Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2018

ECONOMICS – ORDINARY LEVEL
(400 marks)

THURSDAY 21 JUNE MORNING 9.30 – 12.00

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.

You must return this examination paper with your answer book(s) at the end of the examination.
SECTION A (100 marks)

Answer six of the nine short response type questions in the spaces provided.

1. What do the following letters stand for? Write each answer in the appropriate space.

<table>
<thead>
<tr>
<th>Letter</th>
<th>Full Label</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP</td>
<td></td>
</tr>
<tr>
<td>CPI</td>
<td></td>
</tr>
<tr>
<td>CSO</td>
<td></td>
</tr>
</tbody>
</table>

(16 marks)

2. The diagram below represents the long run equilibrium of a firm in Monopoly.

(i) Write in words the full label (not abbreviations) for each of the lines numbered 1 to 3. Use the answer box provided.

(ii) Some firms may wish to enter a monopoly industry but face barriers to entry. Outline one possible barrier to entry.

_____________________________________________________________________________
_____________________________________________________________________________

(16 marks)

3. Some of the factors below influence the supply of an individual firm. Write True or False after each of the following sentences.

<table>
<thead>
<tr>
<th>SENTENCE</th>
<th>TRUE or FALSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) The price of the good itself.</td>
<td></td>
</tr>
<tr>
<td>(ii) The consumer’s level of income.</td>
<td></td>
</tr>
<tr>
<td>(iii) The cost of the firm’s raw materials.</td>
<td></td>
</tr>
<tr>
<td>(iv) The state of the firm’s production technology.</td>
<td></td>
</tr>
</tbody>
</table>

(16 marks)
4. Name an economist you have studied and outline one contribution this person made to economic theory.

(i) Name economist: ____________________________________________________________

(ii) Outline one contribution to economic theory:

___________________________________________________________________________
___________________________________________________________________________

(16 marks)

5. The following items are either substitute goods or complementary goods for cars.
   From the list below, identify which items are substitute goods for cars and which are complementary goods for cars.
   Write your answers in the spaces provided.

<table>
<thead>
<tr>
<th>BUS</th>
<th>WINDSCREEN WIPERS</th>
<th>TRAIN</th>
<th>DIESEL</th>
</tr>
</thead>
</table>

Answer:

<table>
<thead>
<tr>
<th>Substitute goods</th>
<th>Complementary goods</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(16 marks)

6. The rate of DIRT was reduced to 37% in Budget 2018.

(i) What do the letters DIRT stand for?

___________________________________________________________________________

(ii) Outline one economic benefit for savers of this reduction in the rate of DIRT.

___________________________________________________________________________
___________________________________________________________________________

(17 marks)

7. Price inflation in Ireland is very low at present. Explain the term price inflation and state one advantage of this low rate of price inflation for Irish consumers.

(i) Price Inflation: ____________________________________________________________

___________________________________________________________________________

(ii) Advantage of low rate of price inflation for Irish consumers: __________________

___________________________________________________________________________

(17 marks)
8. The diagram below represents the **Circular Flow of Income** in an open economy without government.

![Circular Flow of Income Diagram](image)

(i) **Imports are a leakage** from the circular flow of income. Explain what this means.

________________________________________________________________________

________________________________________________________________________

(ii) State what each of the lines numbered 1 to 3 represents.

Line 1: __________________________________________________________________

Line 2: __________________________________________________________________

Line 3: __________________________________________________________________

(17 marks)

9. Use three of the five terms below to complete the explanation for **economic goods**.

<table>
<thead>
<tr>
<th>Utility</th>
<th>Price</th>
<th>Quantity</th>
<th>Scarce resources</th>
<th>Opportunity Cost</th>
</tr>
</thead>
</table>

Economic goods require the use of _____________________________ to produce them and so their use has an _____________________________. Such goods command a ___________________________ in the marketplace.

(17 marks)

*Remember to return this examination 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. The diagram below represents the long run equilibrium of a firm in Perfect Competition.

   ![Diagram of Perfect Competition]

   (a) (i) Write out what each of the five underlined labels above represents.

   Copy the diagram into your answer book.

   (ii) Equilibrium occurs at point B on the diagram.

   Show on your diagram:
   - The price the firm will charge for its output (use label $P_1$).
   - The output the firm will produce in equilibrium (use label $Q_1$). (30 marks)

(b) Explain each of the following characteristics of a perfectly competitive market.

   (i) Perfect knowledge exists.
   (ii) All goods produced are homogenous goods.
   (iii) Free entry and exit exists in the industry. (21 marks)

(c) In 2017 Ryanair experienced increased competition from other low-cost airlines such as Norwegian Airlines. Increased competition is generally considered good for consumers.

   Outline two possible advantages for consumers and one possible challenge for producers of increased competition. (24 marks)
2. (a) People consume goods because they receive utility. As they consume more units of the good their marginal utility will eventually decline.

(i) Explain each of the underlined terms.
(ii) Using the table below calculate the marginal utility at A, B and C.  
(Show your workings in your answer book.)
(iii) State at what point diminishing marginal utility sets in and explain your answer.

<table>
<thead>
<tr>
<th>Number of units consumed</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total utility in units/utils</td>
<td>15</td>
<td>35</td>
<td>70</td>
<td>110</td>
<td>130</td>
<td>140</td>
</tr>
<tr>
<td>Marginal Utility in units/utils</td>
<td>15</td>
<td>20</td>
<td>35</td>
<td>A</td>
<td>B</td>
<td>C</td>
</tr>
</tbody>
</table>

(b) The diagram below shows two demand curves for smartphones.

(i) Explain the shape of a demand curve for smartphones.
(ii) State whether the shift in demand from $D_1$ to $D_2$ above represents an increase or a decrease in the demand for smartphones.
(iii) State and explain two reasons why the demand for smartphones might shift as indicated in the above diagram.

(c) A tax on sugar-sweetened drinks was introduced in the Government Budget 2018.

(i) Outline two reasons why the government introduced the sugar tax.
(ii) Outline two possible advantages and one possible disadvantage of this sugar tax for consumers in Ireland.
3. (a) Profit is the return to the factor of production enterprise.

Explain the three other factors of production and state the return to each of these factors of production. (24 marks)

(b) The table below shows the output, total cost and total revenue for a firm producing a component for the information technology (IT) industry. The selling price is €10 per unit of output sold.

Use this table to answer the questions which follow.

(Show your workings in your answer book.)

<table>
<thead>
<tr>
<th>Output (units)</th>
<th>0</th>
<th>100</th>
<th>200</th>
<th>300</th>
<th>400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost (€)</td>
<td>300</td>
<td>500</td>
<td>600</td>
<td>1,050</td>
<td>1,500</td>
</tr>
<tr>
<td>Total Revenue (€)</td>
<td>0</td>
<td>1,000</td>
<td>A</td>
<td>B</td>
<td>C</td>
</tr>
</tbody>
</table>

(i) Calculate the total revenue received at each level of output above (A, B, and C).
(ii) Calculate the profit earned when the firm sells 200 units.
(iii) The total costs of the firm include fixed costs and variable costs. Explain each of the underlined terms and give one example of each for the above firm.

(30 marks)

(c) Trade unions favour an increase in the national minimum wage rate.

State and explain one possible economic effect of an increase in the national minimum wage for each of the following:

- Employees
- Businesses
- Consumers. (21 marks)

[75 marks]

4. (a) State and explain any three functions of money. (21 marks)

(b) (i) State and explain two reasons why consumers may decide to save rather than spend their income.
(ii) Discuss one economic advantage and one economic disadvantage of savings for the Irish economy. (24 marks)

(c) There is a move away from cash-based methods of payments to non cash-based methods of payment.

(i) Name two non cash-based methods of payments.
(ii) Outline one possible economic advantage which non cash-based methods of payment may have for each of the following:

- Banks
- Businesses
- Consumers. (30 marks)

[75 marks]
5. **(a) The following figures were presented in Budget 2018:**

| Government Current Income | €67.4 bn | Government Current Expenditure | €70.1 bn |

(i) Is the government planning a budget deficit or budget surplus? Explain your answer. *(Show your workings in your answer book.)*

*The national debt is approximately €200 billion currently.*

(ii) State the effect which Budget 2018, calculated in part (i) above, will have on the national debt. Explain your answer.

(iii) State and explain one economic advantage and one economic disadvantage of increasing the national debt. *(24 marks)*

**(b) In the case of each of the following taxes:**

- a tax on company profits
- a tax on employees’ wages
- a tax on goods or services.

(i) Name each tax above.

(ii) State whether each tax is an example of a direct tax or an indirect tax.

(iii) Explain each of the underlined terms in part (ii) above. *(30 marks)*

**(c) Spending by the Irish government on education is set to hit €10 billion in 2018 and this involves an opportunity cost.**

(i) Explain the term opportunity cost.

(ii) State and explain two possible economic advantages of increased government spending on education for the Irish economy. *(21 marks)*

[75 marks]
6. (a) Given National Income (Y) as: \( Y = C + I + G + (X - M) \)
where
\( C = €2,500m \) \( I = €500m \) \( G = €600m \) \( X = €300m \) \( M = €200m \)
(i) State what each of the letters in the formula above represents.
(ii) Calculate, using the figures provided, the level of National Income. 
(Show your workings in your answer book.)

(20 marks)

(b) Multinational Companies (MNCs), such as Facebook and Amazon, locate in Ireland and contribute to economic growth.
(i) Explain the terms multinational company and economic growth.
(ii) Discuss two possible economic benefits of MNCs, other than economic growth, for the Irish economy.
(iii) Discuss one possible economic challenge of MNCs for the Irish economy.

(25 marks)

(c) ‘An extra €13 million is being spend by the Irish government towards increasing the overseas development aid budget.’ (Source: The Irish Times, October 2017)

(i) Outline two characteristics of Less Developed Countries (LDCs).
(ii) Describe two types of aid, other than financial aid, which can be provided to LDCs.
(iii) Outline two reasons why financial aid may not always help LDCs resolve their difficulties.

(30 marks)

7. (a) Ireland as a small open economy relies on international trade.
(i) Explain the term open economy.
(ii) State and explain three economic reasons why Ireland engages in trade.

(24 marks)

(b) ‘Visible exports were €45,537 million in the second quarter of 2017 while visible imports were €22,178 million in the same period.’ (Source: CSO, 2017)

(i) Explain each of the underlined terms.
(ii) Name one example of a visible export and a visible import for the Irish economy.
(iii) Outline two economic advantages for the Irish economy if exports are greater than imports.

(30 marks)

(c) Brexit will occur formally in March 2019.
(i) What is meant by the term Brexit?
(ii) Irish exporting firms may have to deal with tariffs and quotas. Explain each of the underlined terms.
(iii) State and explain one economic challenge, other than tariffs and quotas, which an Irish exporting firm may have following Brexit.

(21 marks)

Q. 8 is on the next page
8. (a) ‘Ireland’s unemployment rate is expected to be 6% or lower by the end of the year.’
   (Source: Department of Finance, 2017)
   (i) Name one method of measuring unemployment in Ireland.
   (ii) Discuss one economic effect which the continuing rise in employment may have on each of the following:
        • Retailers in Ireland
        • Government finances
        • Ireland’s Balance of Trade.  

(b) ‘There will be one million people over 65 years old in Ireland by 2031 - experts say we need a plan.’
   (Source: www.thejournal.ie, September 2017)
   Outline two advantages of extending the public service retirement age beyond 65 years for each of the following:
   Employees; Government.  

(c) ‘The number of homeless people increased again in September, with 8,374 people accessing emergency accommodation.’
   (Source: The Irish Examiner, October 2017)
   (i) Outline one economic reason for the increase in number of homeless people.
   (ii) State and explain two economic measures that could be taken by the Irish government to help reduce the number of homeless people in Ireland.  

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