Coimisiún na Scrúduithe Stáit  
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2008

WEDNESDAY, 18 JUNE 2008, 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. Enter the factors of production and/or the payment for the factor in the appropriate spaces below:

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYMENT</td>
<td>RENT</td>
</tr>
<tr>
<td></td>
<td>WAGES</td>
</tr>
<tr>
<td></td>
<td>PROFIT / LOSS</td>
</tr>
</tbody>
</table>

(16 marks)

2. Fill in the missing words in the spaces below to complete the names of the international financial institutions:

(i) ECB European _______________ _______________

(ii) WTO _______________ Trade _______________

(iii) IMF _______________ Monetary _______________ (16 marks)

3. State two examples of government current income and two examples of government current expenditure.

<table>
<thead>
<tr>
<th>Government Current Income</th>
<th>Government Current Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
<td>2.</td>
</tr>
</tbody>
</table>

(16 marks)

4. 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:

<table>
<thead>
<tr>
<th>ΔQ</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ΔP</td>
<td></td>
</tr>
<tr>
<td>P_1</td>
<td>Original price of the good.</td>
</tr>
<tr>
<td>P_2</td>
<td></td>
</tr>
<tr>
<td>Q_1</td>
<td></td>
</tr>
<tr>
<td>Q_2</td>
<td></td>
</tr>
</tbody>
</table>

(16 marks)

5. One of the assumptions of Imperfect Competition is that the goods produced are close substitutes. Explain the underlined term and state two other assumptions.

Explanation: ____________________________________________________________

______________________________________________________________

Assumption 1: _________________________________________________________

Assumption 2: _________________________________________________________ (16 marks)
6. The diagram below relates to the **supply of bottled water** in Ireland.

![Diagram showing supply curve with labels S1, P1, Q1]

(i) On the diagram, show the effect which an increase in the price will have on the quantity supplied. Use labels P2 and Q2.

(ii) On the diagram, show the effect which a reduction in the costs of production will have on the supply curve. Use label S2.

(17 marks)

7. State **one** economic advantage and **one** economic disadvantage of the continuing construction of new toll roads throughout Ireland.

**One economic advantage:**

**One economic disadvantage:**

(17 marks)

8. You are given the following information about a country’s trade.

<table>
<thead>
<tr>
<th>Visible Exports €million</th>
<th>Visible Imports €million</th>
<th>Balance of Trade €million</th>
<th>Surplus or Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>18,000</td>
<td>17,800</td>
<td>200</td>
<td>Surplus</td>
</tr>
</tbody>
</table>

If the level of visible exports decreased by €500 million, explain the effect which this would have on the country’s Balance of Trade. **Show your workings.**

<table>
<thead>
<tr>
<th>Workings</th>
<th>Explanation:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(17 marks)

9. Which of the formulas, below, represents the multiplier in an **open economy**? (Choose Option A or Option B and write your answer in the space provided). Explain your choice.

<table>
<thead>
<tr>
<th>Option A</th>
<th>Option B</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ \frac{1}{1-(MPC-MPM)} ]</td>
<td>[ \frac{1}{1-MPC} ]</td>
<td>Option ______</td>
</tr>
</tbody>
</table>

Explanation:

(17 marks)

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

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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 a Monopoly firm in equilibrium.

![Diagram of a monopoly firm in equilibrium]

(a) (i) Copy the above diagram into your answer book.
Complete/write each of the six underlined labels in full.

(ii) Equilibrium occurs at point E on the diagram.
Show on your diagram:
- the output the firm will produce in equilibrium. (Use label \( Q_1 \))
- the price charged for this output. (Use label \( P_1 \))
- the average cost of producing the output. (Use label \( C_1 \))

(iii) A monopoly market is generally described as being inefficient.
Explain with reference to your diagram, the meaning of this statement.

(b) New firms may wish to enter a monopoly market but they face barriers to entry.

(i) State three of these barriers.
(ii) Write brief notes on each of these.

(c) (i) State one example of a market which you consider to be a monopoly in Ireland.
(ii) If circumstances change, allowing new firms to enter into this market, state and explain one economic advantage and one economic disadvantage of this development for each of the following:
- Consumers;
- Employees of the monopoly firm.
2. (a) Oil is considered an ‘economic good’ because it is **scarce**, **transferable** and provides **utility**.

(i) Explain each of the underlined terms.
(ii) State **one** example of a ‘free good’. Explain your answer.  

20 marks

(b) The following may cause **either** the demand curve for oil **or** the supply curve for oil to shift to the right or the left:

- a **new supply of oil** is discovered off the coast of Ireland;
- the level of indirect taxes on oil is **reduced**;
- an increase in unemployment causes income levels to **fall** within the economy.

In relation to each of the above factors:

(i) state whether the demand curve **or** supply curve will shift;
(ii) state whether the curve you mention will shift to the right or left;
(iii) explain **why** the curve has shifted in the direction you have stated.

30 marks

(c) The consumption of oil worldwide continues to increase.

(i) State and explain **two** economic reasons for this development.
(ii) State and explain how each of the following could help reduce the consumption of oil:

- Consumers;
- Businesses;
- Irish Government.

25 marks

[75 marks]
3. (a) A construction company needs land for building houses. It must also purchase raw materials, pay wages to employees and make loan repayments on finance obtained to purchase machinery.

(i) Explain land as a factor of production.
(ii) Define the terms fixed costs and variable costs.
(iii) State whether each of the three costs underlined above is an example of fixed costs or variable costs.

(b) The demand for housing in Ireland decreased in 2008.

(i) State and explain one possible economic reason for this decrease.
(ii) State and explain how this decrease could affect each of the following:
   • employment within the country;
   • taxation revenue;
   • profits within the construction industry.

(c) There is more immigration than emigration in Ireland at present.

(i) Explain the two underlined terms.
(ii) State and explain two reasons for the development stated above.
(iii) State and explain the possible economic effects which increased immigration may have on each of the following:
   • Irish labour market;
   • Demand for State services;
   • Firms in the retail / service industry (e.g. banks, supermarkets).

4. (a) Medium of exchange is one of the functions of money.

(i) Explain the underlined term.
(ii) State two other functions of money.
(iii) Other than notes and coins state one other item which is generally used as money.

(b) Commercial banks are now facing increasing competition in Ireland.

(i) Name two commercial banks operating in Ireland.
(ii) State and explain two reasons why competition is increasing.
(iii) State and explain how this increased competition may affect each of the following:
   • customers of the banks;
   • shareholders in the banks.

(c) If the European Central Bank were to reduce interest rates, discuss the possible effects which this development may have on each of the following:
   • level of demand for goods and services in Ireland;
   • mortgage holders;
   • businesses;
   • savers.
5. (a) The following taxes in Ireland can be classified as direct taxes or indirect taxes:

\[
\begin{array}{lll}
\text{VAT} & \text{PAYE} & \text{CORPORATION PROFITS TAX} \\
\end{array}
\]

(i) Explain the two underlined terms.
(ii) Classify each of the above taxes as a direct tax or indirect tax.
(iii) State the item on which each of the above taxes is levied.

(25 marks)

(b) If the Irish Government reduced the rates of income tax:

(i) State and explain two economic benefits of lower rates of income tax to the Irish Economy;
(ii) State and explain two economic disadvantages of lower rates of income tax to the Irish Economy.

(20 marks)

(c) The economist Adam Smith developed the following Canons of Taxation:

\[
\begin{array}{llll}
\text{EQUITY} & \text{ECONOMY} & \text{CERTAINTY} & \text{CONVENIENCE} \\
\end{array}
\]

(i) Explain each of the above canons of taxation;
(ii) The Revenue Commissioners attempt to reduce the level of tax evasion in Ireland. Explain, with the use of an example, the underlined term.

(30 marks)

[75 marks]

6. (a) The Government, with the help of the National Treasury Management Agency, has been successful in reducing Ireland’s national debt, while continuing to invest in infrastructure.

(i) Explain each of the underlined terms.
(ii) State three other economic aims of the Government.
(iii) Write brief notes on each of these aims.

(25 marks)

(b) There are many problems facing less developed countries (LDCs). One of these problems is the increasing national debt.

(i) State and explain three other economic problems which these countries are experiencing.
(ii) State and explain two measures which the governments of LDCs could take to help solve these problems.

(25 marks)

(c) The Government, Gardaí and the Road Safety Authority (RSA) aim to reduce the number of accidents and deaths on Irish roads.

(i) State and explain two measures which the government could take to achieve this aim.
(ii) If successful and the number of deaths is reduced, discuss the economic effects which this development may have on each of the following:
   • hospital accident and emergency admissions;
   • motor insurance costs.

(25 marks)

[75 marks]
7. (a) The table below illustrates the Law of Comparative Advantage.

<table>
<thead>
<tr>
<th></th>
<th>ICE-CREAM</th>
<th>CHOCOLATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITALY</td>
<td>800kg per worker</td>
<td>600kg per worker</td>
</tr>
<tr>
<td>BELGIUM</td>
<td>400kg per worker</td>
<td>200kg per worker</td>
</tr>
<tr>
<td>TOTAL OUTPUT</td>
<td>1200kg for 2 workers</td>
<td>800kg for 2 workers</td>
</tr>
</tbody>
</table>

Although Italy is more efficient in the production of both goods, each country should specialise in the production of one good.

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

(20 marks)

(b) Sometimes governments decide to restrict free international trade by imposing barriers such as tariffs.

(i) Explain the underlined term.
(ii) State two other methods which governments could use to restrict free trade.
(iii) State and explain two reasons why governments may wish to restrict free trade.

(25 marks)

(c) The rate of price inflation in Ireland is generally higher than in other EU countries.

(i) Explain the underlined term.
(ii) State and explain two reasons why price inflation in Ireland is generally higher than in the other EU countries.
(iii) State and explain the effects which higher price inflation in Ireland may have on:

- Ireland’s exports to the EU;
- Ireland’s imports from the EU.

(30 marks)

[75 marks]
8. (a) The diagram below represents the Circular Flow of Income in a **closed economy** without Government.

![Circular Flow Diagram]

(i) Explain the meaning of the term ‘closed economy’.
(ii) Copy the diagram into your answer book. Clearly label each of the lines (1) to (3).
(iii) Referring to the diagram above, explain briefly the types of transactions/activities which take place between households and firms.

(25 marks)

(b) Given: National Income as $Y = C + I + G + X - M$.

\[
\begin{align*}
C &= €1,200m \\
I &= €500m \\
G &= €300m \\
X &= €40m \\
M &= €80m.
\end{align*}
\]

(i) State what each of the letters / symbols in the formula above stands for.
(ii) Calculate, using the figures provided, the level of National Income. **Show your workings.**

(20 marks)

(c) You are given the following information relating to a particular country.

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP at market prices</td>
<td>€2,500 million</td>
<td>€2,700 million</td>
</tr>
<tr>
<td>Population</td>
<td>5 million</td>
<td>6 million</td>
</tr>
</tbody>
</table>

(i) What do the initials GNP stand for?
(ii) Calculate the GNP per person for both years. **Show all your workings.**
(iii) State and explain two possible economic disadvantages to a country of a decrease in GNP per person.

(30 marks)

(75 marks)

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