL	
PAYMENT	RENT	WAGES		PROFIT / LOSS

(16 marks)

2. Fill in the missing words in the spaces below to complete the names of the international financial institutions:

(i) **ECB** European _____

(ii) **WTO** _____ Trade _____

(iii) **IMF** _____ Monetary _____

(16 marks)

3. State **two** examples of government current income and **two** examples of government current expenditure.

Government Current Income	Government Current Expenditure
1.	1.
2.	2.

(16 marks)

4. The formula for measuring Price Elasticity of Demand is as follows:

$$\frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2}$$

Complete the following table to indicate what each of the above symbols stands for:

ΔQ	
ΔP	
P₁	Original price of the good.
P₂	
Q₁	
Q₂	

(16 marks)

5. One of the assumptions of **Imperfect Competition** is that the goods produced are close substitutes. Explain the underlined term and state **two** other assumptions.

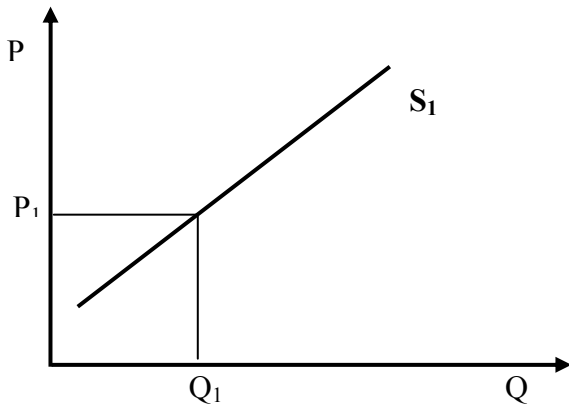
Explanation: _____

Assumption 1: _____

Assumption 2: _____

(16 marks)

6. The diagram below relates to the **supply of bottled water** in Ireland.



- (i) On the diagram, show the effect which an increase in the price will have on the quantity supplied. Use labels P₂ and Q₂.
- (ii) On the diagram, show the effect which a reduction in the costs of production will have on the supply curve. Use label S₂.

(17 marks)

7. State **one** economic advantage and **one** economic disadvantage of the continuing construction of new toll roads throughout Ireland.

One economic advantage: _____

One economic disadvantage: _____

(17 marks)

8. You are given the following information about a country's trade.

Visible Exports €million	Visible Imports €million	Balance of Trade €million	Surplus or Deficit
18,000	17,800	200	Surplus

If the level of visible exports decreased by €500 million, explain the effect which this would have on the country's Balance of Trade. **Show your workings.**

Workings

Explanation: _____

(17 marks)

9. Which of the formulas, below, represents the multiplier in an **open economy**? (Choose Option A or Option B and write your answer in the space provided). Explain your choice.

Option A
$\frac{1}{1 - (MPC - MPM)}$

Option B
$\frac{1}{1 - MPC}$

Answer
Option _____

Explanation: _____

(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.

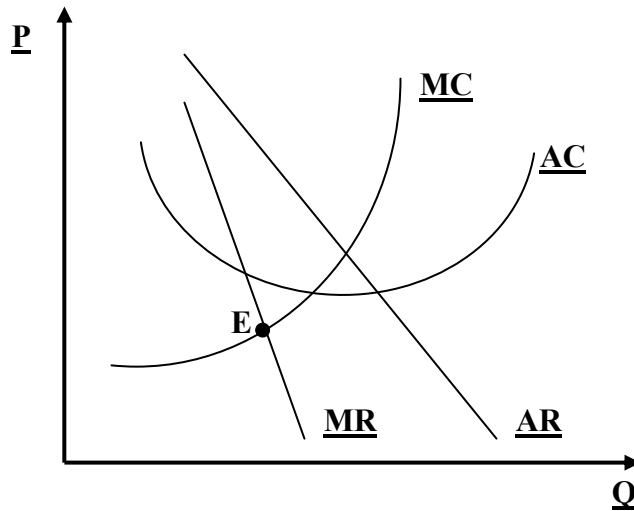
Write the answers in your answer book(s).

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 above diagram into your answer book.
Complete/write each of the six underlined labels in full.
- (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 the output. (Use label C_1)
- (iii) A monopoly market is generally described as being inefficient.
Explain with reference to your diagram, the meaning of this statement.
- (b) New firms may wish to enter a monopoly market but they face barriers to entry.
- (i) State **three** of these barriers.
- (ii) Write brief notes on **each** of these.
- (c) (i) State **one** example of a market which you consider to be a monopoly in Ireland.
- (ii) If circumstances change, allowing new firms to enter into this market, state and explain **one** economic advantage and **one** economic disadvantage of this development for **each** of the following:
- Consumers;
 - Employees of the monopoly firm.

(30 marks)

(21 marks)

(24 marks)
[75 marks]

2. (a) Oil is considered an 'economic good' because it is scarce, transferable and provides utility.

- (i) Explain each of the underlined terms.
- (ii) State **one** example of a 'free good'. Explain your answer.

(20 marks)

(b) The following may cause **either** the demand curve for oil **or** the supply curve for oil to shift to the right or the left:

- a **new supply of oil** is discovered off the coast of Ireland;
- the level of indirect taxes on oil is **reduced**;
- an increase in unemployment causes income levels **to fall** within the economy.

In relation to each of the above factors:

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

(30 marks)

(c) The consumption of oil worldwide continues to increase.

- (i) State and explain **two** economic reasons for this development.
- (ii) State and explain how **each** of the following could help reduce the consumption of oil:
 - Consumers;
 - Businesses;
 - Irish Government.

(25 marks)

[75 marks]

3. (a) A construction company needs land for building houses. It must also purchase raw materials, pay wages to employees and make loan repayments on finance obtained to purchase machinery.
- Explain land as a factor of production.
 - Define the terms **fixed costs** and **variable costs**.
 - State whether each of the three costs **underlined above** is an example of fixed costs or variable costs.
- (25 marks)*
- (b) The demand for housing in Ireland decreased in 2008.
- State and explain **one** possible economic reason for this decrease.
 - State and explain how this decrease could affect **each** of the following:
 - employment within the country;
 - taxation revenue;
 - profits within the construction industry.
- (20 marks)*
- (c) There is more immigration than emigration in Ireland at present.
- Explain the two underlined terms.
 - State and explain **two** reasons for the development stated above.
 - State and explain the possible economic effects which increased immigration may have on **each** of the following:
 - Irish labour market;
 - Demand for State services;
 - Firms in the retail / service industry (e.g. banks, supermarkets).
- (30 marks)*
[75 marks]
4. (a) Medium of exchange is one of the functions of money.
- Explain the underlined term.
 - State **two** other functions of money.
 - Other than notes and coins state **one** other item which is generally used as money.
- (20 marks)*
- (b) Commercial banks are now facing increasing competition in Ireland.
- Name **two** commercial banks operating in Ireland.
 - State and explain **two** reasons why competition is increasing.
 - State and explain how this increased competition may affect **each** of the following:
 - customers of the banks;
 - shareholders in the banks.
- (25 marks)*
- (c) If the European Central Bank were to reduce interest rates, discuss the possible effects which this development may have on **each** of the following:
- level of demand for goods and services in Ireland;
 - mortgage holders;
 - businesses;
 - savers.
- (30 marks)*
[75 marks]

5. (a) The following taxes in Ireland can be classified as direct taxes or indirect taxes:

VAT PAYE CORPORATION PROFITS TAX

- (i) Explain the two underlined terms.
- (ii) Classify each of the above taxes as a direct tax *or* indirect tax.
- (iii) State the **item** on which each of the above taxes is levied.

(25 marks)

(b) If the Irish Government reduced the rates of income tax:

- (i) State and explain **two** economic benefits of lower rates of income tax to the Irish Economy;
- (ii) State and explain **two** economic disadvantages of lower rates of income tax to the Irish Economy.

(20 marks)

(c) The economist Adam Smith developed the following Canons of Taxation:

EQUITY ECONOMY CERTAINTY CONVENIENCE

- (i) Explain **each** of the above canons of taxation;
- (ii) The Revenue Commissioners attempt to reduce the level of tax evasion in Ireland. Explain, with the use of an example, the underlined term.

(30 marks)

[75 marks]

6. (a) The Government, with the help of the National Treasury Management Agency, has been successful in reducing Ireland's national debt, while continuing to invest in infrastructure.

- (i) Explain each of the underlined terms.
- (ii) State **three** other economic aims of the Government.
- (iii) Write brief notes on each of these aims.

(25 marks)

(b) There are many problems facing less developed countries (LDCs). One of these problems is the increasing national debt.

- (i) State and explain **three** other economic problems which these countries are experiencing.
- (ii) State and explain **two** measures which the governments of LDCs could take to help solve these problems.

(25 marks)

(c) The Government, Gardaí and the Road Safety Authority (RSA) aim to reduce the number of accidents and deaths on Irish roads.

- (i) State and explain **two** measures which the government could take to achieve this aim.
- (ii) If successful and the number of deaths is reduced, discuss the economic effects which this development may have on **each** of the following:
 - hospital accident and emergency admissions;
 - motor insurance costs.

(25 marks)

[75 marks]

7. (a) The table below illustrates the Law of Comparative Advantage.

	OUTPUT	
	ICE-CREAM	CHOCOLATE
ITALY	800kg per worker	600kg per worker
BELGIUM	400kg per worker	200kg per worker
TOTAL OUTPUT	1200kg for 2 workers	800kg for 2 workers

Although Italy is more efficient in the production of both goods, each country should specialise in the production of one good.

- (i) Which good should Italy produce? Explain your answer briefly.
- (ii) Which good should Belgium produce? Explain your answer briefly.
- (iii) If each country specialises in the good you have selected, calculate the resulting total output. **Show your workings.**

(20 marks)

- (b) Sometimes governments decide to restrict free international trade by imposing barriers such as tariffs.

- (i) Explain the underlined term.
- (ii) State **two** other methods which governments could use to restrict free trade.
- (iii) State and explain **two** reasons why governments may wish to restrict free trade.

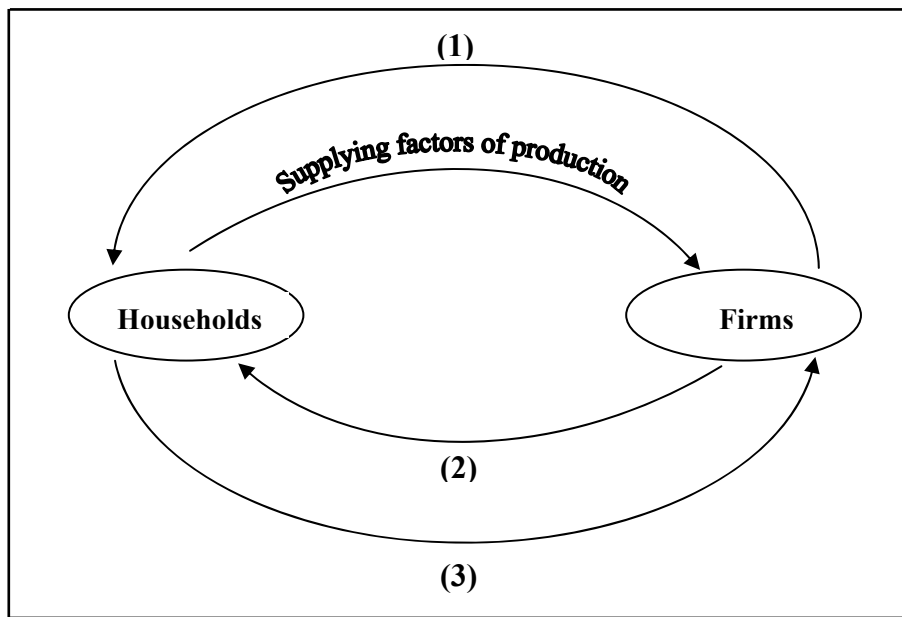
(25 marks)

- (c) The rate of price inflation in Ireland is generally higher than in other EU countries.

- (i) Explain the underlined term.
- (ii) State and explain **two** reasons why price inflation in Ireland is generally higher than in the other EU countries.
- (iii) State and explain the effects which higher price inflation in Ireland may have on:
 - Ireland's **exports** to the EU;
 - Ireland's **imports** from the EU.

(30 marks)
[75 marks]

8. (a) The diagram below represents the Circular Flow of Income in a **closed economy** without Government.



- (i) Explain the meaning of the term 'closed economy'.
 (ii) Copy the diagram into your answer book. Clearly label each of the lines (1) to (3).
 (iii) Referring to the diagram above, explain briefly the types of transactions/activities which take place between households and firms.

(25 marks)

- (b) Given: National Income as $Y = C + I + G + X - M$.
 $C = €1,200m$ $I = €500m$ $G = €300m$ $X = €40m$ $M = €80m$.

- (i) State what each of the letters / symbols in the formula above stands for.
 (ii) Calculate, using the figures provided, the level of National Income. **Show your workings.**

(20 marks)

- (c) You are given the following information relating to a particular country.

	1998	2008
GNP at market prices	€2,500 million	€2,700 million
Population	5 million	6 million

- (i) What do the initials GNP stand for?
 (ii) Calculate the GNP per person for both years. **Show all your workings.**
 (iii) State and explain **two** possible economic disadvantages to a country of a **decrease** in GNP per person.

(30 marks)

[75 marks]

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