

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, 2014

WEDNESDAY 18 JUNE MORNING 9.30 – 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. Define the term '**opportunity cost**'.
State **one** example of an opportunity cost facing the Irish Government.

Definition: _____

Example: _____

(16 marks)

2. If the marginal cost (MC) is **less than** average cost (AC), then AC must be **falling** when output increases.

(i) Is this statement true? Circle the correct answer. YES / NO

(ii) Explain the reason for your answer: _____

(16 marks)

3. Define the term '**structural unemployment**' and outline **one** policy response that the Irish Government could take to reduce it.

Definition: _____

Government Policy: _____

(16 marks)

SECTION A (continued)

4. Explain the meaning of the term '**complementary goods**' (i.e. joint demand).
State **one** example.

Explanation: _____

Example: _____
(16 marks)

5. State **three** assumptions/characteristics underlying the theory of monopoly.

(i) _____
(ii) _____
(iii) _____

(16 marks)

6. Outline **two** possible economic effects for the Irish Economy of the **euro** (€) appreciating in value against the **US dollar** (\$).

(i) _____

(ii) _____

(17 marks)

7. Outline **two** ways in which the return to the factor of production **enterprise** differs from the return to other factors of production.

(i) _____

(ii) _____

(17 marks)

OVER →

SECTION A (continued)

8. Ireland recently emerged from the EU/IMF/ECB ‘Troika Bailout Programme’.
(December 15th 2013)

Outline **two** possible economic implications for the Irish economy of having exited this programme.

(i) _____

(ii) _____

(17 marks)

9. Outline **two** possible social costs and **two** possible social benefits of an investment by ‘EirGrid’ in upgrading Ireland’s electricity network by erecting high-voltage power lines (pylons).

Social Costs:

(i) _____

(ii) _____

Social Benefits:

(i) _____

(ii) _____

(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)

No of Units Consumed	1	2	3	4	5
Total Utility in <i>Units/Utils</i>	20	45	60	70	75
Marginal Utility in <i>Units/Utils</i>	20	25	15	10	5

- (i) State and explain the law illustrated in the above table.
(ii) Outline **two** assumptions underlying this law. (25)

- (b) (i) State the ‘Law of Supply’, and illustrate with a labelled diagram.
(ii) Explain how technical progress affects the supply curve.
(iii) Outline, with the aid of labelled diagrams, **two** other factors that would cause a shift in the supply curve. (30)

- (c) Macklemore announces a concert in Ireland at a venue with a maximum capacity of 80,000 people. The tickets are priced at €65 and the concert sells out in hours.

- (i) Draw **one** labelled diagram, showing a market demand curve and a market supply curve that would be consistent with the above information. Explain your answer.
(ii) Explain, using the concept of **Consumer Surplus**, why it might make sense for the concert promoters to have different ticket prices (e.g. VIP section, seating section and standing section) for this concert. (20)

[75 marks]

2. (a) (i) State and explain **three** assumptions underlying the theory of imperfect competition.
(ii) Explain why a firm’s demand curve under imperfect competition differs from a firm’s demand curve under perfect competition. (25)

- (b) (i) Explain, with the aid of a diagram, the long run equilibrium of a firm in imperfect competition.
(ii) With reference to your diagram in (b) (i) explain why the firm is not making socially efficient use of scarce resources. (30)

- (c) “A few large retailers (e.g. Tesco, SuperValu, Dunnes Stores, Aldi, Lidl) dominate the Irish grocery market at present.”

Suggest a market structure which most closely reflects this situation. Explain your answer. (20)

[75 marks]

3. (a) (i) Define the categories of Price Elasticity of Demand (PED): elastic, inelastic and unit elastic.
(ii) State **three** factors that affect PED **and** explain how each factor affects it. (30)

- (b) A consumer/motorist buys 20 litres of petrol when the price is €1.60 per litre. When the price increases to €1.70, as a result of an increase in carbon tax, the consumer buys 19 litres. Calculate the consumer's Price Elasticity of Demand (PED). (**Show all your workings.**)
Is this demand for petrol price elastic or price inelastic? Outline the implication of your answer for government revenue. (20)

- (c) A firm is considering a change to its product's price. It conducts market research which reveals that the Price Elasticity of Demand (PED) for the product is **-2.5**.
Use this information to answer the following question:
(i) If the firm wishes to maximise total sales revenue, should it lower or raise the price of the product? Explain your answer.

The market research also reveals Income Elasticity of Demand (YED) for the product is **+4.5**.
Use this information to answer the following question:
(ii) In the case of an economy which is expected to remain in recession for the next five years, what, if any, will be the likely impact on the demand for the product? Explain your answer. (25)
[75 marks]

4. (a) Explain, with the aid of an example, **each** of the following terms:

- Derived Demand
- Transfer Earnings
- Supply Price
- Economic Rent. (20)

- (b) (i) Outline **two** economic characteristics of 'land'.
(ii) Discuss **three** economic factors which influence a firm's decision on where to locate its operations within Ireland. (25)

- (c) (i) State and explain **three** factors that caused the price of residential property to fall considerably in Ireland in the years following 2007.
(ii) Mortgage arrears (i.e. the inability to meet mortgage loan obligations) is the biggest single personal debt issue for many households.

Discuss **one** possible economic impact of **mortgage arrears** on **each** of following:

- the household
- the banking sector
- the Irish Government.

(30)
[75 marks]

5. (a) The following table shows the level of National Income (Y), Consumption (C), Investment (I), Government Spending (G), Exports (X) and Imports (M) for 2013 and 2014.

	Y	C	I	G	X	M
2013	€80,000	€?	€10,000	€40,000	€100,000	€120,000
2014	€90,000	€56,000	€15,000	€34,000	€110,000	€?

Use this data to calculate the following: **(Show all your workings.)**

- (i) The level of Consumption in 2013
- (ii) The Marginal Propensity to Consume (MPC)
- (iii) The level of Imports in 2014
- (iv) The Marginal Propensity to Import (MPM).

(20)

- (b) “Ireland heads Forbes’ list of the best countries for business.”

(Forbes Magazine Dec 4 2013)

Discuss the economic benefits Multinational Companies (MNCs) can bring to a small economy such as Ireland.

(20)

- (c) Economists use Gross Domestic Product (GDP) and Gross National Product (GNP) as measures of economic activity.

- (i) Define **each** of the underlined terms.
- (ii) Which of these terms do you consider to be a more useful measure of economic activity for Ireland? Explain your answer.
- (iii) Discuss **three** limitations of national income statistics.

(35)

[75 marks]

6. (a) (i) State and explain **four** current economic aims/objectives of the Irish Government.
(ii) Outline **two** possible conflicts that could arise between some of these Government aims/objectives.

(30)

- (b) Discuss arguments for **and** against the privatisation of state assets.

(20)

- (c) In *The Irish Times* (November 2013) the economist Joseph Stiglitz predicted a "lost decade" for the Irish economy, due to the extended period of austerity.

(Austerity refers to government measures introduced to reduce a Budget Deficit.)

Outline **four** possible economic consequences for the Irish economy arising from the austerity measures introduced in recent Irish Government budgets.

(25)

[75 marks]

7. (a) (i) Distinguish between the terms ‘economic development’ and ‘economic growth’ with reference to Less Developed Countries (LDCs).
(ii) Outline **three** characteristics of LDCs. (25)
- (b) (i) Describe **three** types of foreign aid available to LDCs.
(ii) Discuss why foreign aid may not always result in economic growth in LDCs. (25)
- (c) “The World Trade Organisation (WTO) is the only international organisation dealing with the global rules of trade between nations.”
(i) Outline **two** economic benefits claimed for ‘free trade’.
(ii) Outline **three** reasons why countries might choose to impose barriers to free trade. (25)
- [75 marks]**
8. (a) Explain the relationship between a government Budget Deficit and the National Debt. (20)
- (b) “The Irish Tax system has evolved over time to reflect changing economic and social conditions and will need to be equally responsive to new developments in the future.”
(Commission on Taxation Report, 2009)
(i) Discuss Adam Smiths' **four** Canons of Taxation in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776).
(ii) Outline **two** other principles which could be considered in a modern tax system. Justify your answers. (35)
- (c) Outline possible economic consequences of the Irish Government shifting the burden of taxation from direct taxation to indirect taxation. (20)
- [75 marks]**

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