Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2018

ECONOMICS - HIGHER 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. The firm in perfect competition is a ‘price taker’.
   (a) Explain this statement.

   __________________________________________________________________________
   __________________________________________________________________________
   __________________________________________________________________________

   (b) Other than price taking, outline two characteristics of a perfectly competitive market.
   (i) _________________________________________________________________________
       _________________________________________________________________________
   (ii) _______________________________________________________________________
       _________________________________________________________________________

   (16 marks)

2. Raising interest rates before the end of the decade could threaten the long sought-after economic recovery in the Eurozone, the OECD has warned.
   Outline two possible economic effects of an increase in interest rates on the Irish economy.
   (i) _________________________________________________________________________
       _________________________________________________________________________
   (ii) _______________________________________________________________________
       _________________________________________________________________________

   (16 marks)

3. The EU is an example of a customs union. Explain the term customs union.

   __________________________________________________________________________
   __________________________________________________________________________
   __________________________________________________________________________
   __________________________________________________________________________

   (16 marks)
4. (a) State the Law of Diminishing Marginal Returns.
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

(b) Does this law apply in the short run or in the long run? Explain your answer.
__________________________________________________________________________
__________________________________________________________________________

5. Read each statement below and indicate if the statement is TRUE or FALSE. [Tick (✓) the correct box.]

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>TRUE</th>
<th>FALSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Double counting’ could occur when economic activity is measured using the expenditure method.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports represent an injection into the circular flow of income.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Domestic Product (GDP) includes a provision for depreciation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary school teacher salaries are categorised as transfer payments in Ireland.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. State and explain Adam Smith’s four Canons of Taxation.

(i) ______________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

(ii) _____________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

(iii) ___________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

(iv) ___________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

(16 marks)
SECTION A (continued)

7. (a) Outline **two** policies a government could consider to reduce income inequality.

   (i)________________________________________________________________________
  ________________________________________________________________________
  ________________________________________________________________________

   (ii)________________________________________________________________________
  ________________________________________________________________________
  ________________________________________________________________________

(b) Outline **one** possible challenge for the Irish economy of reducing income inequality.

   _______________________________________________________________________
   _______________________________________________________________________
   _______________________________________________________________________

   (17 marks)

8. Outline **three** economic consequences of raising the retirement age for public sector workers to 70 years.

   **Economic consequences:**

   (i)_______________________________________________________________________
   _______________________________________________________________________
   _______________________________________________________________________

   (ii)_____________________________________________________________________
   _______________________________________________________________________
   _______________________________________________________________________

   (iii)___________________________________________________________________
   _______________________________________________________________________
   _______________________________________________________________________

   (17 marks)
9. **(a)** Define the term **price discrimination**.

Definition: __________________________________________________________

____________________________________________________________________

____________________________________________________________________

**(b)** Outline **three** conditions necessary for price discrimination to occur.

(i) _________________________________________________________________

____________________________________________________________________

(ii) ______________________________________________________________

____________________________________________________________________

(iii) ______________________________________________________________

____________________________________________________________________

(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. (a) (i) Distinguish between a movement along a demand curve and a shift in a demand curve.

(ii) Explain, using a supply and demand diagram how a market would return to equilibrium following a surplus (excess supply) in the market.

(b) The owners of a music venue, with a maximum capacity of 400 people, conducted market research into consumer demand for tickets at different prices. The information they obtained is shown in the table below.

<table>
<thead>
<tr>
<th>Price (€)</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>€100</td>
<td>0</td>
<td>400</td>
</tr>
<tr>
<td>€80</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>€60</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>€40</td>
<td>600</td>
<td>400</td>
</tr>
<tr>
<td>€20</td>
<td>800</td>
<td>400</td>
</tr>
</tbody>
</table>

(i) Using the above data, draw the demand and supply curve for this music venue, showing the price and quantity of tickets at which this market is in equilibrium.

(ii) Explain the reason for the shape of the supply curve for this music venue.

(iii) Explain the terms consumer surplus and total revenue.

(iv) Show clearly on the diagram you have drawn in part (i) above, the areas of consumer surplus and total revenue at equilibrium.

(c) The owners of this venue decide to charge €60 per ticket.

(i) Calculate the total revenue from the ticket sales for the above venue, assuming there is a full house. Show your workings.

(ii) Explain how a knowledge of the concept of consumer surplus could benefit the owners of the music venue.
2.  (a)  *An oligopoly is a market structure in which a few firms dominate the market.*

(i)  Describe how firms in this market structure compete with each other.  
(ii)  Discuss the advantages and disadvantages of oligopoly as a market structure.  

(b)  (i)  Explain, using a clearly labelled diagram, the long-run equilibrium of a firm operating under oligopoly conditions.

(ii)  With reference to the ‘kinked’ demand curve drawn in part (i) above, explain the rationale for *price rigidity*.  

(c)  ‘Motor insurance providers in Ireland targeted in anti-cartel inquiry.’

(Source: *The Irish Times*, July 2017)

(i)  Explain the likely effects on consumers if collusion (e.g. cartel agreement) existed in the motor insurance industry.

(ii)  Suggest two measures the government could consider to discourage anti-competitive practices in industry. Explain your answer.  

3.  (a)  The table below shows the output and total cost for a firm. The selling price for its product is fixed at €30 regardless of output.

<table>
<thead>
<tr>
<th>Output (units)</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost (€)</td>
<td>20</td>
<td>40</td>
<td>50</td>
<td>65</td>
<td>85</td>
<td>115</td>
<td>160</td>
<td>210</td>
</tr>
</tbody>
</table>

(i)  Define the term *marginal cost*.

(ii)  Draw and clearly label a graph to illustrate the marginal cost at each level of output.

(iii)  Indicate on the graph that you have drawn the profit-maximising level of output and explain your answer.

(iv)  Calculate the profit earned at this profit-maximising level of output.  

(b)  (i)  Define the term *price elasticity of supply (PES)*.

(ii)  Explain, by means of an example, why the PES might be different in the long run than in the short run.

(iii)  Discuss two factors, other than time period, that influence the PES of a product.  

(c)  (i)  Outline the potential impact a fall in the value of Sterling (£) against the Euro (€) would have on the price UK consumers pay for Irish products.

(ii)  Explain how knowledge of *price elasticity of demand (PED)* might be helpful to Irish exporters who wish to maximise their total revenue in the UK market.  

[75 marks]
4. (a) (i) Define the term **labour productivity**.  
(ii) Explain how a firm could increase the productivity of labour.  

(b) *Globalisation allows firms to exploit economies of scale.*  
(i) Explain the term **economies of scale**.  
(ii) Discuss how a firm might benefit from economies of scale, providing examples to support your answer.  
(iii) Can firms become ‘too big’? Explain your answer.  

(c) *Restrictions placed on workers’ mobility can impact on economic growth.*  
(i) Distinguish between occupational mobility of labour and geographic mobility of labour.  
(ii) Discuss the factors that limit the geographic mobility of labour.  
(iii) Suggest one measure which could be considered to address any factor identified in (ii) above. Explain your answer.  

5. (a) (i) Explain the terms **fiscal policy** and **monetary policy**.  
(ii) Outline how Ireland’s membership of the Eurozone affects the operation of the Government’s monetary policy or fiscal policy in Ireland.  

(b) *Indirect taxes are frequently used as a government policy instrument to change certain consumer behaviour.*  
(i) Explain the term **indirect tax**.  
(ii) Explain how **indirect taxes** could be used to change certain consumer behaviour, using examples to support your answer.  
(iii) Outline one intervention, other than taxation, that a government could consider to change consumer behaviour.  

(c) *In 2016, the Government [budget] deficit was €1.8 billion, an improvement on the 2015 deficit of €5.0 billion.*  
(Source: CSO, July 2017)  
(i) Define the term **budget deficit**.  
(ii) Discuss the possible economic consequences of a reduction in the budget deficit for the Irish economy.  
(iii) Is a budget deficit always bad for an economy? Outline two reasons for your answer.  

6. Ireland’s net inward migration in 2017, according to CSO, was +19,800 the highest net inward migration since 2008.

(a) (i) Describe the factors that drive migration between countries.
(ii) Discuss the economic consequences of increased immigration for the Irish economy. [30]

(b) Discuss the economic arguments for and against Ireland being a member of the Single European Market. [25]

For 2018, the Irish government has allocated just over €707 million for Official Development Assistance (ODA) to Less Developed Countries (LDCs).

(c) Discuss the benefits and challenges of Official Development Assistance for LDCs. [20]

7. (a) Assess the performance of the Irish economy in the past 12 months in each of the following areas.
(i) Economic growth
(ii) Employment / unemployment
(iii) Inflation
(iv) The size of the National Debt. [20]

(b) Outline the economic advantages of effective regulation of the banking sector. Your answer should include advantages for citizens and advantages for the banking industry. [25]

(c) The Government’s Summer Economic Statement has confirmed that it will increase capital spending by €500m each year from 2019 to 2021.
(Source: www.rte.ie, 2017)

(i) Explain three economic arguments in favour of an increase in government capital expenditure in the Irish economy.
(ii) Discuss how this planned expenditure on capital projects (i.e. large infrastructural projects) by the Irish government may conflict with any two other government objectives. [30]
8. (a) The table shows National Income (Y), Consumption (C), Investment (I), Exports (X) and Imports (M) for 2016 and 2017.

<table>
<thead>
<tr>
<th></th>
<th>Y</th>
<th>C</th>
<th>I</th>
<th>X</th>
<th>M</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>?</td>
<td>80,000</td>
<td>20,000</td>
<td>90,000</td>
<td>90,000</td>
</tr>
<tr>
<td>2017</td>
<td>150,000</td>
<td>100,000</td>
<td>30,000</td>
<td>120,000</td>
<td>?</td>
</tr>
</tbody>
</table>

Calculate the following, showing all your workings:
(i) the value of National Income in 2016
(ii) the value of Net Exports in 2017
(iii) the level of Savings in the economy in 2017
(iv) the size of the Multiplier. [20]

(b) Discuss the benefits and challenges of Foreign Direct Investment (FDI) for the Irish economy. [25]

(c) ‘Official greenhouse gas emission projections indicate that Ireland will fail to meet the EU 2020 targets by a substantial margin.’
(Source: Climate Change Advisory Council)
(i) Outline three economic reasons why protection of the environment is an increasing concern for governments.
(ii) Explain one measure each of the following could take to help achieve Ireland’s EU targets (i.e. reduce carbon emissions):
   Individuals; Firms; the Irish Government. [30]

[75 marks]

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