Coimisiún na Scrúduithe Stáit  
State Examinations Commission  

LEAVING CERTIFICATE EXAMINATION, 2017  
WEDNESDAY 21 JUNE MORNING 9.30 – 12.00  

ECONOMICS – ORDINARY 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. In relation to the following taxes, match the tax with its appropriate explanation. (One explanation has no match.)

<table>
<thead>
<tr>
<th>Tax</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A VAT</td>
<td>1 A tax on income.</td>
</tr>
<tr>
<td>B DIRT</td>
<td>2 A tax on goods imported into a country.</td>
</tr>
<tr>
<td>C PAYE</td>
<td>3 A tax on the profit made on disposal of an asset.</td>
</tr>
<tr>
<td>D Customs duty</td>
<td>4 A tax on interest earned on deposits in financial institutions.</td>
</tr>
<tr>
<td></td>
<td>5 A tax on purchases of goods and services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TAX</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXPLANATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(16 marks)

2. You are given the following data for a firm.

<table>
<thead>
<tr>
<th>Quantity (units of output)</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed costs in €</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

(i) **Draw and label** the fixed costs for this firm.

(ii) **Explain the term fixed costs** and state one example for a firm.

_______________________________________________________________________________

_______________________________________________________________________________

**Example:**

_______________________________________________________________________________

(16 marks)
SECTION A (continued)

3. Outline one possible economic effect which an increase in the number of people travelling from the Republic of Ireland to shop in Northern Ireland may have on each of the following:

   Retailers in the Republic of Ireland:
   ____________________________________________________________
   ____________________________________________________________

   Irish Government’s finances:
   ____________________________________________________________
   ____________________________________________________________

   (16 marks)

4. Indicate by means of a tick (✓) the category to which each good or service belongs:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Visible exports</th>
<th>Invisible exports</th>
<th>Visible imports</th>
<th>Invisible imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure of Irish soccer supporters having travelled to Austria.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irish firms selling cheese in Germany.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign tourists using Ryanair to travel to Ireland.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irish consumers buying cars in the UK and bringing them back to Ireland.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

   (16 marks)

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

   | IMF     |                          | ECB     |                          | WTO     |                          |

   (16 marks)

6. The Irish government invests significant amounts of taxpayers’ money in Irish third level education which involves an opportunity cost. Explain the underlined term and state two economic advantages to the Irish economy of this investment in third level education.

   Explanation: ________________________________________________________________
   ________________________________________________________________
   Advantage 1: ______________________________________________________________
   Advantage 2: ______________________________________________________________

   (17 marks)
SECTION A (continued)

7. This diagram represents the demand for new cars in Ireland in 2015.
   (i) The demand for new cars increased in 2016.
       Draw the new demand curve for cars and label it D1.
   (ii) Suggest two reasons for the increase in the demand for new cars in Ireland in 2016.

Reason 1: ____________________________________________________________
Reason 2: ____________________________________________________________

(17 marks)

8. ‘The government was advised to consider introducing new taxes on disposable fast-food containers, cans and plastic bottles.’
   (Source: The Irish Times, July 2016)

Outline one possible economic advantage and one possible economic disadvantage of this measure.

Economic advantage: ____________________________________________________
_______________________________________________________________________

Economic disadvantage: ________________________________________________
_______________________________________________________________________

(17 marks)

9. The diagram below represents the long run equilibrium of a firm in Perfect Competition.
   (i) Write in words the full label (not abbreviations) for each of the lines numbered 1 to 3.
       Use the answer box provided.

   (ii) Is the firm earning supernormal profit? Yes / No.
       Circle your choice and explain your answer.

Answer Box

<table>
<thead>
<tr>
<th>Number</th>
<th>Full label</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

(17 marks)

Remember to return this question paper with the answer book(s) used to answer the questions in Section B
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 a Monopoly firm in equilibrium.

![Diagram of Monopoly Firm Equilibrium]

(a) Copy the diagram into your answer book.
   (i) Write out what each of the six underlined labels represents.
   (ii) The firm is in equilibrium at point G and produces output Q₁.
        Show on your diagram:
        • The price the firm will charge for Q₁. (use label P₁)
        • The average cost of producing this output. (use label C₁)

(b) New firms may wish to enter a monopoly market but they face barriers to entry.
   (i) State three possible barriers to entry.
   (ii) Write brief notes on each of these.

(c) The state-owned companies Bus Éireann, Irish Rail and An Post are currently experiencing losses. These losses may make it difficult for the companies to continue to provide all their services in the future.
   (i) State and explain one reason why some services provided by the above companies are not provided by private entrepreneurs.
   (ii) State and explain two measures these state-owned companies could take to try to reduce their losses.
2. (a) The Apple iPhone 7 is an economic good. Economic goods have the following characteristics: they are scarce, transferable and provide utility for the consumer.

(i) Explain any two of the underlined terms, with reference to the Apple iPhone 7.
(ii) Explain any two of the following economic terms:
   - Normal good
   - Substitute good
   - Complementary good.

(20 marks)

(b) The information below represents the market demand and supply schedule for Apple iPhone 7.

<table>
<thead>
<tr>
<th>Price (€)</th>
<th>Quantity Demanded (units)</th>
<th>Quantity Supplied (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>400</td>
<td>1,200</td>
<td>400</td>
</tr>
<tr>
<td>500</td>
<td>1,000</td>
<td>600</td>
</tr>
<tr>
<td>600</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>700</td>
<td>600</td>
<td>1,000</td>
</tr>
<tr>
<td>800</td>
<td>400</td>
<td>1,200</td>
</tr>
</tbody>
</table>

Using the above information and one diagram (you may use graph paper):

(i) Draw and label the market demand curve for the Apple iPhone 7
(ii) Draw and label the market supply curve for the Apple iPhone 7.
(iii) Show on your diagram:
   - The market equilibrium price for the Apple iPhone 7 (use label P₁)
   - The market equilibrium quantity for the Apple iPhone 7 (use label Q₁).

(30 marks)

(c) The formula for measuring Income Elasticity of Demand (YED) is:

\[
\frac{\Delta Q}{\Delta Y} \times \frac{Y_1 + Y_2}{Q_1 + Q_2}
\]

(i) Explain what each of the above symbols represent.
(ii) The Income Elasticity of Demand (YED) for the Apple iPhone 7 is +2.8. Would you consider the Apple iPhone 7 to be a luxury good, based on your knowledge of YED? Explain your answer.

(25 marks)
3. (a) A construction firm converts inputs (factors of production) to output (houses).
State and explain the four factors of production that might be used to produce houses. 
(20 marks)

(b) The Irish Government is facing demands for wage increases from employees in the public sector. Employees in the private sector are also seeking wage increases.

(i) Explain each of the underlined terms and state one example of an occupation in each of the sectors above.
(ii) State and explain one economic reason why employees are currently seeking wage increases.
(iii) Discuss one possible economic disadvantage for the Irish economy if employees in both the public and private sectors receive wage increases. 
(30 marks)

(c) (i) State and explain two economic reasons why different wages are paid for different jobs.

(ii) The Irish Government is trying to encourage Irish emigrants to return and work in Ireland. Suggest two measures that the government could take to encourage this.
(25 marks)

4. (a) In modern economies money has replaced barter.

(i) Explain the terms money and barter.
(ii) Explain one difficulty associated with the use of barter.
(iii) State two other items which are currently used as money, other than coins and notes.
(25 marks)

(b) Some banks are offering customers a low interest rate on their savings.

(i) Explain each of the underlined terms.
(ii) State and explain two factors, other than interest rate, which households may consider in deciding whether to save or not.
(26 marks)

(c) (i) Explain the term price inflation.

(ii) State one economic effect which any two of the following developments may have on the rate of price inflation in Ireland. Explain your answer in each case.
- an increase in world oil prices
- a decrease in the rates of Irish indirect taxes
- a decrease in the Irish level of savings.
(24 marks)

[75 marks]
5. (a) The multiplier formula for an open economy is

\[
\frac{1}{MPS + MPM}
\]

Assume the MPM is 0.25 and MPS is 0.15

(i) Explain the term multiplier.
(ii) Using the formula above calculate the size of the multiplier. Show your workings.
(iii) If investment in the economy increases by €10 million, what is the increase in National Income? Show your workings.

(21 marks)

(b) The diagram below represents the Circular Flow of Income in an open economy without government.

(i) Ireland is an open economy. Explain this statement.
(ii) State what each of the lines numbered 1 to 3 represents.
(iii) Referring to the diagram above, explain the type of activities which take place between any two of the following:
- Foreign markets and firms
- Households and foreign markets
- Households and financial institutions.

(30 marks)

(c) One of the aims of government is to achieve economic growth.

(i) Explain the term economic growth.
(ii) Outline two reasons why it is important for an economy to achieve economic growth.

(24 marks)
6. (a) The estimated Government current budget for 2017 is as follows:

| Government Current Income | €53,245m | Government Current Expenditure | €50,548m |

(i) Calculate the current budget surplus. **Show your workings.**
(ii) State one example of government current income and one example of government current expenditure.
(iii) Explain two economic effects of the falling unemployment rate on the Government’s current budget. (25 marks)

(b) Outline one economic argument in favour of and one economic argument against any two of the following government policies/ measures announced in Budget 2017:

- An increase in social welfare payments of €5 per week
- A decrease in rate of Deposit Interest Retention Tax (DIRT) from 45% to 39%
- Increase in excise duty on tobacco (e.g. 50c increase on a packet of 20 cigarettes). (24 marks)

(c) Various opinion polls have indicated that people in Ireland favour an improvement in state services rather than a reduction in taxation rates.

(i) Identify two state services which could be improved and explain your answer in each case.
(ii) Would you favour a reduction in taxation rates, e.g. income tax rates in Ireland, VAT rates? Outline two reasons for your answer. (26 marks)

[75 marks]

7. (a) You are given the following information about a country’s trade in a year.

<table>
<thead>
<tr>
<th>Visible Exports</th>
<th>Visible Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>€m</td>
<td>€m</td>
</tr>
<tr>
<td>22,000</td>
<td>23,500</td>
</tr>
</tbody>
</table>

(i) Explain the term **Balance of Trade**.
(ii) Using the above data, calculate the Balance of Trade and state if it is a surplus or deficit. **Show your workings.**
(iii) If the level of visible exports above increased by €2,000m, calculate the new Balance of Trade and state if it is a surplus or deficit. **Show your workings.** (25 marks)

(b) The Irish government retained the rate of **Corporation Tax** at 12.5% in Budget 2017.

(i) Explain the underlined term.
(ii) State and explain two economic factors, other than the rate of corporation tax, which a multinational company may consider when choosing Ireland as a location for its business. (24 marks)

(c) In June 2016 the UK voted to leave the EU in what has become known as BREXIT.

(i) What do the letters EU stand for?
(ii) Discuss one economic effect which the exit of the UK from the EU may have on any two of the following:
- Irish firms exporting to the UK
- Tourism between Ireland and the UK
- Consumers in Ireland. (26 marks)

[75 marks]
8. (a) The population of Ireland counted in April 2016 by the CSO is estimated to be 4.76 million. This represents an increase of almost 170,000 persons since the population was previously counted in 2011. (Source: CSO, 2016 Preliminary Report)

(i) What do the initials CSO stand for?
(ii) What is the official term used for a count of the population?
(iii) State and explain one possible economic effect which this increase in Ireland’s population may have on any two of the following:
- Demand for goods and services
- Provision of state services
- Irish labour market.

(30 marks)

(b) The Irish government is considering introducing a sugar tax in 2018 as one measure to deal with Ireland’s obesity problem.

State and explain two other economic measures you would suggest to help reduce the level of obesity in Ireland.

(20 marks)

(c) ‘The government is going to privatise the long awaited rural broadband network.’ (Source: Irish Independent, July 2016)

(i) Explain the meaning of the term privatisation.
(ii) Outline two economic advantages of this investment in broadband for rural areas.

(25 marks)

Remember to return this question paper with the answer book(s) used to answer the questions in Section B.