

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, 2012

WEDNESDAY 20 JUNE 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 **three** reasons why the demand curve for bottled water may shift to the right.

(i) _____

(ii) _____

(iii) _____

(16 marks)

2. State **three** areas of responsibility of the European Central Bank (ECB).

(i) _____

(ii) _____

(iii) _____

(16 marks)

3. Outline **two** reasons for the growth of the 'Black Economy' **and** state **two** effects for the Exchequer.

Reason 1: _____

Reason 2: _____

Effect 1: _____

Effect 2: _____

(16 marks)

4. In relation to each statement listed below, indicate whether it is an **internal** or **external** (a) **economy of scale** or (b) **diseconomy of scale**. (Place a tick (✓) for each correct answer.)

| Statement | (a) Economy of Scale | | (b) Diseconomy of Scale | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | Internal | External | Internal | External |
| Repetitive tasks, workers are bored | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| R&D costs are shared by many firms | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Discounts are available for bulk buying | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Inadequate infrastructure | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

(16 marks)

5. 'Inferior products have a negative Income Elasticity of Demand (YED)'.

(a) Explain this statement.

Explanation: _____

(b) State **one** example of an inferior product, giving a reason for your answer.

Example: _____

(16 marks)

6. Study the table below and calculate (i) and (ii), showing all your workings.

| Year | National Income | Consumption | Investment | Exports | Imports |
|------|-----------------|-------------|------------|---------|---------|
| 1 | €24,000 | €15,000 | €6,000 | €10,000 | €7,000 |
| 2 | €34,000 | €22,000 | €8,000 | €16,000 | €12,000 |

(i) The Marginal Propensity to Save (MPS).

Answer: _____

(ii) The size of the Multiplier.

Answer: _____

(17 marks)

7. Outline **three** factors currently affecting the rate of savings in the Irish economy.

(i) _____

(ii) _____

(iii) _____

(17 marks)

8. 'Imperfect Competition is wasteful of resources'. Do you agree with this statement? Yes /No
Explain your answer.

(17 marks)

9. The Irish Government introduced the household charge (property tax) of €100 per household in its 2012 budget.

(a) State **two** advantages of this charge/tax for the Exchequer.

(i) _____

(ii) _____

(b) Is this a progressive tax or a regressive tax? Explain your answer.

(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) Explain the Equi-Marginal Principle of consumer behaviour.
(ii) State and explain **three** other economic assumptions used to analyse consumer behaviour. (25)

- (b) A manufacturer of three different products calculates the price elasticity of demand (PED) for each product as follows:

Product A: -2.8

Product B: -1.0

Product C: -0.5

The manufacturer wishes to maximise its revenues. Explain in respect of **each** of these products, what change, if any, the manufacturer should make in the prices currently being charged to enable it to achieve its aim.

Illustrate your answers with the aid of a demand curve for **each** product. (30)

- (c) You are given the following information about certain products:

Cross Elasticity of Demand between Product X & Product A = -0.8

Cross Elasticity of Demand between Product X & Product B = +3.2

Cross Elasticity of Demand between Product X & Product C = -1.6

Cross Elasticity of Demand between Product X & Product D = +0.5

- (i) Which of the products above are substitutes for Product X? Explain your answer.
(ii) Which product is the closer complement to Product X? Explain your answer. (20)

[75 marks]

2. (a) (i) Explain the reason for the shape of the demand curve of an individual firm in perfect competition.
(ii) Outline **two** advantages of perfect competition. (20)

- (b) (i) Explain, with the aid of a labelled diagram, the equilibrium position of a firm in **short run perfect competition**.
(ii) With the aid of labelled diagrams, explain the impact which the entry of new firms would have on the market **and** on the equilibrium position of the firm. (35)

- (c) Contrast the characteristics of perfect competition with monopoly under the following headings:

- Barriers to entry;
- Profits in the long run;
- Economies of scale;
- Price discrimination.

(20)

[75 marks]

3. (a) (i) Explain the following terms in relation to a factor of production:
- Supply Price;
 - Transfer Earnings.
- (ii) Explain the concept *Economic Rent* **and** outline **two** circumstances under which a factor of production can earn it. (25)
- (b) (i) State and explain the economic reasons why entrepreneurship is important to the development of the Irish economy.
- (ii) State and explain **three** means by which the Irish Government could encourage entrepreneurship in Ireland. (30)
- (c) ‘There are 200,000 small firms in Ireland employing 655,000 people’.
(Small Firms Association, December 2011)
- Discuss the reasons why small firms survive in the Irish economy. (20)

[75 marks]

4. (a) With the aid of **two** clearly labelled diagrams, explain the relationship between:
- (i) the short run average cost curve and long run average cost curve. (25)
- (ii) the short run average cost curve and marginal cost curve. (25)
- (b) Discuss the economic factors which should be considered by a firm when deciding where to locate its operations. (25)
- (c) Ocean Blue Ltd produces two boats weekly and incurs the following weekly costs:
- Rent: €1,200
 - Raw materials: €2,000
 - Labour: €1,600
 - Normal profit: €1,000

What is the minimum price at which **each** boat can be sold if production is to continue:
(i) in the short run? (ii) in the long run?

Explain your answers in **each** case.

(25)

[75 marks]

5. (a) The following table shows the world population and the projection for 2012, according to the United States Census Bureau (USCB) estimates:

| Population in Billions | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|------------------------|------|------|------|------|------|------|------|
| Year | 1804 | 1927 | 1960 | 1974 | 1987 | 1999 | 2012 |
| Years elapsed | - | 123 | 33 | 14 | 13 | 12 | 13 |

- (i) Suggest **two** reasons for the rapid growth in world population in recent times.
 (ii) Discuss the economic effects of an increasing population on the Irish economy. (30)

- (b) (i) State and explain the benefits of economic growth for developing countries (LDCs).
 (ii) Discuss **one** advantage and **one** disadvantage for the Irish economy of increased growth rates in developing countries (LDCs). (25)

- (c) The classical economist, Thomas Malthus, in his work *An Essay on the Principle of Population* (1798) created a theory on population.

- (i) Explain Malthus's theory on population.
 (ii) Is Malthus's theory on population relevant today? Explain your answer. (20)

[75 marks]

6. (a) One of the economic aims of the Irish Government at present is to decrease government current expenditure.
 Discuss **four** other economic aims of the Government **and** use relevant statistics/information to justify your choice. (20)

- (b) 'Most eurozone countries with large deficits are using VAT to generate revenue.'
 (Irish Tax Institute, The Irish Times, November 2011)

- (i) Explain, using examples, the difference between direct taxes and indirect taxes.
 (ii) Discuss the economic advantages **and** disadvantages for the Government of increasing VAT rates instead of income tax rates in its most recent budget.
 (iii) Outline how imposing a tax on sugary foods (e.g. fizzy drinks) could benefit the Irish economy. (35)

- (c) State and explain **two** economic arguments in favour of and **two** economic arguments against third level students contributing to the cost of their higher education. (20)

[75 marks]

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

| Country | Output (production per worker per week) | |
|---------------------|--|-----------------|
| | Food | Clothing |
| United Kingdom | 40 units | 10 units |
| China | 60 units | 20 units |
| Total Output | 100 units | 30 units |

- (i) State the *Law of Comparative Advantage*.
(ii) Explain how both countries benefit from international trade in the above example.
(iii) Calculate the terms of trade for both goods. Show your workings. (30)
- (b) (i) Discuss **three** economic factors which affect the competitiveness of Irish firms in international trade.
(ii) Outline how international trade benefits Irish consumers. (25)
- (c) ‘Euro area growth is forecast to slow down from 1.6% in 2011 to 0.2% in 2012’.
(OECD, 2011)
Discuss the possible effects on the Irish economy of the slowdown in the growth rate in the euro area. (20)

[75 marks]

8. (a) It is often said that ‘push’ factors and ‘pull’ factors drive emigration.
- (i) Describe **two** economic ‘push’ factors OR **two** economic ‘pull’ factors currently affecting emigration from Ireland.
(ii) State and explain the positive **and** negative consequences of emigration for the Irish economy. (30)
- (b) (i) State the rate of unemployment in Ireland during 2012, as indicated by the Live Register.
(ii) Outline the limitations of the Live Register in measuring the rate of unemployment in the Irish economy. (20)
- (c) The economist John Maynard Keynes, author of *The General Theory of Employment, Interest and Money* (1936), supported the use of fiscal policy by Government to create full employment.
- (i) Explain the above statement.
(ii) Discuss **two** other key concepts which Keynes contributed to economic thought. (25)

[75 marks]

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