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, 2006

WEDNESDAY, 21 JUNE 2006, 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 economic uses for a census of population in Ireland.
   (i) ____________________________________________________________________
   (ii) ____________________________________________________________________
   (iii) ____________________________________________________________________ (16 marks)

2. State three reasons why profits are important in a market economy.
   (i) ____________________________________________________________________
   (ii) ____________________________________________________________________
   (iii) ____________________________________________________________________ (16 marks)

3. A firm wishes to attract more labour. In order to increase its labour force from 5 to 6 employees, the firm must increase the weekly wage rate from €400 to €440 per employee. Calculate the firm’s marginal cost of labour. Show your workings.

   Workings
   Answer:
   ____________________________________________________________________ (16 marks)

4. Define economic development. State TWO policies by which governments of developed countries could promote economic development in less developed countries (LDCs).

   Definition: ____________________________________________________________________
   ____________________________________________________________________
   Policy (i): ____________________________________________________________________
   Policy (ii): ____________________________________________________________________ (16 marks)

5. Define internal economies of scale. State TWO examples.

   Definition: ____________________________________________________________________
   ____________________________________________________________________
   Example (i): ____________________________________________________________________
   Example (ii): ____________________________________________________________________ (16 marks)
6. In equilibrium a consumer buys 8 bars of chocolate at €1.00 each and 12 sandwiches at €4.00 each. The marginal utility of the eighth bar of chocolate is 10 utils. Using the Equi-Marginal Principle of Consumer Behaviour calculate the marginal utility of the twelfth sandwich.

Show all your workings.

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer:</th>
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<tbody>
<tr>
<td></td>
<td>10 utils</td>
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(17 marks)

7. Define price discrimination. State TWO conditions under which it would be possible for a firm to price discriminate.

Definition: ________________________________________________________________

Condition (i): ____________________________________________________________

Condition (ii): ____________________________________________________________

(17 marks)

8. State TWO functions of the Irish National Treasury Management Agency:

Function 1: ____________________________________________________________________

Function 2: ____________________________________________________________________

(17 marks)

9. Savers who have SSIA (Special Savings Investment Accounts) are being subsidised by the Irish government through the receipt of additional bonus payments.

Outline TWO economic advantages and TWO economic disadvantages of this scheme for the Irish economy.

Advantages:

(i) ____________________________________________________________________________

(ii) ____________________________________________________________________________

Disadvantages:

(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) For analytical purposes economists make certain assumptions about consumer behaviour. 
State and explain FOUR principal assumptions. 

(b) A manufacturer of three different products calculates the price elasticity of demand for each 
product as follows: 

<table>
<thead>
<tr>
<th>Product</th>
<th>Price Elasticity of Demand</th>
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<tbody>
<tr>
<td>X</td>
<td>-1.5</td>
</tr>
<tr>
<td>Y</td>
<td>-1.0</td>
</tr>
<tr>
<td>Z</td>
<td>-0.3</td>
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</tbody>
</table>

The company wishes to maximise its revenues. Explain in respect of each of these products, 
what change, if any, the company should make in the prices currently being charged to enable 
it to achieve its aim.

(c) A consumer buys 10 units of Good A when the price of Good B is €5. 
When the price of Good B rises to €6 (the price of Good A remaining unchanged) the 
consumer buys 14 units of Good A. 

(i) Define cross elasticity of demand. 
(ii) Using an appropriate formula, calculate this consumer’s cross elasticity of demand for 
Good A. Show your workings. 
(iii) Is Good A a substitute for, or a complement to, Good B? Explain your reasoning.

2. (a) State and explain THREE key features of an oligopolistic market.

(b) With the aid of ONE clearly labelled diagram: 

(i) Explain the shape of the ‘kinked demand curve’ under oligopoly. 
(ii) Explain the long run equilibrium position of a firm facing a ‘kinked demand curve’. 
(iii) Explain what is meant by the term ‘rigidity of prices’ under a ‘kinked demand curve’.

(c) (i) Explain THREE types of collusion which may occur in an oligopolistic market. 
(ii) Do you believe that the Irish retail market for banking services (e.g. personal current 
accounts.) operates under oligopolistic conditions? Explain your answer.
3. (a) Distinguish between the following terms, using relevant examples in each case:
(i) Fixed Capital and Social Capital;
(ii) Savings and Investment;
(iii) Capital Widening and Capital Deepening.  

(b) State and explain FIVE factors affecting the level of investment in the Irish economy.  

(c) (i) State and explain Keynes’s THREE motives for holding money.
(ii) Explain, with the aid of a diagram(s), Keynes’s theory on the relationship between the holding of money and the rate of interest.  

4. (a) (i) Explain what is meant by the term ‘National Income’.
(ii) In Ireland at present, would you expect GNP to be greater than, equal to, or less than, GDP? Explain your answer.  

(b) (i) Explain what is meant by the term ‘the multiplier’.
(ii) State the formula by which the multiplier is measured in an open economy.
(iii) Explain the variable elements in the formula.
(iv) It has been estimated that in the Irish economy:
MPM = 0.4, MPT = 0.24, MPS = 0.26.
Calculate the value of the multiplier in the Irish Economy. Show your workings.  

(c) Gross National Product at Current Market Prices for the year 2005 in Ireland was approximately 45% higher than the figure for the year 2000.

State and explain the relevance of FOUR other pieces of economic information which you would use to assess whether or not the average standard of living had also risen by approximately 45% between 2000 and 2005.
5. (a) Among Adam Smith’s contributions to economic thought, was his **Canons of Taxation**.

(i) State and explain Adam Smith’s **FOUR** Canons of Taxation.
(ii) Do you consider that these Canons are useful for analysing the taxation system in Ireland today? Justify your answer.  

(25 marks)

(b) Outline possible positive and negative economic consequences of a Government Current Budget Surplus. 

(25 marks)

(c) You are the economic advisor to the Minister for Finance. The Minister is considering raising tax revenue through indirect taxation. Discuss the economic advantages and economic disadvantages of such a policy.  

(25 marks)

[75 marks]

6. (a) (i) Explain why international trade is essential for the Irish economy.
(ii) Has Ireland, in recent years, tended to have a surplus or a deficit on the Balance of Payments Current Account? Outline the economic consequences of this situation.  

(30 marks)

(b) State and explain how imports into the Euro-zone would be affected by each of the following developments:

(i) the US dollar rises in value against the euro;
(ii) employment within the Euro-zone increases.  

(20 marks)

(c) Ireland has attracted many multinational companies to establish operations in recent years. There has also been a recent trend for some of these companies to relocate to eastern Europe or Asia.

(i) Outline reasons why these multinational companies locate in Ireland.
(ii) Outline possible reasons for the current relocation to other regions.  

(25 marks)

[75 marks]
7. (a) (i) What economic uses are made of a Consumer Price Index?  
   (ii) Explain how a Consumer Price Index is constructed.  

   (25 marks)

(b) Explain the likely economic effects on the Irish economy of a significant increase in the  
    annual rate of price inflation.  

   (25 marks)

(c) Outline the economic role played by TWO of the following international banking  
    organisations:  
    (i) The International Monetary Fund (IMF);  
    (ii) The World Bank;  
    (iii) The European Central Bank (ECB).  

   (25 marks)  
   [75 marks]

8. (a) The government announced plans to decentralise/re-locate many government departments  
    and state agencies throughout the country. Discuss TWO possible economic advantages and TWO possible economic  
    disadvantages of this policy for the development of the Irish economy.  

   (20 marks)

(b) It is argued that the Irish economy is currently experiencing close to full employment.  
    (i) Explain the underlined term.  
    (ii) Discuss TWO economic benefits and TWO economic difficulties of a full  
         employment economy in Ireland today.  

   (25 marks)

(c) There has been high expenditure in recent years on developing transport and  
    communications infrastructure in Ireland. With the use of examples, outline TWO possible  
    social costs and TWO possible social benefits of these developments.  

   (30 marks)  
   [75 marks]

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Section B.