

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 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. Outline why 'choice' is fundamental to the study of economics.

(16 marks)

2. (a) Explain the concept of the Equi-Marginal Principle of Consumer Behaviour.

- (b) In equilibrium, a consumer buys 5 bottles of water at €2.50 each and 8 bagels at €3 each.
- The marginal utility of the 5th bottle of water is 5 utils.
- Calculate the marginal utility of the 8th bagel.
(Show your workings.)

Workings:

Answer:

(16 marks)

3. (a) Outline the primary responsibility of the National Treasury Management Agency (NTMA).

"The NTMA sells bonds worth €4bn at a low yield (0.867%) in 2015."

(Report: Irish Times, January 2015)

- (b) Is selling bonds at a low yield good or bad for the Irish Government? Explain your answer.

(16 marks)

SECTION A (continued)

4. *A high concentration ratio is a key feature of an Oligopolistic Market.*

(a) Explain this statement and give **one** example.

(b) Outline two ways oligopolists behave in the market:

(i) _____

(ii) _____

(16 marks)

5. *“Indirect taxes can be regressive but they also have advantages for governments.”*

(a) Explain what is meant by a *regressive tax*.

(b) Outline **two** advantages of *indirect taxation* for governments:

(i) _____

(ii) _____

(16 marks)

6. Outline **two** main contributions to economic thought put forward by the *Classical Economists*:

(i) _____

(ii) _____

(17 marks)

SECTION A (continued)

7. Read each statement below and indicate if the statement is true or false. [Tick (✓) the appropriate box.]

STATEMENT	TRUE	FALSE
A good with an income elasticity of demand (YED) of +2.5 is a luxury good.		
If the cross-price elasticity of demand (CED) is negative then it may be said that the goods are complements.		
When demand is price elastic, a reduction in price will lead to a decrease in total revenue.		
When many close substitute goods are available, demand for any one of them should be highly elastic.		

(17 marks)

8. (a) *“The Euro (€) is hitting a four and a half year low against the US \$.”*
(Report: The Irish Independent, January 2015)

Explain what the above statement means.

(b) Outline **two** possible economic effects of this development for the Irish economy:

(i) _____

(ii) _____

(17 marks)

9. *“Since 1990 Ireland has achieved the largest gain in life expectancy for 65 year olds in all EU member states.”*

(The OECD Report: Health at a glance: Europe 2014)

Outline **two** possible economic implications of this development for the Irish economy **and** one policy measure the Government could consider in response to this situation.

(i) _____

(ii) _____

Government Policy: _____

(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) The table below refers to the market data for 4G High Definition Televisions (TVs).

Price (€)	Quantity Demanded ('000 units)	Quantity Supplied ('000 units)
1,000	20	120
800	30	80
600	50	50
400	80	30
200	120	20

- (i) Using the above data, draw a diagram showing the market demand and market supply curves for 4G TVs, showing the price and quantity of 4G TVs at which this market is in equilibrium.
- (ii) Define the concept *market equilibrium*. With reference to the above market, explain how equilibrium is arrived at. (30)
- (b) The market for wheat is in equilibrium. Explain, with the aid of a **separate** diagram in **each** case, the effects which each of the following market situations is most likely to have on the equilibrium position for wheat:
- (i) Exceptionally wet weather conditions
- (ii) An increasing percentage of the population is suffering from wheat allergies and intolerance
- (iii) A decrease in the price of oil. (30)
- (c) *Following recent sharp increases in the price of private rented accommodation, calls have been made for the Irish Government to introduce price/rent controls (a rent ceiling).*

Advise the Minister for the Environment on the possible economic consequences of the Government intervening in the market by imposing a price ceiling for private rented accommodation.

(15)
[75 marks]

2. (a) (i) State and explain **two** examples of barriers to entry facing firms wishing to enter a monopoly market.
- (ii) Explain, with the aid of a diagram, the long run equilibrium position of a monopolist. Identify on your diagram the profit the monopolist makes. (35)
- (b) *A monopolist can increase its profits by engaging in price discrimination.*
- (i) Explain the concept *price discrimination*, using a suitable example.
- (ii) State and explain the market conditions necessary for price discrimination to take place. (25)
- (c) *The Commission for Energy Regulation (CER), Ireland's independent energy regulator, has been appointed as the independent economic regulator for Ireland's public water services.*

Discuss whether or not Irish Water (Uisce Éireann), Ireland's new water utility company, should be regulated. (15)

[75 marks]

3. (a) In the case of any **two** of the following three pairs distinguish between the two concepts:
- Marginal Cost and Average Cost
 - Explicit Cost and Implicit Cost
 - Normal Profit and Supernormal Profit. (20)
- (b) The table below shows the output and production costs for a small bakery.

Units of Bread	Total Costs (€)
0	100
100	200
200	280
300	330
400	360
500	450
600	600
700	770

- (i) Use the data in the table above to answer the following questions:
- What are the **fixed costs** of operating this bakery? Explain your answer.
 - What are the **variable costs** of producing 300 loaves of bread?
 - What is the **average cost** of producing 400 loaves of bread?
- (ii) Using the data from the table above, draw **one** graph showing the following (you may use graph paper to complete this question):
- Total costs (label the curve TC)
 - Total variable costs (label the curve VC)
 - Total fixed costs (label the curve FC)
- (iii) With reference to the graph you have drawn in part (ii) does the graph represent the short run or the long run? Outline a reason for your answer. (35)
- (c) Discuss possible economies of scale **and** diseconomies of scale that the bakery may experience, should it expand its scale of production in the long run. (20)

[75 marks]

4. (a) (i) State and explain **two** economic characteristics of enterprise as a factor of production.
(ii) Explain the importance of profits in a market economy. (30)
- (b) (i) Distinguish between the terms *capital* and *investment* as used by economists.
(ii) Discuss the case for **and** against the Government investing in Ireland's railways. (30)
- (c) (i) State and explain the **three** motives put forward by John Maynard Keynes for holding assets in the form of cash.
(ii) Outline **one** main influence on **each** motive. (15)

[75 marks]

5. (a) (i) Outline **three** factors that limit the ability of banks to create credit.
(ii) Discuss the economic reasons why the financial system in Ireland should be regulated. (30)

- (b) *In January 2015, the Central Bank of Ireland (CBI) introduced restrictions on residential mortgage lending (bigger deposit requirement for mortgage loans and upper limits on borrowing based on income).*

State and explain the possible economic impacts of these restrictions on the Irish property market. (20)

- (c) *The Strategic Banking Corporation of Ireland (SBCI) was set up to support SMEs (small and medium enterprises) by providing finance under favourable terms (e.g. lower cost credit).*

Discuss the possible economic benefits of increased access to funding for the SME sector in Ireland.

(25)

[75 marks]

6. (a) “Prices on average as measured by the Consumer Price Index (CPI) were 0.1% higher in November 2014 compared with November 2013.” (CSO statistics)
- (i) Do you consider the CPI an accurate measure of changes in the cost of living? Explain your answer.
- (ii) Discuss **two** possible economic effects of price **deflation** on the Irish economy. (25)
- (b) Economists classify unemployment into different types.
- (i) State and explain **three** types of unemployment.
- (ii) Outline one appropriate government policy response for **each of two** unemployment types that you have explained in part (i) above. (25)
- (c) According to the Quarterly National Household Survey (QNHS) the rate of unemployment was 11.1% in the third quarter of 2014.
- (i) Name **one** other commonly used source of unemployment statistics in Ireland.
- (ii) State and explain the reasons for the differences between both sources.
- (iii) Outline the possible economic effects which a rise in the level of **employment**, due to economic recovery in Ireland, may have on the Government current finances. (25)

[75 marks]

7. (a) (i) Explain, with the aid of a diagram, the **Circular Flow of Income** for an open economy.
- (ii) Outline how **each** of the following should affect the level of National Income in Ireland:
- an increase in Irish exports
 - an increase in the level of savings. (35)
- (b) Discuss **four** factors which should be considered when comparing national income statistics from different countries. (20)
- (c) The Central Bank of Ireland (CBI) raised its forecast for 2015 economic growth to 3.7% from 3.4% citing strong consumer and investment spending. (Central Bank Quarterly Bulletin: Q1 2015)
- (i) Define the term *economic growth*.
- (ii) Discuss possible costs **and** benefits of economic growth. (20)

[75 marks]

8. (a) “A Budget deficit stimulates the economy and therefore should be encouraged.”
Discuss this statement with reference to the Irish economy. You may agree or disagree. (20)
- (b) (i) Outline **three** policies the Irish Government could consider to achieve balanced regional development.
(ii) Outline **two** economic benefits to rural communities of balanced regional development. (25)
- (c) (i) Discuss the economic effects of emigration on the Irish economy.
(ii) Advise the Government on **two** policy initiatives/measures that could be introduced in ‘Budget 2016’ to encourage emigrants to return to Ireland. (30)

[75 marks]

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