

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 2015

WEDNESDAY 17 JUNE 2015 – MORNING 9.30 – 12.00

ECONOMICS - ORDINARY LEVEL (400 marks)

Answer **six** questions from Section A and **four** questions from Section B.

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. Insert the factor of production **or** an appropriate example of the factor of production into the **four** spaces provided below.

Factor of Production	LAND	(ii)	CAPITAL	(iv)
Example	(i)	TEACHER	(iii)	BUSINESS OWNER

(16 marks)

2. Which of the characteristics / assumptions listed below refer to **Perfect Competition**?
(Write **True** or **False** after each sentence.)

	SENTENCE	TRUE or FALSE
(i)	The goods are homogenous / identical.	
(ii)	Barriers to entry exist in this market.	
(iii)	There are many buyers and sellers in the market.	
(iv)	The goods are close substitutes.	

(16 marks)

3. The rate of Corporation Tax in Ireland is currently 12.5 %.
Explain the underlined term **and** outline **one** possible reason why the Irish Government retained the rate at 12.5 % in Budget 2015.

Explanation:

One possible reason:

(16 marks)

4. Choose the correct words from the list below to complete the following two statements:

Sale Purchase Goods Services

Statement A:

Visible exports are defined as the _____ of Irish _____ to foreign countries.

Statement B:

Invisible imports are defined as the _____ of foreign _____ by Irish people.

(16 marks)

5. (a) State **two** economic characteristics of Less Developed Countries (LDCs).

Characteristic 1:

Characteristic 2:

(b) Outline **one** way Ireland (the Irish Government or Irish citizens) could support LDCs.

(16 marks)

6. What do the following letters stand for? (Write each answer in the space provided.)

ECB	
CPI	
WTO	

(17 marks)

7. Suppose the Apple iPhone 6 has a Price Elasticity of Demand (**PED**) of – **2.8**.

(i) Explain what is meant by the negative (–) sign.

(ii) Circle the **correct** answer in **each** case to complete the following statement.

A 10% decrease in the market price of this Apple iPhone 6 will result in a **fall / rise** in the quantity demanded by **28% / 2.8%**.

(17 marks)

8. Some economists say Ireland is experiencing a 'Brain Drain' due to emigration. Explain the underlined term and state **one** other economic problem that Ireland may experience due to emigration.

Explanation: _____

One other economic problem: _____

(17 marks)

9. There are more Irish consumers buying/shopping online (internet).

(a) Outline **two** economic benefits of this development for Irish consumers.

Benefit 1: _____

Benefit 2: _____

(b) Outline **one** possible economic cost of this development for the Irish economy.

(17 marks)

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SECTION B (300 marks)

Answer **four** questions.

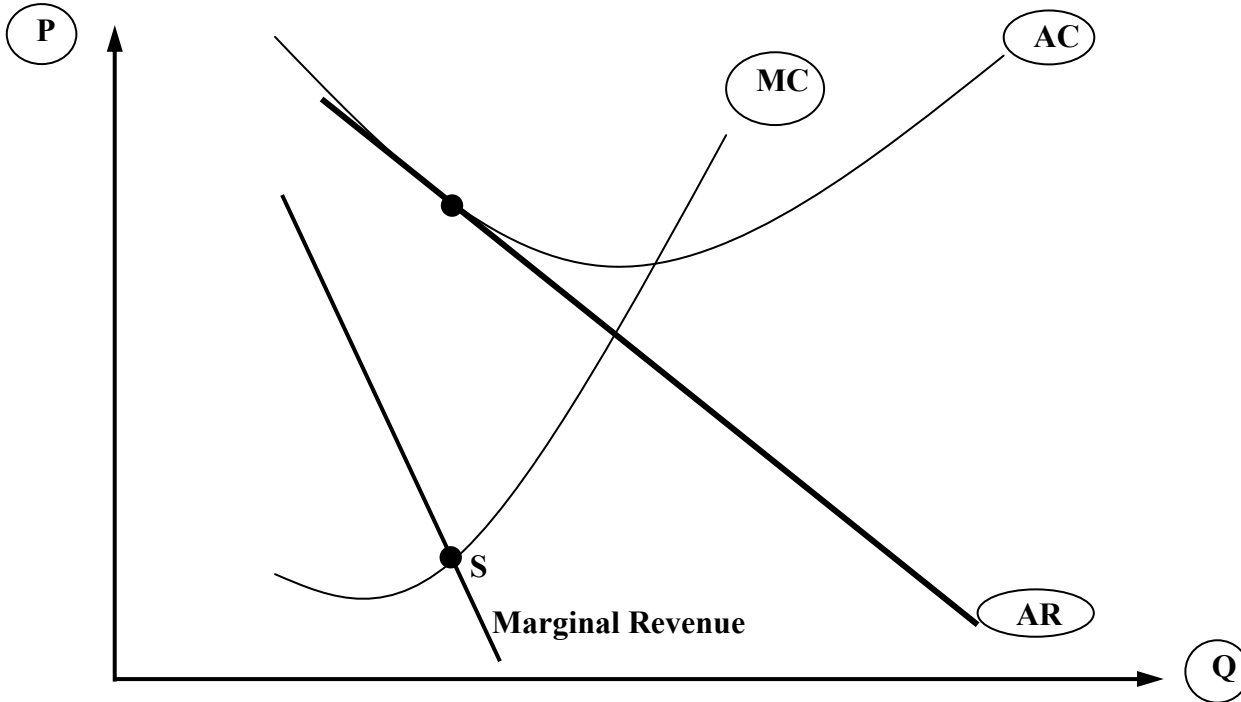
Write the answers in your answer book(s).

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 **Imperfect Competition**.



(a) Copy the diagram into your answer book.

- (i) State what **each** of the 5 labels circled above represent.
- (ii) The firm is in equilibrium at point S. Show on your diagram:
 - The quantity the firm will produce in equilibrium (use label Q_1)
 - The price the firm will charge for Q_1 . (use label P_1)

(30 marks)

(b) There are no *barriers to entry* in Imperfect Competition.

- (i) Explain the term *barriers to entry*.
- (ii) State **two** other characteristics of Imperfect Competition.
- (iii) Write brief notes on **each** of these.

(20 marks)

(c) Firms in Imperfect Competition advertise to build *brand loyalty*.

- (i) Explain the term *brand loyalty*.
- (ii) State and explain **one** possible advantage of advertising for the consumer and **one** possible advantage for the seller.
- (iii) State and explain **one** possible disadvantage of advertising for the consumer and **one** possible disadvantage for the seller.

(25 marks)

[75 marks]

2. The information below represents the market demand and supply schedules for Smartphones.

Price €	Quantity Demanded (units)	Quantity Supplied (units)
100	50,000	10,000
200	40,000	20,000
300	30,000	30,000
400	20,000	40,000
500	10,000	50,000

Using the above information and **one** diagram:

- (a) (i) Draw **and** label the market demand curve for Smartphones.
(ii) Draw **and** label the market supply curve for Smartphones.
(iii) Show on your diagram:
- The market equilibrium price for Smartphones (use P_1)
 - The market equilibrium quantity for Smartphones (use Q_1).
(You may use graph paper if you wish.)

(30 marks)

- (b) The demand curve for Smartphones **OR** the supply curve for Smartphones may shift to the right or to the left due to the following:
- a fault in the manufacturer's Smartphone design is discovered leading to their recall
 - a range of new Apps is made available and included with the Smartphone.

In relation to **each** development above, answer the following **three** questions:

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

(20 marks)

- (c) Domestic users in most European countries pay for the provision of clean water and wastewater service provision.
- (i) Outline **two** economic reasons for the introduction of water charges for households.
(ii) State and explain **one** possible economic effect which these water charges may have for **each** of the following:
- households who pay these water charges
 - the Irish Government.

(25 marks)

[75 marks]

3. Emma O'Neill is an entrepreneur and has set up a business designing and creating gardens. The table below shows her estimated costs of production and total revenues over a range of output.

Number of units of output	Fixed Costs	Variable Costs	Total Costs	Total Revenue	Total Profit/Loss
	€	€	€	€	€
1	2,000	1,000	3,000	2,800	(200)
2	2,000	1,800	3,800	4,300	500
3	2,000	3,300	A.	6,500	C.
4	2,000	5,000	B.	8,800	D.

- (a) (i) Explain the underlined term above.
(ii) Using the table calculate the total costs at **A** and **B** (show your workings in your answer book) and the total profit at **C** and **D** (show your workings in your answer book).
(iii) The following are examples of costs incurred by a garden designer:
Lawnmower Plants/shrubs Truck Fertiliser
Identify which of the above are fixed costs and which are variable costs.
Explain your answer in **each** case. **(30 marks)**
- (b) If the business continues to expand Emma may consider employing additional labour at the national minimum wage rate.
(i) Explain **each** of the underlined terms.
(ii) State and explain **two** factors which may encourage Emma to employ additional workers. **(24 marks)**
- (c) (i) Outline **two** reasons why entrepreneurship is important for the Irish economy, other than creating employment.
(ii) Outline **one** action which **each** of the following could take to encourage entrepreneurship:
 - the Irish Government
 - Irish consumers.**(21 marks)**
[75 marks]
4. (a) Medium of exchange and measure of value are functions of money.
Explain **each** of the underlined terms and state **one** other function of money. **(21 marks)**
- (b) The rate of **DIRT** is one factor which influences the level of personal savings.
(i) What do the initials **DIRT** stand for?
(ii) Explain the underlined term.
(iii) State and explain **two** factors, other than the rate of DIRT, which may influence the level of savings of an individual. **(30 marks)**
- (c) (i) The economist John Maynard Keynes stated that people have three motives for holding wealth in the form of cash.
 - Transactionary
 - Precautionary
 - Speculative
Explain **any two** of the above motives.
(ii) Name **one** other economist who contributed to economic thought and outline **one** of this person's contributions. **(24 marks)**
[75 marks]

5. (a) You are given the following information about a country's trade in a year.

Visible Exports €million	Visible Imports €million	Balance of Trade €million	Surplus or Deficit
25,000	24,200	?	?

- (i) Explain the term *Balance of Trade*.
(ii) Using the above data calculate the Balance of Trade **and** explain your answer.
(iii) If the level of visible imports above increased by €1,000m, calculate the new Balance of Trade **and** state if it is a surplus or deficit. (Show your workings.)

(26 marks)

- (b) Exports of beef from Ireland should increase due to the ending of a 16-year *embargo* on European beef imports into the US market.

- (i) Explain the economic term *embargo*.
(ii) Is the export of beef from Ireland a visible export **or** an invisible export?
Explain your answer.
(iii) State and explain **two** economic benefits of an increase in exports for the Irish economy.

(25 marks)

- (c) You are given the following information regarding the euro (€) and the UK pound sterling (£) exchange rate.

Year 1: €1 = £1.00

Year 2: €1 = £0.80

The euro (€) has **fallen in value** relative to the UK pound sterling (£).

Explain the possible effects which this fall in the value of the euro may have on **each** of the following:

- (i) Ireland's **exports to** the UK
(ii) Ireland's **imports from** the UK
(iii) **Employment** in Ireland.

(24 marks)
[75 marks]

6. (a) The estimated Government current budget for 2015 is as follows:

Government Current Income	€45,255 m	Government Current Expenditure	€48,985 m
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- (i) Calculate the current budget deficit. (Show your workings.)
- (ii) Suggest **two** ways the government could reduce this deficit.
- (iii) State **one** example of Government current income and **one** example of Government current expenditure.

(25 marks)

(b) In Budget 2015 the Government reduced the higher rate of income tax from 41% to 40% and reduced some of the rates of USC.

- (i) What do the initials USC stand for?
- (ii) Is income tax a direct or indirect tax? Explain your answer.
- (iii) Explain **one** possible economic effect which the reduction in the rate of income tax may have on **any two** of the following:
 - the government's current budget deficit
 - the level of employment in Ireland
 - the level of emigration from Ireland.

(24 marks)

(c) The tax on a packet of twenty cigarettes was increased by 40c in Budget 2015.

- (i) Outline **one** other measure which could be taken to reduce the consumption of cigarettes.
- (ii) State and explain **two** economic benefits for **individuals** if they reduce their consumption of cigarettes.
- (iii) State and explain **two** benefits for **society** if the consumption of cigarettes falls.

(26 marks)

[75 marks]

7. (a) Following Budget 2015 the Government announced plans to spend €2.2bn on social housing over the next three years.

Note: Social Housing refers to housing supplied by the Government to people on low incomes at rents which are lower than free market rents.

- (i) Does this spending on social housing represent current expenditure **or** capital expenditure by the government? Explain your answer.
- (ii) Outline **two** advantages of expenditure on social housing for the Irish economy.
- (iii) Explain, using an example, **one** opportunity cost of this investment in social housing.

(26 marks)

(b) "The Irish economy is forecast to grow by 3.7% in 2015, marking a third successive year of growth."
(Central Bank Quarterly Bulletin, 2015)

- (i) State **one** measure of economic growth.
- (ii) State and explain **one** benefit of economic growth for **each** of the following in the Irish economy:
 - Irish citizens
 - Businesses
 - Government finances.

(25 marks)

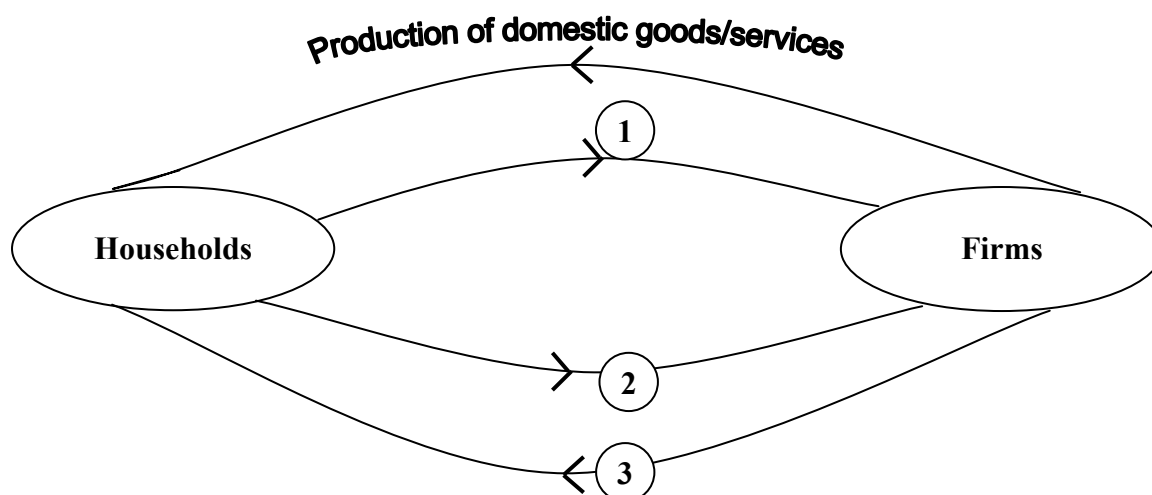
(c) Ireland has been a member of the European Union (EU) since 1973.

- (i) Outline **two** reasons why countries may want to become members of the EU.
- (ii) Outline **two** possible economic disadvantages for Ireland of membership of the EU.

(24 marks)

[75 marks]

8. (a) The diagram below represents the Circular Flow of Income in an economy without government or international trade.



- (i) Copy the diagram into your answerbook. Clearly label each of the lines 1 to 3.
(ii) Explain the types of transactions / activities which take place between households and firms.
(iii) Is Ireland an open economy? Explain your answer.

(25 marks)

- (b) National Income is calculated using the following formula:

$$\text{National Income} = \text{Consumption} + \text{I} + \text{Government Spending} + \text{X} - \text{M}$$

- (i) Explain the underlined term.
(ii) State what each of the letters **I**, **X** and **M** stand for.
(iii) The level of consumer spending (consumption) is beginning to rise in Ireland. Outline **two** possible reasons for this increase in consumer spending.

(30 marks)

- (c) The Multiplier formula for an open economy is: $\frac{1}{\text{MPS} + \text{MPM}}$

- (i) Explain the terms MPM and MPS.

Assume that MPM is 0.3 and MPS is 0.2.

- (ii) Calculate, using the above formula, the size of the Multiplier. (Show all your workings.)

(20 marks)

[75 marks]

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