

WARNING

This Question Paper MUST be returned with your answer book(s) at the end of the Examination, otherwise marks will be lost.

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Coimisiún na Scrúduithe Stáit State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2016

WEDNESDAY 22 JUNE MORNING 9:30 to 12:00

ECONOMICS - HIGHER 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

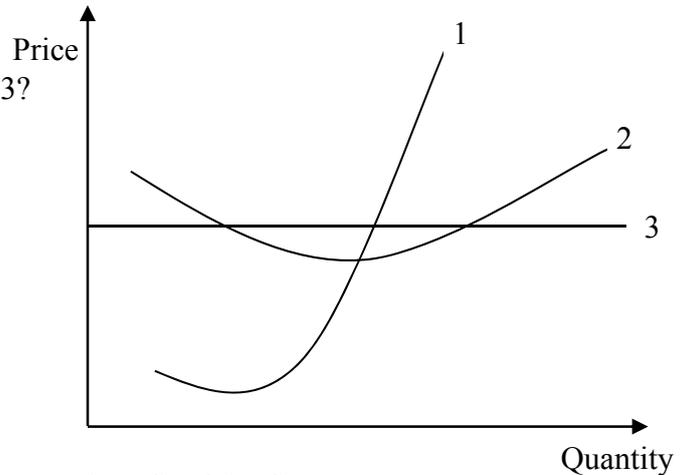
SECTION A (100 marks)

Answer **six** of the **nine** short response type questions in the spaces provided.

1. The diagram below shows a firm operating under conditions of **perfect competition** in the short run.

(a) What is represented by the lines numbered 1 to 3?
Use the answer box provided.

Number	Name
1	
2	
3	



(b) (i) Show clearly on the diagram the total supernormal profit of the firm.

(ii) Explain the term **supernormal profit** _____

_____ (16 marks)

2. Define the **Law of Diminishing Marginal Returns** and illustrate this with a suitable example.

Definition _____

Example _____

(16 marks)

3. Outline **two** ways the Irish government could improve the mobility of labour in order to reduce unemployment.

(i) _____

(ii) _____

(16 marks)

SECTION A (continued)

4. Firms within the aircraft industry can benefit from economies of scale. Explain the term **economies of scale** and provide **one** example for a firm in the aircraft industry.

Explanation _____

Example _____

(16 marks)

5. (a) Outline **two** possible effects on the Irish economy of high levels of youth unemployment.

(i) _____

(ii) _____

- (b) State **one** economic policy the government could introduce to reduce youth unemployment.

(16 marks)

6. The table below shows the annual average level of income in a country and the corresponding demand for Product A for two years.

Year	Income (€)	Product A (units)
Year 1	57,000	100
Year 2	63,000	200

- (i) Calculate the income elasticity of demand (YED) for Product A.

Show your workings.

- (ii) Using your knowledge of YED, explain the economic meaning of this figure you calculated in (i) above.

Workings:

Answer:

(17 marks)

SECTION A (continued)

7. The primary aim of the ECBs monetary policy is to maintain price stability.

(a) Define the term **monetary policy**.

(b) Outline **two** benefits of price stability for the Irish economy.

(i) _____

(ii) _____

(17 marks)

8. (a) Outline **two** possible economic effects of the Irish government introducing a levy on home insurance premiums to help address damage caused by the recent flooding crisis in Ireland.

(i) _____

(ii) _____

(b) Suggest **one** alternative method for addressing the flooding crisis in Ireland.

(17 marks)

9. “The national minimum wage is increased by 50 cent, bringing it to €9.15 in a bid to make work pay.”

(Source: *Irish Independent*, October 2015)

Outline **three** possible economic impacts of this measure on the Irish economy.

(i) _____

(ii) _____

(iii) _____

(17 marks)

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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) Outline **four** factors that determine the supply of a good or service.
(ii) Explain the difference between a **movement along a supply curve** and a **shift in a supply curve**. Use appropriate diagrams to illustrate your answer. [35]
- (b) Read the following statements and indicate if they are **TRUE** or **FALSE**. Explain your answer in **each** case.
- (i) The cross price elasticity of demand for substitute goods has a negative value.
(ii) Price Elasticity of Demand (PED) tends to be more elastic in the long-run than in the short-run.
(iii) When demand for a good is price inelastic, a reduction in price will increase total sales revenue.
(iv) Income elasticity of demand (YED) for luxury goods is positive. [24]
- (c) Using the concepts of demand and supply explain, with the aid of a labelled diagram, how a shortage of tickets for a major concert may arise. The concert venue has a maximum capacity of 30,000 people. [16]
- [75 marks]**
2. *Cadbury, Mars and Nestlé dominate the chocolate industry in the European Union.*
- (a) (i) State a market structure which most closely reflects the situation above, giving a reason for your answer.
(ii) Outline **two** other key characteristics of this market structure.
(iii) Explain, with the aid of a labelled diagram, the likely shape of the demand curve in this market structure. [35]
- (b) (i) If a large US chocolate manufacturer entered the EU chocolate market, outline the possible economic impacts of greater competition in this market.
(ii) Outline **two** factors which could make it difficult for this US chocolate manufacturer to enter the EU chocolate market. [25]
- (c) Explain why small firms succeed in some markets while other markets are dominated by large firms. [15]
- [75 marks]**

3. (a) Explain the following terms in relation to the factor of production labour.
- (i) Participation rate
 - (ii) Real wages
 - (iii) Labour Productivity
 - (iv) Derived demand [20]
- (b) (i) Discuss the factors that impact on the supply of labour.
(ii) Outline **two** challenges currently facing the Irish labour market and state **one** appropriate government policy response for **each** challenge identified. [35]
- (c) Discuss reasons why different workers are paid different wage rates. [20]
- [75 marks]**

4. (a) (i) Distinguish between the short-run and the long-run production periods.
(ii) In the short-run firms may stay in the industry even if they are making a loss. Explain this statement. [15]
- (b) (i) Explain the terms **marginal revenue** and **marginal cost**.

The table below shows costs and revenue data of a firm.

Output	Price (€)	Total Revenue (€)	Total Cost (€)
1	20	20	42
2	20	40	60
3	20	60	77
4	20	80	97
5	20	100	130

Use the data in the table above to:

- (ii) Calculate the marginal revenue and marginal cost at **each** output level.
Show your workings.
- (iii) Draw **one** graph showing the marginal revenue and marginal cost **and** identify the profit-maximising level of output for this firm. Explain your answer. [30]
- (c) *“Overall Ireland’s improving competitiveness performance over the period 2011 to 2014 has been central to the recovery in employment and economic growth.”*
(Source: The National Competitiveness Council, December 2015)
- (i) Outline the factors that influence the competitiveness of firms in Ireland.
 - (ii) Discuss **three** policies that the Irish government could consider to improve the competitiveness of firms in Ireland.

[30]
[75 marks]

5. (a) (i) Define the term **full employment**.
(ii) Discuss the possible economic benefits **and** economic challenges of full employment in an economy. [25]

(b) Use the information in the table to answer the questions below.

Marginal propensity to consume (MPC)	0.8
Marginal propensity to import (MPM)	0.2
Current equilibrium level of national income	€500m
Level of national income that would give full employment	€620m

- (i) Define the term **marginal propensity to save (MPS)**.
(ii) Calculate the MPS for this economy illustrated in the table above.
(iii) Calculate the value of the multiplier in this open economy.
(iv) How much will the government have to inject into this economy if it wants the economy to operate at its full employment level? **Show your workings**. [30]
- (c) Explain how Ireland's Gross Domestic Product (GDP) could be affected by **any two** of the following.
- (i) An increase in Child Benefit payments.
(ii) A foreign-owned company, operating in Ireland, sends back to their home country all the profits they have earned in Ireland.
(iii) An oil spill off the Irish coast costs the Irish Government significant clean-up costs. [20]
- [75 marks]**

6. (a) (i) Explain the term **exchange rate**.
(ii) Outline the possible economic effects on the Irish economy of an appreciation in the value of the euro € against the US \$. [25]
- (b) *"The Balance of Payments (BOP) Current Account had a surplus of €2.7 billion in the second quarter of 2015, equivalent to 5.2% of quarterly GDP."*
(Source: Nevin Economic Research Institute (NERI), Autumn 2015)
- (i) Describe the main elements of Ireland's **balance of payments (BOP) account**.
(ii) Explain what is meant by a **surplus on the BOP current account**.
(iii) Can a surplus on the BOP current account pose problems for an economy?
Explain your answer. [30]
- (c) *"Irish SMEs (Small and Medium Enterprises) are too dependent on the home market, Europe warns."*
(Source: Irish Independent, November 2015)

Outline the benefits **and** challenges for Irish SMEs operating in foreign markets.

[20]
[75 marks]

7. (a) In the case of any **two** of the following three pairs, distinguish between the two concepts.
- (i) Income and wealth
 - (ii) Progressive taxes and regressive taxes
 - (iii) Impact of taxation and incidence of taxation.
- [20]
- (b) (i) Outline **two** economic policies which the Irish Government could consider to address inequality in Ireland.
- (ii) Policies introduced to reduce inequality may make it more difficult for the government to achieve other economic aims. Explain this statement, using examples to support your answer.
- [30]
- (c) A clean and healthy environment is a scarce and valuable resource. Outline actions the Irish government could take to protect the environment.
- [25]
[75 marks]
8. (a) Outline, using appropriate figures, how the Irish economy has performed in the last 12 months in **each** of the following areas:
- Economic growth
 - Price level
 - Unemployment
 - Interest rates.
- [20]
- (b) “The government will run a budget deficit of only 1% of GDP next year, while gross debt will fall to 89% of GDP by the end of 2016.” (Source: *Irish Examiner*, November 2015)
- (i) Discuss how the Irish Government has achieved reductions in the budget deficit **and** gross debt in recent years.
- (ii) Outline the possible costs to Irish society in achieving these reductions.
- [35]
- (c) Ireland’s population has become increasingly urbanised. Outline the economic consequences (positive and negative) of this development for Ireland.
- [20]
[75 marks]

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