Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2015

WEDNESDAY 17 JUNE MORNING 9:30 – 12:00

ECONOMICS – HIGHER 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.
SECTION A (100 marks)

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

1. Outline why ‘choice’ is fundamental to the study of economics.

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____________________________________________________________________________________
____________________________________________________________________________________

(16 marks)

2. (a) Explain the concept of the Equi-Marginal Principle of Consumer Behaviour.

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

(16 marks)

(b) In equilibrium, a consumer buys 5 bottles of water at €2.50 each and 8 bagels at €3 each.

The marginal utility of the 5th bottle of water is 5 utils.

Calculate the marginal utility of the 8th bagel. (Show your workings.)

Workings:

Answer:

(16 marks)

3. (a) Outline the primary responsibility of the National Treasury Management Agency (NTMA).

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

“The NTMA sells bonds worth €4bn at a low yield (0.867%) in 2015.”

(Report: Irish Times, January 2015)

(b) Is selling bonds at a low yield good or bad for the Irish Government? Explain your answer.

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

(16 marks)
SECTION A (continued)

4. *A high concentration ratio is a key feature of an Oligopolistic Market.*

(a) Explain this statement and give one example.

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

(b) Outline two ways oligopolists behave in the market:

(i) __________________________________________________________________________________
____________________________________________________________________________________

(ii) _________________________________________________________________________________
____________________________________________________________________________________

(16 marks)

5. “Indirect taxes can be regressive but they also have advantages for governments.”

(a) Explain what is meant by a *regressive tax.*

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

(b) Outline two advantages of *indirect taxation* for governments:

(i) __________________________________________________________________________________
____________________________________________________________________________________

(ii) _________________________________________________________________________________
____________________________________________________________________________________

(16 marks)

6. Outline two main contributions to economic thought put forward by the *Classical Economists*:

(i) __________________________________________________________________________________
____________________________________________________________________________________

(ii) _________________________________________________________________________________
____________________________________________________________________________________

(17 marks)
7. Read each statement below and indicate if the statement is true or false. [Tick (✓) the appropriate box.]

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>TRUE</th>
<th>FALSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>A good with an income elasticity of demand (YED) of +2.5 is a luxury good.</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>If the cross-price elasticity of demand (CED) is negative then it may be said that the goods are complements.</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>When demand is price elastic, a reduction in price will lead to a decrease in total revenue.</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>When many close substitute goods are available, demand for any one of them should be highly elastic.</td>
<td></td>
<td>✔</td>
</tr>
</tbody>
</table>

(17 marks)

8. (a) “The Euro (€) is hitting a four and a half year low against the US $.” (Report: The Irish Independent, January 2015)

Explain what the above statement means.
______________________________________________________________________________
______________________________________________________________________________

(b) Outline two possible economic effects of this development for the Irish economy:

(i) _________________________________________________________________________
__________________________________________________________________________

(ii) _______________________________________________________________________
__________________________________________________________________________

(17 marks)

9. “Since 1990 Ireland has achieved the largest gain in life expectancy for 65 year olds in all EU member states.” (The OECD Report: Health at a glance: Europe 2014)

Outline two possible economic implications of this development for the Irish economy and one policy measure the Government could consider in response to this situation.

(i) _________________________________________________________________________
__________________________________________________________________________

(ii) _______________________________________________________________________
__________________________________________________________________________

Government Policy: __________________________________________________________
__________________________________________________________________________

(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) The table below refers to the market data for 4G High Definition Televisions (TVs).

<table>
<thead>
<tr>
<th>Price (€)</th>
<th>Quantity Demanded (‘000 units)</th>
<th>Quantity Supplied (‘000 units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000</td>
<td>20</td>
<td>120</td>
</tr>
<tr>
<td>800</td>
<td>30</td>
<td>80</td>
</tr>
<tr>
<td>600</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>400</td>
<td>80</td>
<td>30</td>
</tr>
<tr>
<td>200</td>
<td>120</td>
<td>20</td>
</tr>
</tbody>
</table>

(i) Using the above data, draw a diagram showing the market demand and market supply curves for 4G TVs, showing the price and quantity of 4G TVs at which this market is in equilibrium.

(ii) Define the concept market equilibrium. With reference to the above market, explain how equilibrium is arrived at. (30)

(b) The market for wheat is in equilibrium. Explain, with the aid of a separate diagram in each case, the effects which each of the following market situations is most likely to have on the equilibrium position for wheat:

(i) Exceptionally wet weather conditions
(ii) An increasing percentage of the population is suffering from wheat allergies and intolerance
(iii) A decrease in the price of oil. (30)

(c) Following recent sharp increases in the price of private rented accommodation, calls have been made for the Irish Government to introduce price/rent controls (a rent ceiling).

Advise the Minister for the Environment on the possible economic consequences of the Government intervening in the market by imposing a price ceiling for private rented accommodation. (15)
2. (a) (i) State and explain two examples of barriers to entry facing firms wishing to enter a monopoly market.
(ii) Explain, with the aid of a diagram, the long run equilibrium position of a monopolist. Identify on your diagram the profit the monopolist makes. (35)

(b) A monopolist can increase its profits by engaging in price discrimination.
(i) Explain the concept price discrimination, using a suitable example.
(ii) State and explain the market conditions necessary for price discrimination to take place. (25)

(c) The Commission for Energy Regulation (CER), Ireland’s independent energy regulator, has been appointed as the independent economic regulator for Ireland’s public water services.

Discuss whether or not Irish Water (Uisce Éireann), Ireland’s new water utility company, should be regulated. (15)

3. (a) In the case of any two of the following three pairs distinguish between the two concepts:
- Marginal Cost and Average Cost
- Explicit Cost and Implicit Cost
- Normal Profit and Supernormal Profit. (20)

(b) The table below shows the output and production costs for a small bakery.

<table>
<thead>
<tr>
<th>Units of Bread</th>
<th>Total Costs (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>200</td>
<td>280</td>
</tr>
<tr>
<td>300</td>
<td>330</td>
</tr>
<tr>
<td>400</td>
<td>360</td>
</tr>
<tr>
<td>500</td>
<td>450</td>
</tr>
<tr>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>700</td>
<td>770</td>
</tr>
</tbody>
</table>

(i) Use the data in the table above to answer the following questions:
- What are the fixed costs of operating this bakery? Explain your answer.
- What are the variable costs of producing 300 loaves of bread?
- What is the average cost of producing 400 loaves of bread?

(ii) Using the data from the table above, draw one graph showing the following (you may use graph paper to complete this question):
- Total costs (label the curve TC)
- Total variable costs (label the curve VC)
- Total fixed costs (label the curve FC)

(iii) With reference to the graph you have drawn in part (ii) does the graph represent the short run or the long run? Outline a reason for your answer. (35)

(c) Discuss possible economies of scale and diseconomies of scale that the bakery may experience, should it expand its scale of production in the long run. (20)
4. (a) (i) State and explain two economic characteristics of enterprise as a factor of production.
(ii) Explain the importance of profits in a market economy. (30)

(b) (i) Distinguish between the terms capital and investment as used by economists.
(ii) Discuss the case for and against the Government investing in Ireland’s railways. (30)

(c) (i) State and explain the three motives put forward by John Maynard Keynes for holding assets in the form of cash.
(ii) Outline one main influence on each motive. (15)

[75 marks]

5. (a) (i) Outline three factors that limit the ability of banks to create credit.
(ii) Discuss the economic reasons why the financial system in Ireland should be regulated. (30)

(b) In January 2015, the Central Bank of Ireland (CBI) introduced restrictions on residential mortgage lending (bigger deposit requirement for mortgage loans and upper limits on borrowing based on income).

State and explain the possible economic impacts of these restrictions on the Irish property market. (20)

(c) The Strategic Banking Corporation of Ireland (SBCI) was set up to support SMEs (small and medium enterprises) by providing finance under favourable terms (e.g. lower cost credit).

Discuss the possible economic benefits of increased access to funding for the SME sector in Ireland. (25)

[75 marks]
6. (a) “Prices on average as measured by the Consumer Price Index (CPI) were 0.1% higher in November 2014 compared with November 2013.” (CSO statistics)

(i) Do you consider the CPI an accurate measure of changes in the cost of living? Explain your answer.
(ii) Discuss two possible economic effects of price deflation on the Irish economy.

(b) Economists classify unemployment into different types.

(i) State and explain three types of unemployment.
(ii) Outline one appropriate government policy response for each of two unemployment types that you have explained in part (i) above.

(c) According to the Quarterly National Household Survey (QNHS) the rate of unemployment was 11.1% in the third quarter of 2014.

(i) Name one other commonly used source of unemployment statistics in Ireland.
(ii) State and explain the reasons for the differences between both sources.
(iii) Outline the possible economic effects which a rise in the level of employment, due to economic recovery in Ireland, may have on the Government current finances.

[75 marks]

7. (a) (i) Explain, with the aid of a diagram, the Circular Flow of Income for an open economy.
(ii) Outline how each of the following should affect the level of National Income in Ireland:
   - an increase in Irish exports
   - an increase in the level of savings.

(b) Discuss four factors which should be considered when comparing national income statistics from different countries.

(c) The Central Bank of Ireland (CBI) raised its forecast for 2015 economic growth to 3.7% from 3.4% citing strong consumer and investment spending.
   (Central Bank Quarterly Bulletin: Q1 2015)

(i) Define the term economic growth.
(ii) Discuss possible costs and benefits of economic growth.

[75 marks]
8. (a) “A Budget deficit stimulates the economy and therefore should be encouraged.”

Discuss this statement with reference to the Irish economy. You may agree or disagree. (20)

(b) (i) Outline three policies the Irish Government could consider to achieve balanced regional development.
(ii) Outline two economic benefits to rural communities of balanced regional development. (25)

(c) (i) Discuss the economic effects of emigration on the Irish economy.
(ii) Advise the Government on two policy initiatives/measures that could be introduced in ‘Budget 2016’ to encourage emigrants to return to Ireland. (30)

[75 marks]