

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 - 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** factors that determine the efficiency of labour:

(i) _____

(ii) _____

(iii) _____

(16 marks)

2. “It is estimated that the ‘Black Economy’ costs the Irish Economy over €1 billion per month”.
(Irish Small and Medium Enterprises (ISME), August 2007).

Explain the underlined term and state **one** method by which the government could discourage this activity.

Explanation: _____

Method: _____

(16 marks)

3. A firm manufacturing 100 school desks weekly has the following total costs of production: Labour €2,000 (hired weekly); Raw Materials €3,500; Normal Profit €1,500; Rent €3,000. What is the minimum price per school desk this firm could charge in the **short run**?
Explain your answer. (Show all your workings).

Workings:

Minimum Price:

Explanation:

(16 marks)

4. Define **economic development**. State **two** policies by which governments in less developed countries (**LDCs**) might promote economic development.

Definition: _____

Policy (i): _____

Policy (ii): _____

(16 marks)

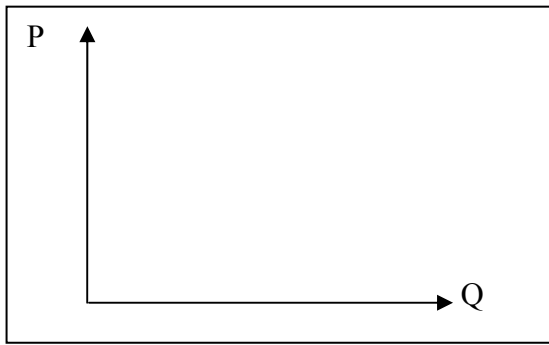
5. Define a **Free Enterprise** economic system and state **one** economic advantage of this system.

Definition: _____

Advantage: _____

(16 marks)

6. China will host the Beijing Olympic Games in August 2008 and 7 million tickets are available for the event. On the diagram below draw the supply curve for tickets and explain the reason for its shape.



Explanation:

(17 marks)

7. 'Ireland's current account in the **Balance of Payments** is in deficit'. Explain the meaning of this statement and state **two** reasons why this situation exists.

Explanation: _____

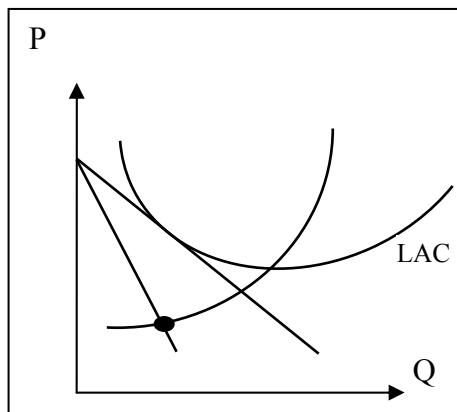
Reasons:

(i) _____

(ii) _____

(17 marks)

8. The diagram below represents the long run equilibrium of a firm in imperfect competition, which seeks to maximise profits. Label the diagram and use it to describe the long run equilibrium position for a firm in Imperfect Competition.



Description:

(i) _____

(ii) _____

(iii) _____

(iv) _____

(17 marks)

9. Oil prices rose steadily during the last year. State **two** economic reasons for this development. State **one** social cost and **one** social benefit of the rising prices.

Reasons:

(i) _____

(ii) _____

Social Cost: _____

Social Benefit: _____

(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, with the aid of an example, the ‘**Law of Demand**’.
 (ii) State and explain **three** exceptions to the ‘**Law of Demand**’. (20 marks)

- (b) The data below represents the market demand and supply schedules for MP3 Players.

Price €	Quantity Demanded (units)	Quantity Supplied (units)
20	100	20
30	80	40
40	60	60
50	40	80
60	20	100

- (i) Using the above data, draw the diagram showing the market demand and supply curves for MP3 Players.
 (ii) Show on your diagram the price and quantity of MP3 Players at which this market is in equilibrium.
 (iii) Using this data, calculate the **price elasticity of demand** when price changes from €40 to €50. (Show all your workings).
 For this price change, is demand for MP3 Players elastic or inelastic? Explain your answer.

(30 marks)

- (c) (i) With reference to your diagram in 1(b) (i), assume that consumer demand for MP3 Players increases by 40 units at each price listed above, while supply remains unchanged, draw the **new** demand curve for this situation and show the new equilibrium price and quantity.
 (ii) Explain **two** possible reasons for the shift in the demand curve.

(25 marks)

[75 marks]

2. (a) Explain, with the aid of a diagram, the long run equilibrium position for a monopoly firm which seeks to maximise profits.

(25 marks)

- (b) (i) Define price discrimination.
 (ii) Explain **three types** of price discrimination, using suitable examples in each case.

(20 marks)

- (c) (i) State and explain **three** barriers to entry facing entrants to a monopoly market.
 (ii) **Deregulation** of markets (i.e. allowing more suppliers of a good or service into the market) is a continuing development in the Irish economy e.g. energy, mobile phones, transport etc.

Explain how deregulation could affect:

- (i) Consumers of the good/service;
 (ii) Employees in the industry;
 (iii) Profits of existing firms.

(30 marks)

[75 marks]

3. (a) (i) Define the factor of production ‘**Enterprise**’.
(ii) Outline **two** characteristics which make ‘Enterprise’ a unique factor of production.
(iii) Do all entrepreneurs earn the same level of profit? Explain your answer. (30 marks)
- (b) A computer software engineer, who earns €40,000 annually in her current employment, decides to become an entrepreneur and set up her own business in which she expects to earn €75,000 annually.
- (i) What is this entrepreneur’s ‘supply price’? Explain your answer.
(ii) If the business performs as expected, will the entrepreneur earn an ‘economic rent’? Explain your answer. (15 marks)
- (c) Public services are labour intensive and as a consequence the public sector wage bill accounts for a significant proportion of government current spending.
- (i) Explain why Marginal Revenue Productivity (MRP) might not be a suitable method for setting wages in the Public Sector.
(ii) Outline an alternative method for determining wage levels in the Public Sector.
(iii) Identify possible ways in which the Minister for Finance could reduce the Public Sector wage bill. (30 marks)
[75 marks]
4. (a) (i) Define the terms **Gross Domestic Product at Current Market Prices** and **National Income**.
(ii) Explain the relationship between these two terms. (30 marks)
- (b) The **Circular Flow of Income** for an open economy describes the flows that influence the level of National Income.
- (i) State and explain **three** leakages from and **three** injections into the Circular Flow of Income in an open economy.
(ii) Outline the effect on the level of employment in the economy if leakages exceed injections. Explain your answer. (20 marks)
- (c) The Central Bank of Ireland has predicted a slower rate of economic growth for the Irish economy in 2008.
- Discuss the economic consequences of a slower rate of economic growth for Ireland. (25 marks)
[75 marks]

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

Country	Output (production per worker per week)	
	Clothing	Televisions
South Korea	30 units	10 units
China	40 units	20 units
Total Output	70 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 all your workings).

(30 marks)

- (b) Discuss the economic consequences of a **decrease** in the value of the US dollar (\$) relative to the euro (€) for the Irish economy.

(20 marks)

- (c) It is becoming more difficult to attract Foreign Direct Investment (multinational companies) into Ireland. Discuss the economic reasons for this development.

(25 marks)

[75 marks]

6. (a) In **each** of the following distinguish between the terms:

- (i) 'progressive taxation' **and** 'regressive taxation';
(ii) 'tax avoidance' **and** 'tax evasion'.

(20 marks)

- (b) (i) Outline the main functions of taxation.
(ii) Explain, using an example, the meaning of the term 'incidence of tax'.
(iii) Outline **two** reasons why the Minister for Finance regularly taxes goods such as alcohol, cigarettes and petrol in the Government's annual budget.

(30 marks)

- (c) (i) There has been a shift in focus by the Government away from direct taxation to indirect taxation. Discuss **two** economic advantages and **two** economic disadvantages of this situation for the Irish economy.

- (ii) Ireland must reduce its 'carbon footprint' (i.e. level of greenhouse gas emissions from fossil fuels) by 20% over the next 12 years. Explain **two** ways in which the tax system could be used to meet this target.

(25 marks)

[75 marks]

7. (a) (i) Explain the term 'Privatisation' and state **two** examples of companies that have been privatised in Ireland.
(ii) Outline **two** arguments in favour of Privatisation and **two** arguments against Privatisation for the Irish economy. (30 marks)
- (b) One of the economic aims of the government is 'Balanced Regional Development'.
(i) Explain the meaning of the underlined term.
(ii) Outline **two** policies which the government could implement to promote regional development.
(iii) 'Balanced Regional Policy has an opportunity cost'. Explain this statement, using an example to support your answer. (25 marks)
- (c) The 'Birth Rate' in Ireland shows an increase over previous years (CSO Census 2006).
(i) Explain the meaning of the underlined term.
(ii) Outline **three** economic implications of the changing structure and size of the Irish population. (20 marks)
- [75 marks]**

8. (a) (i) Explain, with the aid of an example, how it is possible for banks to create credit.
(ii) Outline how a desire by banks to reduce their level of bad debts might affect their ability to create credit.
(iii) Explain **two** other factors which could affect their ability to create credit. (30 marks)
- (b) Irish citizens experienced an increase in the rate of price inflation during 2007.
(i) Explain the underlined term.
(ii) Discuss the economic effects of this development on the Irish economy. (20 marks)
- (c) For a composite (weighted) price index covering three categories of expenditure given in the following table, calculate the index for the current year. The base year value is 100. (Show all your workings).

Category	% of Income spent on item(s)	Price of Item(s) in base year	Price of Item(s) in current year
		€	€
Food	40%	20.00	24.50
Clothing & Footwear	25%	42.00	40.00
Other Items	35%	30.00	36.00
	100%		

(25 marks)
[75 marks]

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