



Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate Examination 2021

Economics

Higher Level

Friday 25 June Morning 9.30-12.00

300 marks

Examination Number

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Day and Month of Birth

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The 2021 examination papers were adjusted to compensate for disruptions to learning due to COVID-19. This examination paper does not necessarily reflect the same structure and format as the examination papers of past or subsequent years.

Instructions

There are **two** sections in this paper.

This examination carries 300 marks in total.

Section A: 75 marks
Answer **5** out of **10** questions from this section.
All questions in this section carry 15 marks.

Section B: 225 marks
Answer **3** out of **6** questions.
All questions in this section carry 75 marks.

Write your answers in blue or black pen.

Write your answers in the spaces provided in this booklet. There is space for extra work at the end of the booklet. Label any such extra work clearly with the question number and part.

This examination booklet will be scanned and your work will be presented to an examiner on screen. Anything that you write outside of the answer areas may not be seen by the examiner.

Calculators may be used.

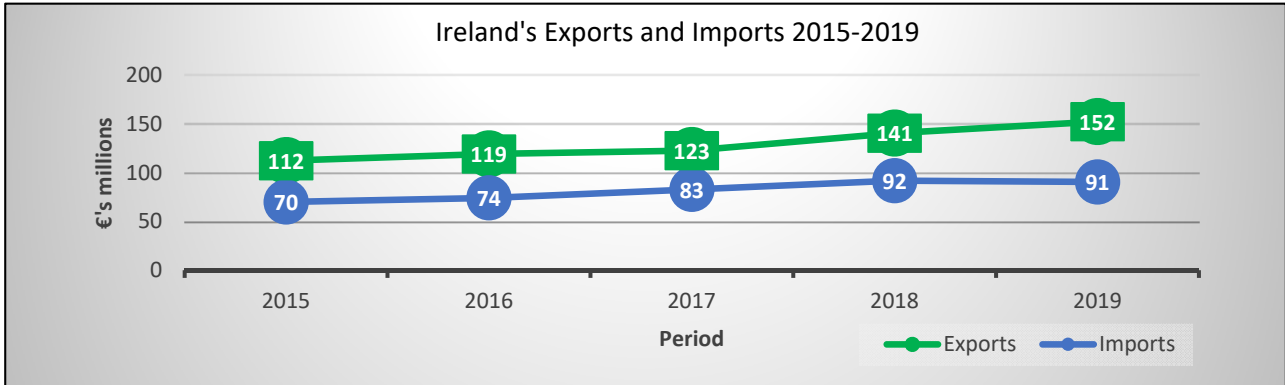
Write the make and model of your calculator here:



Answer 5 out of 10 questions

Question 1

- (a) Calculate the balance of trade for the period 2015 – 2019.
Identify whether it is a surplus **or** a deficit.



Adapted from the CSO

Workings:

Answer:

- (b) Outline two reasons why achieving a trade surplus is an objective of the Irish government.

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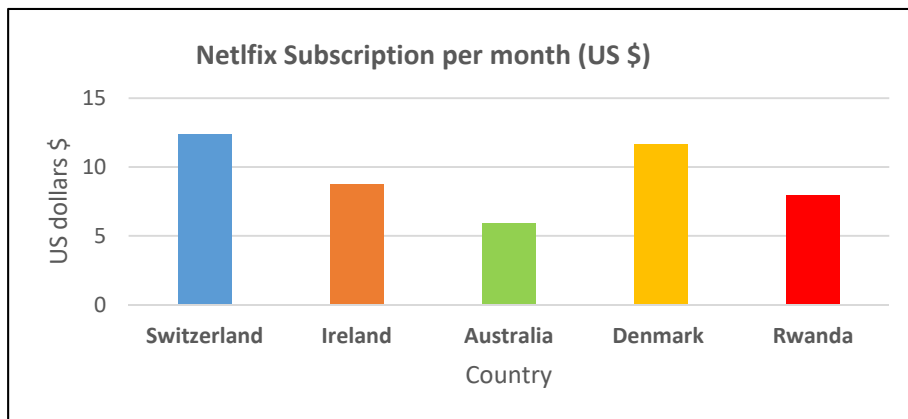
Question 2

Select, using a tick (✓) whether each of the following statements are normative statements or positive statements.

| Statement | Positive Statement | Normative Statement |
|--|--------------------|---------------------|
| If the Irish government increase jobseeker’s allowance by 5% in the 2022 budget, unemployment in Ireland will increase by at least 2% by 2023. | | |
| We have to do more for the less well off in society. | | |
| The government should have increased unemployment benefit by more than €0.10 this year. | | |
| Sales of new cars in Ireland decreased during 2020. | | |

Question 3

The table below shows the subscription price for a basic Netflix account in different countries. (The prices have been converted into US dollars \$ for comparison purposes)



Adapted from Statista

(a) Outline **one** reason why **consumers** are willing to pay different prices for a Netflix subscription in different countries.

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| Answer: |
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(b) Other than your answer given in part **(a)** explain two other conditions necessary for price discrimination to occur in this scenario.

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Question 4

In budget 2021, the price of a 20 pack of cigarettes rose from €13.50 to €14.00.

Cigarettes are classed as 'Demerit Goods' and as such their purchase constitutes a market failure.

(a) Explain your understanding of the economic term **Demerit Goods**.

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Answer (b) or (c)

(b) Explain why the purchase of demerit goods, such as cigarettes, is seen as a market failure.

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OR

(c) Explain why the Irish Government intervenes by imposing higher taxes on cigarettes in budgets.

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Question 5

KBC Bank Ireland was fined €18.3 million by the Central Bank of Ireland for its role in the tracker mortgage scandal.

Adapted from The Irish Times

- (a) Based upon the above statement outline why it is important for **consumers** that Irish banks are properly regulated by the Central Bank of Ireland.

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- (b) Other than the regulation of commercial banks, outline two other **duties** of the Central Bank of Ireland.

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Question 6

- (a) Explain why the Human Development Index (HDI) may provide a more accurate profile of human welfare in a country than the Gross Domestic Product (GDP) figure of that country.

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Answer (b) or (c)

The data below has been extracted from the HDI 2020.

| Rank | Country | Human Development Index. (HDI) (value) | Life expectancy at birth (years) SDG 3 | Mean years of schooling (years) SDG 4.6 | Gross national income (GNI)per capita (PPP \$) SDG 8.5 |
|------|---------------------------------|--|---|--|---|
| 187 | Chad | 0.398 | 54.2 | 2.5 | 1,555 |
| 188 | Central African Republic | 0.397 | 53.3 | 4.3 | 993 |
| 189 | Niger | 0.394 | 62.4 | 2.1 | 1,201 |

Adapted from hdr.undp.org

- (b) Using the data provided above, advise the **governments of these countries** on **one** policy they could use to improve their HDI ranking.

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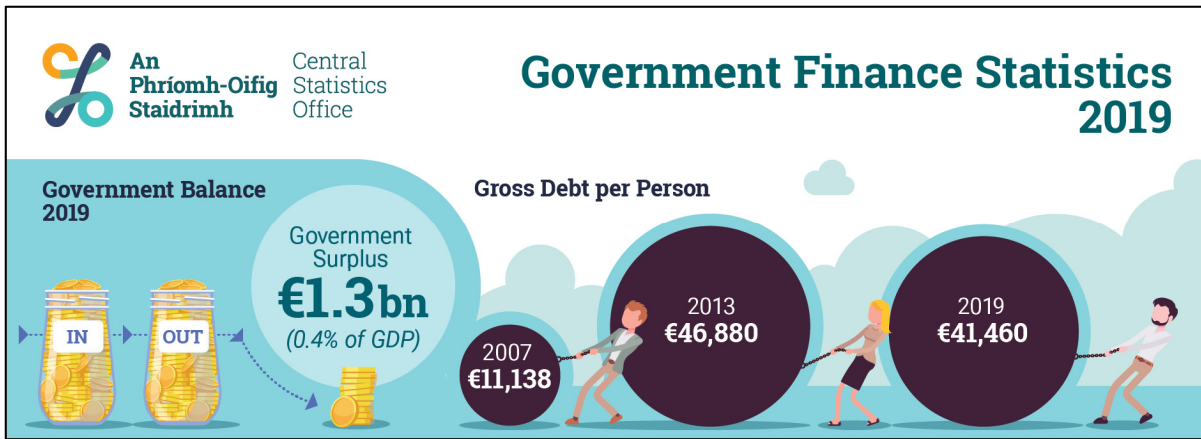
OR

(c) Advise the **Irish government** on how it could assist these countries improve their HDI ranking.

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Question 7

The diagram below shows Government Finance Statistics for 2019.



Adapted from the CSO

- (a) Compare the level of Gross Debt per Person from 2007 to 2019 and outline **one** possible reason for this increase in the gross debt per person.

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Answer (b) or (c)

- (b) Explain the economic **disadvantages** for a government in achieving a budget surplus.

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OR

(c) Servicing the national debt creates **opportunity costs**, explain how this occurs.

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Question 9

(a) Identify the corresponding market structure for each of these products/firms.

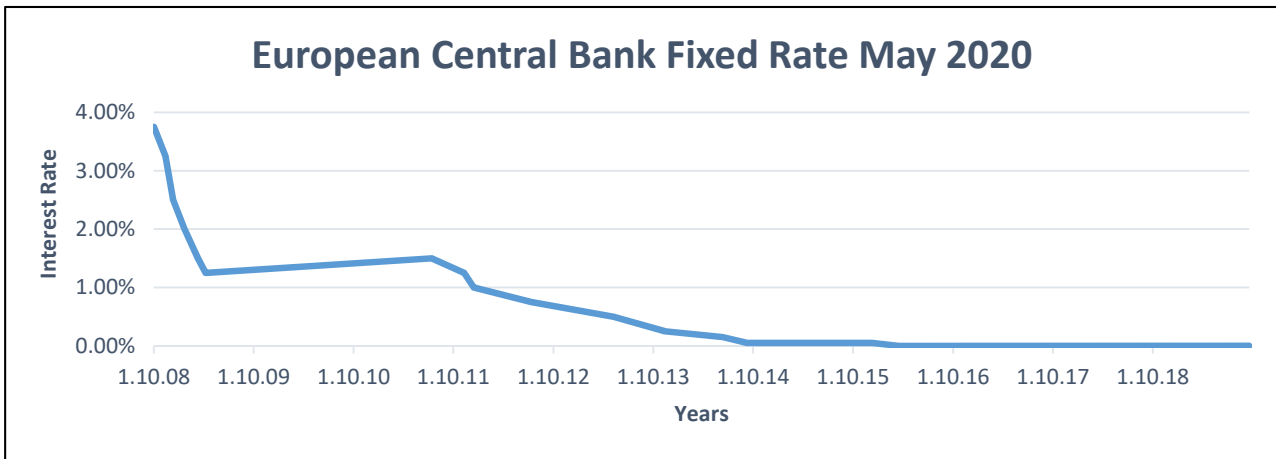
| | Product / Firm | Market Structure |
|----------|---------------------------|-------------------------|
| A | Irish banking sector | |
| B | Irish Water (the company) | |
| C | A takeaway food outlet | |

(b) Give **one** reason for each of your chosen market structures above.

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| A. |
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| B. |
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| C. |
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Question 10

The graph below shows the fluctuation in the European Central Bank Fixed Rate as of May 2020.



Adapted from Statista

(a) Explain the historical reason for this trend in the European Central Bank’s interest rate.

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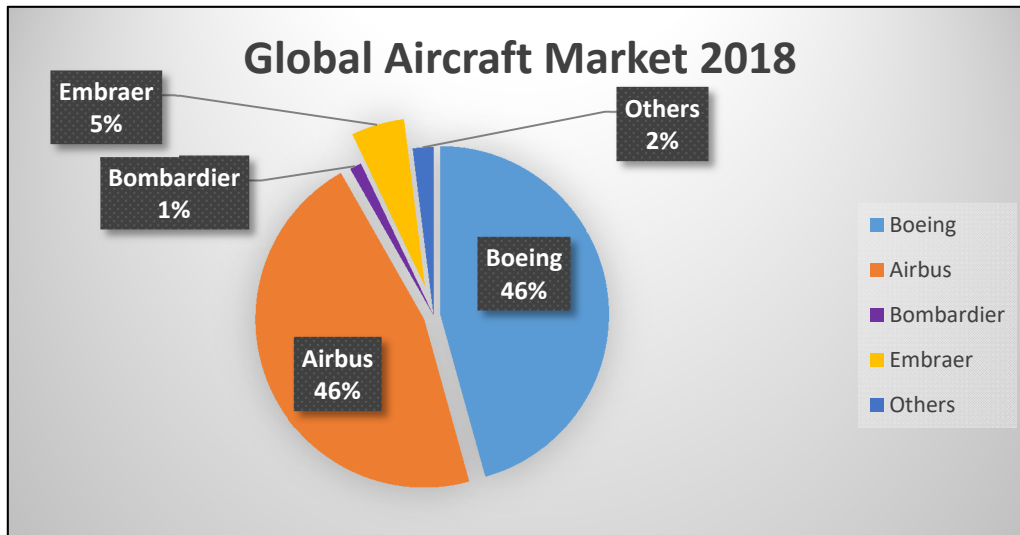
(b) Outline whether you would advise the European Central Bank to: **increase, decrease, or maintain** the current interest rate of 0%. Justify your choice.

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| Answer: |
| Justification: |
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Answer 3 out of 6 questions

Question 11

The pie chart below shows the market share of the Global Aircraft Market in 2018.



Adapted from Industry and Research.com

- (a) (i) Using the data provided above, calculate the Herfindahl Hirschman Index (HHI) for the Global Aircraft Market in 2018. Show your workings.

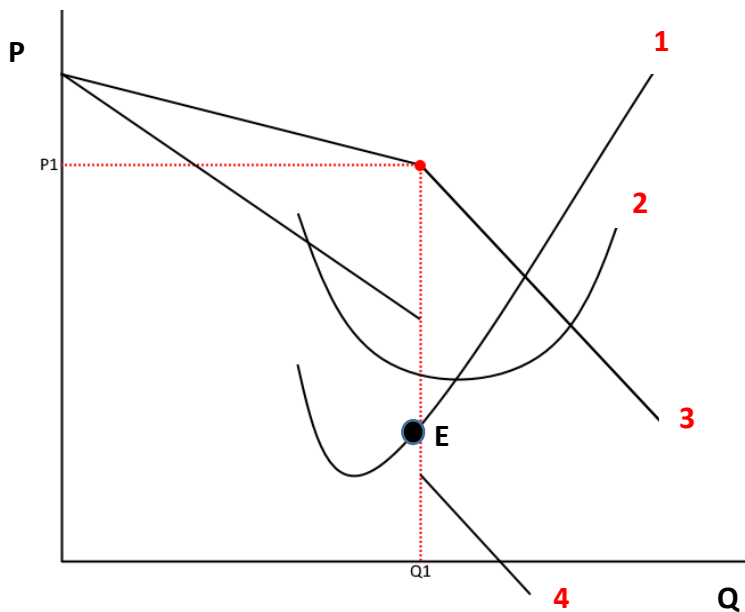
Workings:

Answer:

- (ii) Would you consider this market to be **competitive**, **moderately concentrated**, or **highly concentrated**? Explain your answer.

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| Answer: |
| Explanation: |
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- (b) The diagram below represents the long-run equilibrium of a firm in Oligopoly at point E producing at Q_1 and selling at P_1 .



- (i) Write in full the label (not abbreviations) for each of the lines numbered 1 to 4.

| Number | Label |
|--------|-------|
| 1. | |
| 2. | |
| 3. | |
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(ii) Would you advise the above firm to engage in price competition?
Give two reasons for your answer.

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(iii) Outline two reasons why small firms such as Embraer and Bombardier may survive in this market.

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Question 12

(a) (i) Explain the term **globalisation**.

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(ii) Outline two positive impacts **and** two negative impacts of globalisation.

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| Negative: |
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(b) In Budget 2020, the Minister for Finance reaffirmed Ireland’s commitment to the 12.5% corporation tax rate.

(i) Evaluate two reasons why the Minister for Finance made this decision.

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(ii) The Irish government has repeatedly rejected calls from the European Commission to remove Ireland’s ability to set its own corporation tax rate.

Outline **one** reason why the European Commission **want to remove this power** from the Irish government.

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(c) The United Kingdom exited the European Union on January 31, 2020.

(i) Discuss two implications of this exit for the Irish economy.

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(ii) Outline two possible **advantages** to Ireland of remaining a member of the EU.

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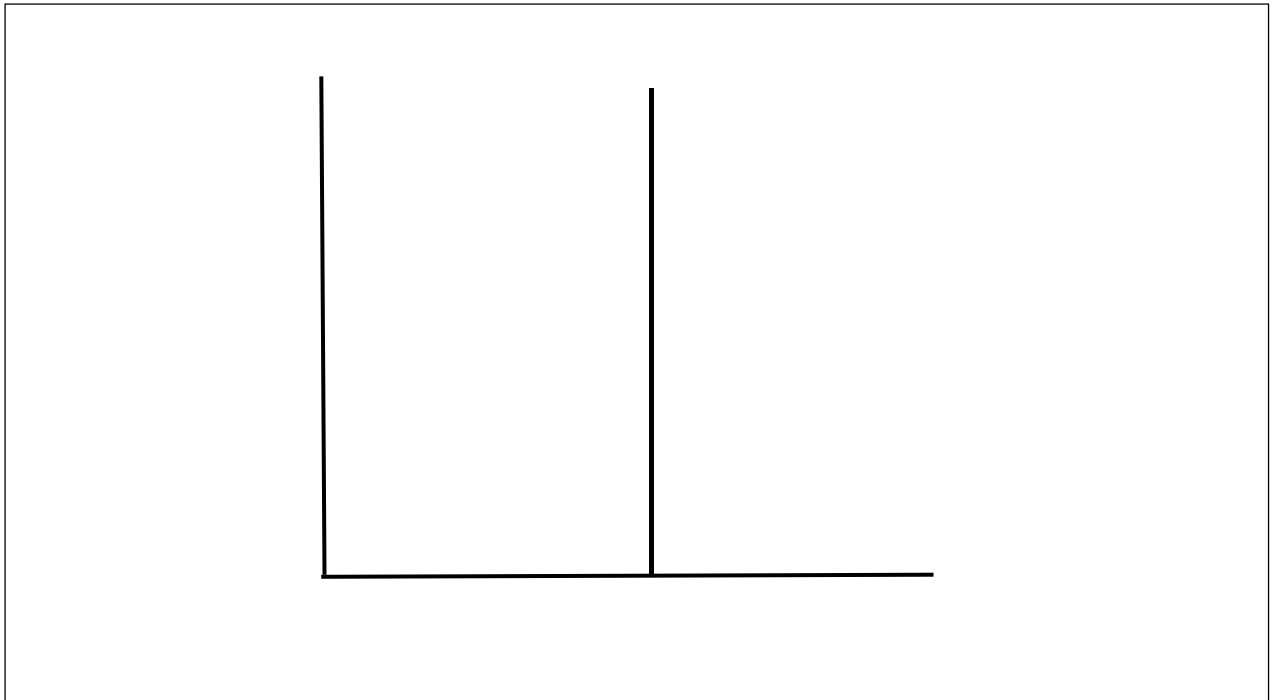
75 marks

Question 13

Shortages of the PlayStation 5 Gaming Consoles (PS5) was a nightmare for many consumers in the lead up to Christmas 2020.

Adapted from Forbes

- (a) (i) Complete the diagram below to indicate how excess demand is occurring in this market. (*Note: The retail price for a PlayStation 5 Gaming Console was €500)



- (ii) From your diagram above, explain how excess demand occurs.

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(b) Technology retailers mislead shoppers with Black Friday ‘deals’. A survey of ‘before and after’ pricing shows that many products are not discounted as claimed.

Adapted from the Irish Independent

(i) Explain **why** misinformation to consumers by technology retailers represents a market failure in this industry.

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(ii) Evaluate **how** Government intervention in this market could address this market failure.

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(iii) Explain, giving an example, one **advantage** of a government regulation.

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- (c) (i) Apple AirPods (earphones) price fell from €160 to €125 online.
The quantity demanded increased from 10,000 units to 15,000 units.
Calculate the **Price Elasticity of Demand** of Apple AirPods.

Workings:

Answer:

- (ii) Based on the figure you have calculated in (i) above, state whether the demand for Apple AirPods is elastic **or** inelastic. Give a reason for your answer.

Answer:

Reason:

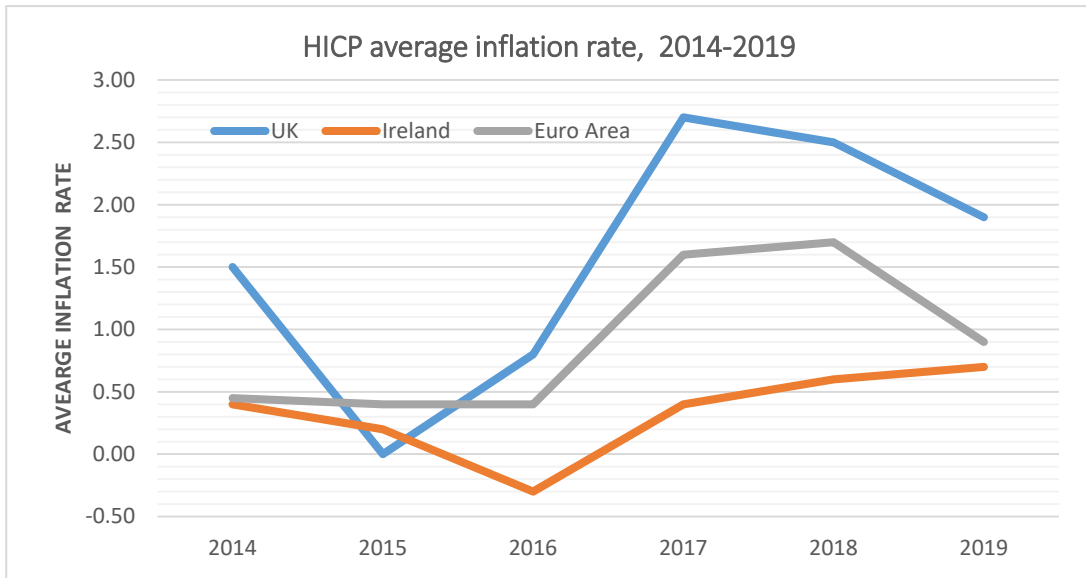
- (iii) If a firm selling the above product intends to maximise revenue from the sale of this product should it, **increase, decrease or maintain the same price?**
Explain your answer.

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| Answer: |
| Explanation: |
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75 marks

Question 14

The graph below shows the Harmonised Indices of Consumer Prices (HICP) average inflation rate – Ireland, UK and Euro Area 2014-2019.



Adapted from Eurostat – Irish Competitiveness Council Scorecard

- (a) (i) Analyse the trend of Ireland’s inflation rate in relation to the UK and the Euro Area from 2014-2019.

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(ii) Outline the potential **advantages** to Ireland as a country of maintaining the lowest price inflation rate relative to these other areas over this period.

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(b) (i) Outline two possible **disadvantages** to Irish citizens of a low inflation rate in Ireland.

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(ii) Explain **one** method the government could use to address rising inflation.

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(c) (i) Define the principle of **comparative advantage**.

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(ii) Continued capital investment in the National Broadband Plan in Ireland is one of the National Competitiveness Council recommendations for 2020.

Adapted from Ireland's Competitiveness Scorecard 2020

Discuss the importance of this recommendation for **Ireland's international competitiveness**.

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(iii) Choose two other areas the Irish Government should focus on to increase its international competitiveness. Justify your choice in **each** case.

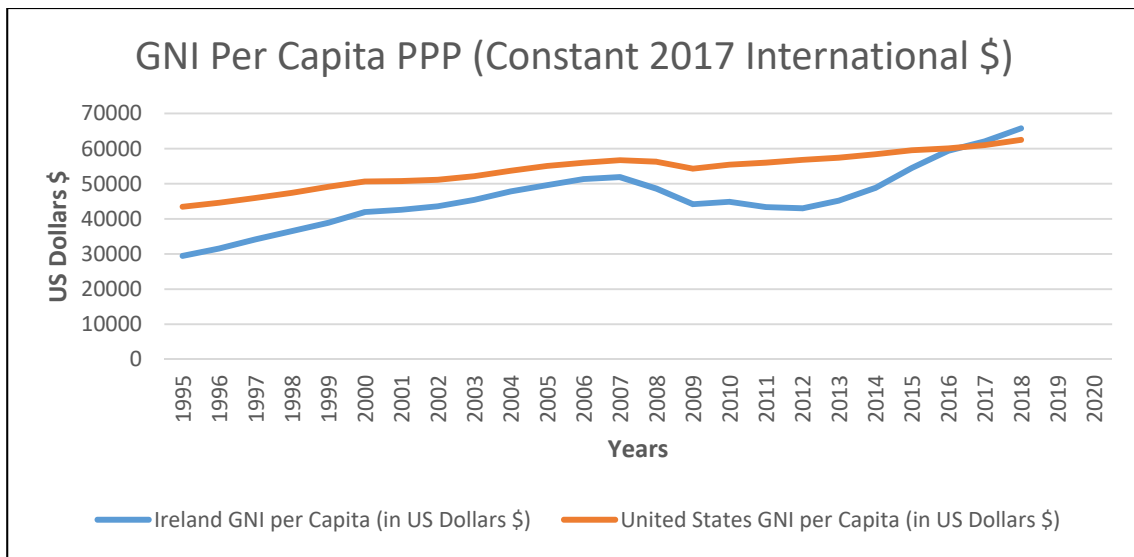
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75 marks

(b) (i) Define the term **recession**.

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(ii) Based upon the graph below, identify the years when **both** Ireland and the United States were in recession. Explain your answer.



Adapted from Statbank

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| Years: |
| Explanation: |
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(iii) With reference to GNI, why is it important to use **per capita** measures for comparisons between countries?

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(c) (i) Explain the term **multiplier**.

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(ii) Assume that MPM is 0.25 and MPC is 0.65 and MPT is 0.10.
Calculate the multiplier. Show all your workings

Workings:

Answer:

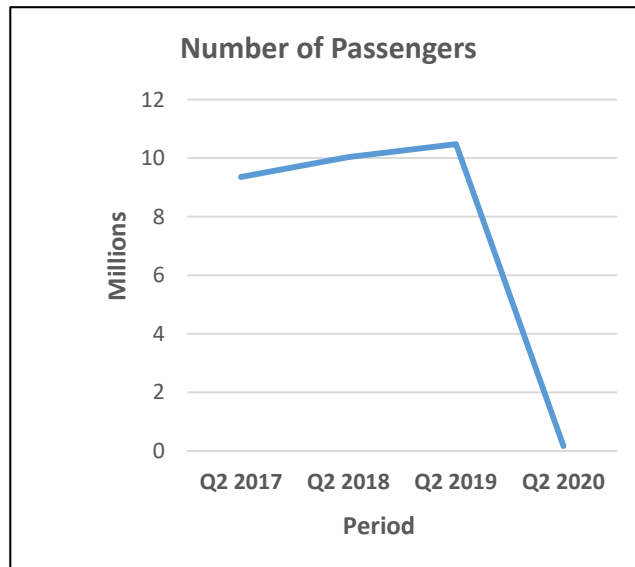
(iii) Discuss two possible **negative** multiplier effects of large corporations such as Google withdrawing from their rental property contracts in Dublin city during 2020.

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75 marks

Question 16

The diagram below shows the number of passengers handled by the main Irish airports during Quarter 2 from 2017 to 2020.



Adapted from the CSO

- (a) (i) Using the data provided above, analyse the trend in the number of passengers handled by the main Irish airports between 2017 and 2020.

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| Analysis of the trend: |
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- (ii) The demand for labour is said to be a **derived demand**. Explain this statement in the context of the aviation data above.

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(ii) Explain **one** social reason and **one** economic reason why the Irish government has continuously increased the minimum wage.

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| Social reason: |
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| Economic reason: |
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(c) The number of homeless families (in Ireland) has increased by 87% since June 2015.

Adapted from Focus Ireland

(i) Discuss two reasons for the **increase** in the number of homeless people in Ireland.

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(ii) Outline two economic measures, **other than social housing**, that could be taken by the Irish government to help reduce the number of homeless people in Ireland.

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(iii) In budget 2020 the Minister for Public Expenditure announced funding for the construction of 9,500 new social housing units. Adapted from RTE

Explain why the Department for Public Expenditure might have used a **cost-benefit analysis** before deciding on this expenditure for social housing units.

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75 marks

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Leaving Certificate – Higher Level

Economics

Friday 25 June

Morning 9.30-12.00