Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2012

WEDNESDAY 20 JUNE 2012, MORNING 9.30 – 12.00

ECONOMICS – ORDINARY 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. (a) Which of the following economists developed the Canons of Taxation?
   (Circle the correct answer.)
   John Maynard Keynes                    Adam Smith                    David Ricardo

   (b) In relation to the following canons of taxation, match the canon with its appropriate explanation.

<table>
<thead>
<tr>
<th>Canons</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Equity 1 The tax revenue collected should be greater than the costs of collection.</td>
</tr>
<tr>
<td>B</td>
<td>Certainty 2 The tax should be collected in a way and at a time which accommodates the taxpayer.</td>
</tr>
<tr>
<td>C</td>
<td>Convenience 3 Takes a higher proportion of an individual’s income in tax as income increases.</td>
</tr>
<tr>
<td>D</td>
<td>Economy 4 An individual’s tax bill should be clear.</td>
</tr>
</tbody>
</table>

   CANON  ➔  A  B  C  D
   EXPLANATION ➔

   (16 marks)

2. The Irish Government introduced a cycle-to-work scheme, which encourages people to cycle to work. Outline two economic advantages of this scheme:
   (i) __________________________________________________________________________
   (ii) __________________________________________________________________________

   (16 marks)

3. Complete the following statement:

   Labour, as a factor of production, is defined as the __________ effort involved in the production of ___________ and services. The payment for labour is called ___________________.

   (16 marks)

4. ‘Austerity’ is a consequence of the policy of reducing Government Budget Deficits. Outline any two effects which government ‘austerity’ measures may have on Irish citizens.

   Effect 1: __________________________________________________________________________
   Effect 2: __________________________________________________________________________

   (16 marks)

5. The Irish Government is considering privatisation. The EU / IMF want a significant part of the revenues received to be used to reduce Ireland’s National Debt. Explain the underlined term and state what the initials EU and IMF stand for.

   Explanation: __________________________________________________________________________

   EU: ________________________  ________________________
   IMF: ________________________  ________________________  ________________________

   (16 marks)
6. The formula for measuring Price Elasticity of Demand is as follows:

\[ \frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2} \]

Complete the following table to indicate what each of the above symbols stands for:

| \( \Delta Q \) | Change in the quantity demanded of the good. |
| \( \Delta P \) |  |
| \( P_1 \) |  |
| \( P_2 \) |  |
| \( Q_1 \) | Original quantity of the good demanded. |
| \( Q_2 \) |  |

(17 marks)

7. The Minister of State in the Department of Health is concerned with the low price of alcohol in supermarkets in Ireland. Outline one economic action the Minister could take to encourage a decrease in alcohol consumption and one advantage of a reduction in alcohol consumption for society.

**Action:**

____________________________________________________________________________________

____________________________________________________________________________________

**Advantage:**

____________________________________________________________________________________

____________________________________________________________________________________

(17 marks)

8. ‘The largest manufacturer of sportswear in Ireland reported a boom in the sale of GAA jerseys in Australia.’ (The Irish Times, 5 November 2011)

This is one of the effects of the current emigration of Irish citizens. Explain the underlined term and state one other economic effect of emigration on the Irish economy.

**Explanation:**

____________________________________________________________________________________

____________________________________________________________________________________

**Effect:**

____________________________________________________________________________________

____________________________________________________________________________________

(17 marks)

9. Outline the possible economic effect which the increase in the VAT rate from 21% to 23% may have for each of the following:

**Cross-border shopping:**

____________________________________________________________________________________

____________________________________________________________________________________

**Irish employment levels:**

____________________________________________________________________________________

____________________________________________________________________________________

**Government Budget Deficit:**

____________________________________________________________________________________

____________________________________________________________________________________

(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. The diagram below represents the Long Run Equilibrium of a firm in Imperfect Competition.

(a) Copy the diagram into your answer book.
   (i) Clearly label each of the lines numbered 1 to 5.
   (ii) Equilibrium occurs at point E on the diagram. Show on your diagram:
      - The quantity the firm will produce in equilibrium (use label Q₁)
      - The price the firm will charge for Q₁ (use label P₁)
      - The average cost of producing this output (use label C₁)

(b) Firms in imperfect competition produce goods that are close substitutes.
   (i) Explain the underlined term.
   (ii) State two other characteristics of imperfect competition.
   (iii) Write brief notes on each of these.

(c) Bord Gáis increased its electricity prices by 12% in August 2011.
   (i) Name one competitor to Bord Gáis which supplies electricity in Ireland.
   (ii) State and explain one economic effect of this increase in electricity prices for each of the following:
      - Consumers of Bord Gáis;
      - Other suppliers of electricity in the market;
      - The Irish economy.
2. (a) The diagram below shows the demand for match tickets by Irish soccer supporters and the supply of tickets in the venues (i.e. Poznan and Gdansk) for the Irish matches in the Euro 2012 European Football Championships.

![Diagram](image)

(i) Copy the diagram into your answer book. Label each of the lines 1 to 3.
(ii) Show on your diagram:
   - equilibrium price (use label $P_1$)
   - equilibrium quantity (use label $Q_1$)
(iii) Explain the relationship between the price of tickets and the supply of tickets as shown on your diagram.

   (21 marks)

(b) Assume the demand for these match tickets shifts to the right as shown below.

![Diagram](image)

(i) State and explain two possible reasons why the demand curve for these tickets may shift to the right as illustrated above.
(ii) Explain the effect this shift in the demand curve has on the equilibrium price.
(iii) State one complementary good for these match tickets and explain the effect on the demand for this complementary good if the demand for these match tickets continues to increase.

   (30 marks)

(c) The government is considering introducing toll charges for more motorways in Ireland.
(i) Outline one possible economic advantage and one possible economic disadvantage of introducing new toll charges.
(ii) Explain how this development would affect each of the following:
   - Irish Trucking/Haulage Companies;
   - Government’s Current Budget Deficit.

   (24 marks)
3. (a) A business must control both its fixed costs and variable costs so that it can earn normal profit.
   (i) Explain the underlined term.
   (ii) Define fixed cost and variable cost and state one example of each.
   (iii) State and explain two reasons why it is important for a business to earn profit.

   (25 marks)

(b) The factor of production ‘Enterprise’ combines the other factors of production into a production unit, in the expectation of making a profit.
   (i) Name the other factors of production referred to above.
   (ii) Outline two reasons why entrepreneurs are important to the development of the Irish economy.
   (iii) Outline one action each of the following could take to encourage enterprise:
       • The Irish Government;
       • Schools / Colleges.

   (30 marks)

(c) Businesses throughout Ireland are encouraging consumers to shop local (i.e. shop in their local areas).
   (i) State and explain two methods a Local Authority could use to encourage more consumers to shop local.
   (ii) Discuss two benefits to the local economy if more consumers shop locally.

   (20 marks)

(75 marks)

4. (a) ‘Barter’ and ‘money’ are used as mediums of exchange. Money has a number of characteristics including the following: relatively scarce; portable and durable.
   (i) Explain any two of the underlined terms.
   (ii) Outline the difficulty of using ‘barter’ as a medium of exchange.
   (iii) Explain two functions of money other than a ‘medium of exchange’.

   (25 marks)

(b) The ECB decreased interest rates in 2011 with the aim of increasing economic growth.
   (i) Explain the underlined term.
   (ii) What do the initials ECB stand for?
   (iii) State and explain two possible economic effects which an increase in economic growth may have on the Irish Economy.

   (25 marks)

(c) One measure of price inflation is the CPI.
   (i) Explain the underlined term.
   (ii) What do the initials CPI stand for?
   (iii) Explain how a fall in the rate of price inflation may affect each of the following:
       • Employees;
       • People in receipt of social welfare;
       • Business.

   (25 marks)

(75 marks)
5. (a) Social welfare payments and student grants are examples of transfer payments.
   (i) Explain the underlined term.
   (ii) Explain why transfer payments are not included in National Income.
   (iii) State and explain two possible uses of National Income Statistics.

(b) The Multiplier formula for an open economy is: \( \frac{1}{MPS + MPM} \)

Assume that MPM is 0.2 and MPS is 0.3.
   (i) Explain each of the above underlined terms.
   (ii) Calculate, using the above formula, the size of the Multiplier.
   (Show all your workings.)

(c) The Irish government is concerned about the size of the ‘black economy’.
   (i) Explain the underlined term.
   (ii) State two examples of activities considered part of the black economy.
   (iii) State and explain two actions the Irish Government could take to discourage activities in the black economy.

6. (a) One of the main economic aims of the Irish Government is to reduce the number on the Live Register.
   (i) Explain the underlined term.
   (ii) Outline two economic advantages to the economy if the number on the Live Register decreased.
   (iii) State and explain three other economic aims of the Irish Government.

(b) The Irish Government reduced capital expenditure on infrastructure by approximately €750m in its 2012 budget.
   (i) Explain the underlined term.
   (ii) Outline three economic effects which this reduction in capital expenditure may have on the Irish economy.

(c) The Irish Government provided grants towards energy improvements in an effort to encourage people to improve the energy performance of their homes. However, these grants involved an opportunity cost.
   (i) Explain the underlined term.
   (ii) Discuss one economic effect which these grants have for each of the following:
       - Individual households;
       - Businesses;
       - The Irish economy.
7. (a) The table below illustrates the Law of Comparative Advantage.

<table>
<thead>
<tr>
<th>Country</th>
<th>Output Production per worker per week</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wine</td>
</tr>
<tr>
<td>Germany</td>
<td>1600 litres</td>
</tr>
<tr>
<td>France</td>
<td>800 litres</td>
</tr>
<tr>
<td>Total Output</td>
<td>2400 litres</td>
</tr>
</tbody>
</table>

Although Germany is more efficient in the production of both goods, according to the Law of Comparative Advantage each country will specialise in the production of one good.

(i) Which good will Germany produce? Explain briefly.
(ii) Which good will France produce? Explain briefly.
(iii) If each country specialises in the good you have selected, calculate the resulting total output. (Show your workings.)

(20 marks)

(b) Irish people attending the Olympic Games in London 2012 is an example of an invisible import for Ireland.

(i) Explain the underlined term and state one other example of an invisible import.

(ii) Discuss three benefits to the Irish economy of increasing exports.

(25 marks)

(c) IDA Ireland has been successful in attracting investment in the form of multinational companies (MNCs) to Ireland.

(i) Name two MNCs in Ireland.

(ii) State and explain two reasons why MNCs are attracted to Ireland.

(iii) Discuss two economic advantages to the Irish economy of MNCs locating here.

(30 marks)

[75 marks]
8. (a) Explain **any three** of the following:
   - Current Budget Deficit;
   - Progressive Tax;
   - Nationalisation;
   - Economic recession.

   (21 marks)

(b) An increased rate of VAT, increased carbon taxes, and a new €100 household charge were introduced in the 2012 Government Current Budget.

   (i) Explain **each** of the underlined taxes.
   (ii) Discuss **one** economic effect which these tax increases will have for **each** of the following:
   - Households;
   - Retailers in Ireland;
   - Government’s Current Budget Deficit.

   (30 marks)

(c) One of the functions of the NTMA is to manage Ireland’s National Debt on behalf of the Government.

   (i) What do the initials NTMA stand for?
   (ii) Explain the underlined term.
   (iii) State and explain **two** economic disadvantages of Ireland’s National Debt.

   (24 marks)

[75 marks]
Blank Page