Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2015

WEDNESDAY 17 JUNE 2015 – 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. Insert the factor of production or an appropriate example of the factor of production into the four spaces provided below.

<table>
<thead>
<tr>
<th>Factor of Production</th>
<th>LAND</th>
<th>(ii)</th>
<th>CAPITAL</th>
<th>(iv)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example</td>
<td>(i)</td>
<td>TEACHER</td>
<td>(iii)</td>
<td>BUSINESS OWNER</td>
</tr>
</tbody>
</table>

(16 marks)

2. Which of the characteristics / assumptions listed below refer to Perfect Competition?
(Write True or False after each sentence.)

<table>
<thead>
<tr>
<th>SENTENCE</th>
<th>TRUE or FALSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) The goods are homogenous / identical.</td>
<td></td>
</tr>
<tr>
<td>(ii) Barriers to entry exist in this market.</td>
<td></td>
</tr>
<tr>
<td>(iii) There are many buyers and sellers in the market.</td>
<td></td>
</tr>
<tr>
<td>(iv) The goods are close substitutes.</td>
<td></td>
</tr>
</tbody>
</table>

(16 marks)

3. The rate of Corporation Tax in Ireland is currently 12.5 %.
Explain the underlined term and outline one possible reason why the Irish Government retained the rate at 12.5 % in Budget 2015.

Explanation:

___________________________________________________________________________________
___________________________________________________________________________________

One possible reason:

___________________________________________________________________________________
___________________________________________________________________________________

(16 marks)
4. Choose the correct words from the list below to complete the following two statements:

<table>
<thead>
<tr>
<th>Sale</th>
<th>Purchase</th>
<th>Goods</th>
<th>Services</th>
</tr>
</thead>
</table>

Statement A:

**Visible exports** are defined as the ____________ of Irish ____________ to foreign countries.

Statement B:

**Invisible imports** are defined as the ____________ of foreign ____________ by Irish people.

(16 marks)

5. (a) State two economic characteristics of Less Developed Countries (LDCs).

**Characteristic 1:**

______________________________________________________________________________

**Characteristic 2:**

______________________________________________________________________________

(b) Outline one way Ireland (the Irish Government or Irish citizens) could support LDCs.

______________________________________________________________________________

______________________________________________________________________________

(16 marks)

6. What do the following letters stand for? (Write each answer in the space provided.)

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECB</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CPI</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>WTO</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(17 marks)
7. Suppose the Apple iPhone 6 has a Price Elasticity of Demand (PED) of – 2.8.

(i) Explain what is meant by the negative (–) sign.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

(ii) Circle the correct answer in each case to complete the following statement.

A 10% decrease in the market price of this Apple iPhone 6 will result in a fall / rise in the quantity demanded by 28% / 2.8%.

(17 marks)

8. Some economists say Ireland is experiencing a ‘Brain Drain’ due to emigration. Explain the underlined term and state one other economic problem that Ireland may experience due to emigration.

Explanation: ____________________________________________________________________
_______________________________________________________________________________

One other economic problem: ________________________________________________
_______________________________________________________________________________

(17 marks)

9. There are more Irish consumers buying/shopping online (internet).

(a) Outline two economic benefits of this development for Irish consumers.

Benefit 1: _____________________________________________________________________

Benefit 2: _____________________________________________________________________

(b) Outline one possible economic cost of this development for the Irish economy.

_______________________________________________________________________________
_______________________________________________________________________________

(17 marks)
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 the long run equilibrium of a firm in **Imperfect Competition**.

   (a) Copy the diagram into your answer book.

   (i) State what **each** of the 5 labels circled above represent.
   (ii) The firm is in equilibrium at point S. Show on your diagram:
       - The quantity the firm will produce in equilibrium (use label $Q_1$)
       - The price the firm will charge for $Q_1$. (use label $P_1$)

   (30 marks)

   (b) There are no **barriers to entry** in Imperfect Competition.

   (i) Explain the term **barriers to entry**.
   (ii) State **two** other characteristics of Imperfect Competition.
   (iii) Write brief notes on **each** of these.

   (20 marks)

   (c) Firms in Imperfect Competition advertise to build **brand loyalty**.

   (i) Explain the term **brand loyalty**.
   (ii) State and explain **one** possible advantage of advertising for the consumer and **one** possible advantage for the seller.
   (iii) State and explain **one** possible disadvantage of advertising for the consumer and **one** possible disadvantage for the seller.

   (25 marks)
2. The information below represents the market demand and supply schedules for Smartphones.

<table>
<thead>
<tr>
<th>Price €</th>
<th>Quantity Demanded (units)</th>
<th>Quantity Supplied (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>50,000</td>
<td>10,000</td>
</tr>
<tr>
<td>200</td>
<td>40,000</td>
<td>20,000</td>
</tr>
<tr>
<td>300</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>400</td>
<td>20,000</td>
<td>40,000</td>
</tr>
<tr>
<td>500</td>
<td>10,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Using the above information and one diagram:

(a) (i) Draw and label the market demand curve for Smartphones.
(ii) Draw and label the market supply curve for Smartphones.
(iii) Show on your diagram:
- The market equilibrium price for Smartphones (use \( P_1 \))
- The market equilibrium quantity for Smartphones (use \( Q_1 \)).

(30 marks)

(b) The demand curve for Smartphones OR the supply curve for Smartphones may shift to the right or to the left due to the following:
- a fault in the manufacturer’s Smartphone design is discovered leading to their recall
- a range of new Apps is made available and included with the Smartphone.

In relation to each development above, answer the following three questions:
(i) State whether the demand curve or the supply curve will shift
(ii) State whether the curve you mention will shift to the right or the left
(iii) Explain why the curve has shifted in the direction you have stated.

(20 marks)

(c) Domestic users in most European countries pay for the provision of clean water and wastewater service provision.

(i) Outline two economic reasons for the introduction of water charges for households.
(ii) State and explain one possible economic effect which these water charges may have for each of the following:
- households who pay these water charges
- the Irish Government.

(25 marks)

[75 marks]
3. Emma O’Neill is an entrepreneur and has set up a business designing and creating gardens. The table below shows her estimated costs of production and total revenues over a range of output.

<table>
<thead>
<tr>
<th>Number of units of output</th>
<th>Fixed Costs</th>
<th>Variable Costs</th>
<th>Total Costs</th>
<th>Total Revenue</th>
<th>Total Profit/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€</td>
<td>€</td>
<td>€</td>
<td>€</td>
<td>€</td>
</tr>
<tr>
<td>1</td>
<td>2,000</td>
<td>1,000</td>
<td>3,000</td>
<td>2,800</td>
<td>(200)</td>
</tr>
<tr>
<td>2</td>
<td>2,000</td>
<td>1,800</td>
<td>3,800</td>
<td>4,300</td>
<td>500</td>
</tr>
<tr>
<td>3</td>
<td>2,000</td>
<td>3,300</td>
<td>A.</td>
<td>6,500</td>
<td>C.</td>
</tr>
<tr>
<td>4</td>
<td>2,000</td>
<td>5,000</td>
<td>B.</td>
<td>8,800</td>
<td>D.</td>
</tr>
</tbody>
</table>

(a) (i) Explain the underlined term above.
(ii) Using the table calculate the total costs at A and B (show your workings in your answer book) and the total profit at C and D (show your workings in your answer book).
(iii) The following are examples of costs incurred by a garden designer:
Lawnmower Plants/shrubs Truck Fertiliser
Identify which of the above are fixed costs and which are variable costs. Explain your answer in each case. (30 marks)

(b) If the business continues to expand Emma may consider employing additional labour at the national minimum wage rate.
(i) Explain each of the underlined terms.
(ii) State and explain two factors which may encourage Emma to employ additional workers. (24 marks)

(c) (i) Outline two reasons why entrepreneurship is important for the Irish economy, other than creating employment.
(ii) Outline one action which each of the following could take to encourage entrepreneurship:
- the Irish Government
- Irish consumers. (21 marks)

4. (a) Medium of exchange and measure of value are functions of money. Explain each of the underlined terms and state one other function of money. (21 marks)

(b) The rate of DIRT is one factor which influences the level of personal savings.
(i) What do the initials DIRT stand for?
(ii) Explain the underlined term.
(iii) State and explain two factors, other than the rate of DIRT, which may influence the level of savings of an individual. (30 marks)

(c) (i) The economist John Maynard Keynes stated that people have three motives for holding wealth in the form of cash.
- Transactionary
- Precautionary
- Speculative
Explain any two of the above motives.
(ii) Name one other economist who contributed to economic thought and outline one of this person’s contributions. (24 marks)

[75 marks]
5. (a) You are given the following information about a country’s trade in a year.

<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>25,000</td>
<td>24,200</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

(i) Explain the term Balance of Trade.
(ii) Using the above data calculate the Balance of Trade and explain your answer.
(iii) If the level of visible imports above increased by €1,000m, calculate the new Balance of Trade and state if it is a surplus or deficit. (Show your workings.)

(26 marks)

(b) Exports of beef from Ireland should increase due to the ending of a 16-year embargo on European beef imports into the US market.
(i) Explain the economic term embargo.
(ii) Is the export of beef from Ireland a visible export or an invisible export? Explain your answer.
(iii) State and explain two economic benefits of an increase in exports for the Irish economy.

(25 marks)

(c) You are given the following information regarding the euro (€) and the UK pound sterling (£) exchange rate.

**Year 1:** €1 = £1.00  
**Year 2:** €1 = £0.80

The euro (€) has fallen in value relative to the UK pound sterling (£).

Explain the possible effects which this fall in the value of the euro may have on each of the following:

(i) Ireland’s exports to the UK
(ii) Ireland’s imports from the UK
(iii) Employment in Ireland.

(24 marks)

[75 marks]
6. (a) The estimated Government current budget for 2015 is as follows:

| Government Current Income | €45,255 m | Government Current Expenditure | €48,985 m |

(i) Calculate the current budget deficit. (Show your workings.)
(ii) Suggest two ways the government could reduce this deficit.
(iii) State one example of Government current income and one example of Government current expenditure.  

(b) In Budget 2015 the Government reduced the higher rate of income tax from 41% to 40% and reduced some of the rates of USC.

(i) What do the initials USC stand for?
(ii) Is income tax a direct or indirect tax? Explain your answer.
(iii) Explain one possible economic effect which the reduction in the rate of income tax may have on any two of the following:
   - the government’s current budget deficit
   - the level of employment in Ireland
   - the level of emigration from Ireland.

(c) The tax on a packet of twenty cigarettes was increased by 40c in Budget 2015.

(i) Outline one other measure which could be taken to reduce the consumption of cigarettes.
(ii) State and explain two economic benefits for individuals if they reduce their consumption of cigarettes.
(iii) State and explain two benefits for society if the consumption of cigarettes falls.

(b) “The Irish economy is forecast to grow by 3.7% in 2015, marking a third successive year of growth.”

(Central Bank Quarterly Bulletin, 2015)

(i) State one measure of economic growth.
(ii) State and explain one benefit of economic growth for each of the following in the Irish economy:
   - Irish citizens
   - Businesses
   - Government finances.

(c) Ireland has been a member of the European Union (EU) since 1973.

(i) Outline two reasons why countries may want to become members of the EU.
(ii) Outline two possible economic disadvantages for Ireland of membership of the EU.
8. **(a)** The diagram below represents the Circular Flow of Income in an economy without government or international trade.

![Circular Flow Diagram](image)

(i) Copy the diagram into your answerbook. Clearly label each of the lines 1 to 3.
(ii) Explain the types of transactions / activities which take place between households and firms.
(iii) Is Ireland an open economy? Explain your answer.

(25 marks)

**(b)** National Income is calculated using the following formula:

\[
\text{National Income} = \text{Consumption} + I + \text{Government Spending} + X - M
\]

(i) Explain the underlined term.
(ii) State what each of the letters \( I, X \) and \( M \) stand for.
(iii) The level of consumer spending (consumption) is beginning to rise in Ireland. Outline two possible reasons for this increase in consumer spending.

(30 marks)

**(c)** The Multiplier formula for an open economy is:

\[
\text{Multiplier} = \frac{1}{\text{MPS} + \text{MPM}}
\]

(i) Explain the terms MPM and MPS.

Assume that MPM is 0.3 and MPS is 0.2.

(ii) Calculate, using the above formula, the size of the Multiplier. (Show all your workings.)

(20 marks)

[75 marks]