Coimisiún na Scrúduithe Stáit  
State Examinations Commission  

LEAVING CERTIFICATE EXAMINATION, 2007  
WEDNESDAY, 20 JUNE 2007, 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. What do the following initials stand for?
   
   (i) GNP  ____________________      ______________________      ______________________
   (ii) WTO  ____________________      ______________________     ______________________  (16 marks)

2. One of the possible barriers to entry to a Monopoly market is ‘Government Regulation’.
   Explain the underlined term and illustrate your answer with ONE example.
   
   Explanation: ________________________________________________________________________
   _____________________________________________________________________________________
   
   Example: ____________________________________________________________________________  (16 marks)

3. (i) An economic good is described as being transferable.

   Tick (✓) the statement, below, which explains the underlined term correctly:
   
   (a) It must be possible to transport the good from one place to another.  [ ]
   (b) It must be possible to pass the good from one person to another.  [ ]

   (ii) State ONE example of a good that is NOT transferable: ______________________________  (16 marks)

4. Complete the following statements:

   Enterprise, as a factor or production, is defined as that factor which __________________________ the
   other factors into a production unit. It undertakes the ______________________ involved in running
   a business. The return / payment for enterprise is called ________________________________.

   (16 marks)

5. Explain what is meant by the term ‘price inflation’.

   ____________________________________________________________________________________
   ____________________________________________________________________________________  (16 marks)
   \( Y = €1,000m; \quad I = €200m; \quad G = €300m; \quad X = €250m \) and \( M = €100m \).
   Calculate, using the above figures, the level of consumption \( C \). Show all your workings.

<table>
<thead>
<tr>
<th>WORKINGS</th>
<th>ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ ________</td>
</tr>
</tbody>
</table>

   (17 marks)

7. Many Irish banks offer internet banking services. State ONE economic advantage of this development for the bank customer and state ONE economic advantage for the bank.

   CUSTOMER: Economic advantage: ________________________________________________________________

   BANK: Economic advantage: ________________________________________________________________

   (17 marks)

8. (i) Complete the following sentence:

   Price Elasticity of Demand (PED) measures the percentage change in

   ____________________ ____________________ for a good caused by a percentage change in the

   ____________________ of the good itself.

   (ii) ‘Price Elasticity of Demand for a normal good is negative’. Explain this statement.

   ______________________________________________________________

   (17 marks)

9. In relation to the economic ideas listed below, match the idea with the associated economist.

<table>
<thead>
<tr>
<th>Economic Idea</th>
<th>Economist</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Theory on Population and Food Supply</td>
<td>1. Adam Smith</td>
</tr>
<tr>
<td>B. Canons of Taxation</td>
<td>2. David Ricardo</td>
</tr>
<tr>
<td>C. The Multiplier Effect</td>
<td>3. Thomas Malthus</td>
</tr>
<tr>
<td>D. Law of Comparative Advantage</td>
<td>4. John Maynard Keynes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economic Idea</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economist</td>
<td></td>
<td></td>
<td></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.
1. The diagram below represents the long run equilibrium of a firm in **Perfect Competition**.

![Diagram of Perfect Competition](image)

(a) (i) Copy the diagram into your answer book. Clearly label each of the lines numbered 1 to 4.

(ii) Equilibrium occurs at point **E** on the diagram. Show on your diagram:
- the output the firm will produce in equilibrium (use label Q₁)
- the price charged for this output (use label P₁)
- the average cost of producing this output (use label C₁)

(iii) Perfect Competition is described as being efficient. Explain the meaning of this sentence. You may refer to your diagram in your explanation. 

(30 marks)

(b) (i) State **THREE** characteristics /assumptions of Perfect Competition.

(ii) Write brief notes on each of these.

(25 marks)

(c) The Government has recently **privatised** a state company.

(i) What is meant by the term ‘**privatisation**’?

(ii) Name the company which the government recently privatised.

(iii) State and explain **ONE** way each of the following may be affected by privatisation:
- the consumers of the service;
- the employees of the privatised company.

(20 marks)

[75 marks]
2. (a) The diagram below shows the demand and supply of iPods in Ireland.

(i) Copy the diagram into your answer book. Clearly label each of the lines marked 1 to 3.
(ii) Show on your diagram:
   • equilibrium price (use label P₁)
   • equilibrium quantity (use label Q₁)

(20 marks)

(b) Suppose the demand curve for iPods shifts to the right, as shown below.

(i) State and explain **TWO** possible reasons why the demand curve for iPods has shifted to the right.
(ii) Show on your diagram:
   • the new equilibrium price (use label P₂)
   • the new equilibrium quantity (use label Q₂)
(iii) State **ONE** complementary good for iPods and explain the effect **on the demand for this complementary good** if the demand for iPods continues to increase.

(25 marks)

(c) The demand for foreign holidays by Irish citizens has increased in recent years.

(i) State and explain **TWO** possible reasons for this development.
(ii) State and explain **THREE** measures which the Irish Tourist Industry could take to encourage more people to holiday in Ireland.

(30 marks)

[75 marks]
3. (a) A furniture producer pays rent of €5,000 to use premises. The producer also pays wages of €50,000 each month to workers. Other costs include the bill for timber €35,000, and a monthly loan repayment of €10,000 on finance obtained to purchase equipment.

(i) Define the terms: fixed costs and variable costs.
(ii) State whether each of the four costs underlined above are examples of fixed costs or variable costs.
(iii) If this producer receives €120,000 from the sale of the furniture produced, calculate the profit he makes. Show your workings.

(b) Entrepreneurs are important for an economy.

(i) State and explain TWO reasons why entrepreneurs are important for the Irish economy.
(ii) State and explain TWO ways in which the Irish government could encourage more individuals to become entrepreneurs.

(c) Entrepreneurs employ labour to help in the production process.

(i) Define the underlined term.
(ii) State and explain TWO reasons why an entrepreneur might employ additional workers.
(iii) Outline ONE reason why workers who train for longer periods generally receive higher wage rates.

4. (a) (i) Define the terms: money and legal tender.
(ii) State the TWO items from the list below which are considered legal tender.

| CHEQUES | €50 NOTE | €1 COIN | CREDIT CARDS |

Note: Do not state more than two items from the list.

(b) The ECB has been increasing interest rates throughout the euro zone.

(i) What do the initials ECB represent?
(ii) State and explain how an increase in interest rates could affect each of the following:
   • Individual households;
   • Businesses;
   • The Economy.

(c) Many people have saved in the Special Savings Incentive Accounts (SSIAs), over the past number of years. They are now accessing these savings and using them for various purposes.

(i) Explain the underlined term.
(ii) State and explain TWO economic advantages of this increased flow of money in the Irish economy.
(iii) State and explain TWO economic disadvantages of this increased flow of money in the Irish economy.
5. (a) (i) Distinguish between a **Balance of Trade surplus** and a **Balance of Trade deficit**.

The table below shows Ireland’s exports and imports with other countries / regions.

<table>
<thead>
<tr>
<th>Countries / Regions</th>
<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>A United Kingdom</td>
<td>15,500</td>
<td>18,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B Other EU countries</td>
<td>40,000</td>
<td>15,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C USA</td>
<td>16,500</td>
<td>8,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D Rest of World</td>
<td>16,000</td>
<td>16,500</td>
<td>-500</td>
<td><strong>Deficit</strong></td>
</tr>
</tbody>
</table>

(ii) Using the partially completed table above calculate Ireland’s Balance of Trade with each country / region (A, B, C above) and state whether it is a surplus or deficit in each case.

(25 marks)

(b) (i) State and explain **THREE** reasons why **exports** are important for the Irish economy.

(ii) Foreign golf supporters who travelled to Ireland to view the Ryder Cup in 2006 are an example of an invisible export for Ireland.

State **TWO** other examples of **invisible exports**.

(25 marks)

(c) You are given the following information about the Euro (€) to US dollar ($) exchange rate.

| Year 1: €1 = $1.20 | Year 2: €1 = $1.30 |

(i) State whether the euro (€) has gone up or down in value relative to the dollar ($) and explain your answer.

(ii) State and explain the possible effect which the above change may have on Ireland’s **exports** to the US and Ireland’s **imports** from the US.

(25 marks)

[75 marks]
6. (a) In 2006 the **CSO** conducted a count of Ireland’s population.

   (i) What do the initials **CSO** represent?
   (ii) What is the official term used for a count of population?
   (iii) Explain **ONE** possible use of information on population by **each** of the following:
       - Irish Government;
       - Business firms.

   (25 marks)

(b) The CSO has found that Ireland’s population has increased in recent years.

   (i) State and explain **TWO** factors which have led to this development.
   (ii) State and explain **TWO** economic effects of the increase in population for the Irish economy.

   (25 marks)

(c) A high rate of population growth has been experienced by less developed countries (LDCs).

   (i) State and explain **THREE** other economic problems which these countries are experiencing.
   (ii) State and explain **TWO** measures which governments in the **developed world** could take to help reduce the problems experienced by LDCs.

   (25 marks)

[75 marks]

7. (a) In the case of **each** of the following types of taxes:

   - a tax levied on a good or service;
   - a tax on company profits;
   - a tax on an employee’s wages.

   (i) Name **each** type of tax.
   (ii) State whether each tax is an example of a **direct tax** or an **indirect tax**.

   (25 marks)

(b) (i) State and explain **TWO** reasons for taxation in an economy.
   (ii) Outline **ONE** reason why the Minister for Finance might increase taxes on goods such as alcohol, petrol and tobacco.
   (iii) The Government introduced a plastic bag tax in recent years. Discuss **TWO** advantages of this tax for the Irish economy.

   (25 marks)

(c) A Minister for Finance prepares the following Current Budget for 2006:

<table>
<thead>
<tr>
<th>Current Budget - 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Current Income</td>
</tr>
<tr>
<td>Government Current Spending</td>
</tr>
</tbody>
</table>

   (i) Calculate the Current Budget balance for the above budget and state whether it is a **surplus** or a **deficit**. Show your workings.
   (ii) The actual figures for 2006 differed from the budgeted figures as follows:
       - Current income was lower by 5%
       - Current spending was higher by 10%
   Calculate the Current Account balance, taking these changes into account. Show all your workings.

   (25 marks)

[75 marks]
8. (a) The increasing worldwide consumption of oil is causing problems for economies.

(i) State and explain TWO economic reasons why the worldwide consumption of oil is increasing.
(ii) State and explain how EACH of the following could help to reduce this problem:
   - Consumers;
   - Business Firms;
   - The Irish Government.

   (25 marks)

(b) The Irish Government is investing heavily in the country’s infrastructure.

(i) Explain the underlined term.
(ii) State and explain TWO reasons why improvements in infrastructure are important for the Irish economy.
(iii) Outline TWO areas of infrastructure which you consider need further investment and explain the reasons for your choices.

   (25 marks)

(c) The Irish Government has decided to construct a Metro transport system linking Dublin City centre with Dublin Airport.

(i) State and explain TWO possible advantages of this development for the Irish economy.
(ii) State and explain TWO possible disadvantages of this development for the Irish economy.

   (25 marks)

[75 marks]

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