Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2006

WEDNESDAY, 21 JUNE 2006, 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. A firm produces 4 units of a product each week. It receives €2,000 in total from the sale of these four units. The firm pays the following costs when producing these four units:
   Raw Materials €500; Rent of Buildings €400; Wages €400; Insurance on Buildings €200.

   (a) Write, in the spaces below, which two are fixed costs and which two are variable costs:

<table>
<thead>
<tr>
<th>Fixed Costs</th>
<th>Variable Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
<td>2.</td>
</tr>
</tbody>
</table>

   (b) Calculate the following, showing your workings:

   (i) the TOTAL COST of producing all 4 units; ______________________________________
   ______________________________________
   ______________________________________
   ______________________________________

   (ii) the PROFIT made on sales; ____________________________________________________
   ______________________________________
   ______________________________________
   ______________________________________
   (16 marks)

2. What organisations do the following initials stand for?

   (i) CSO _______________________________________________________________________
   (ii) ECB _______________________________________________________________________
   (16 marks)

3. Define indirect tax.

   (i) Definition: __________________________________________________________________
   ______________________________________________________________________________
   ______________________________________________________________________________
   ______________________________________________________________________________

   (ii) Circle the TWO examples of indirect taxes from this list below. (Circle ONLY TWO of these.)
   PAYE       Excise Duty       Corporation Tax           VAT
   (16 marks)

4. Name the economist primarily associated with each of the economic ideas listed below:

   The Canons of Taxation
   ________________________________

   Liquidity Preference Theory
   ________________________________

   Theory on Population and Food Supply
   ________________________________
   (16 marks)

5. (i) Complete the following sentence:

   Income Elasticity of Demand (YED) measures the percentage change in ________________ for a
good caused by a percentage change in the ________________ of the consumer.

   (ii) ‘Income elasticity of demand for a normal good is positive’. Explain this statement.
   ______________________________________________________________________________
   ______________________________________________________________________________
   (16 marks)
6. You are given the following information relating to a particular country.

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross National Product (GNP) at market prices</td>
<td>€500 m</td>
<td>€1,200 m</td>
</tr>
<tr>
<td>Population</td>
<td>10 million</td>
<td>12 million</td>
</tr>
</tbody>
</table>

Calculate the **GNP per person** for both years. Show your workings.

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Workings</td>
<td>Workings</td>
</tr>
<tr>
<td><strong>Answer:</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. One of the functions of the Central Bank (now called the Central Bank and Financial Services Authority of Ireland) is to act as a banker to the government.

Explain the underlined function and state TWO other key functions of the Central Bank.

Explanation: ____________________________________________________________
___________________________________________________________________________________
Function 1: __________________________________________________________
Function 2: __________________________________________________________ (17 marks)

8. State ONE economic advantage and ONE economic disadvantage of the recent enlargement of the European Union (EU) for the Irish economy.

**One economic advantage**  __________________________________________________________
___________________________________________________________________________________

**One economic disadvantage**  __________________________________________________________
___________________________________________________________________________________ (17 marks)

9. One of the assumptions of a firm in **Perfect Competition** is that there is perfect knowledge of profits and prices.

State FOUR other assumptions of a firm in Perfect Competition.

(i) __________________________________________________________

(ii) __________________________________________________________

(iii) __________________________________________________________

(iv) __________________________________________________________ (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. The diagram below represents the long run equilibrium of a firm in Imperfect Competition.

   ![Diagram of Imperfect Competition]

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

   (ii) The above firm produces Q₁, as shown in the diagram. 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)

   (iii) Explain, with reference to the diagram, why the above firm is earning normal profit.

   (30 marks)

(b) State THREE assumptions of an Imperfectly Competitive Market.
Write brief notes on each of these.

(25 marks)

(c) State and explain ONE advantage and ONE disadvantage of Imperfectly Competitive markets for each of the following:

   • Producers;
   • Consumers.

(20 marks)

[75 marks]
2. (a) For a commodity to be considered an economic good it must be **scarce, transferable** and provide the consumer with **utility**.
   (i) Explain each of the underlined terms.
   (ii) ‘Good health is desirable but it is not considered an economic good’.
        Explain the meaning of this statement.  
        (20 marks)

(b) The diagram below represents the demand and supply of mobile phones in Ireland.

![Diagram of demand and supply](image_url)

(i) Copy the diagram into your answerbook. Clearly label each of the lines 1 to 3.
(ii) State and explain **TWO** reasons why the demand for mobile phones has increased as shown in the diagram.
(iii) Suggest a substitute good for a mobile phone and explain your answer.  
        (20 marks)

(c) In recent years the demand for houses in Ireland has increased.
   (i) State and explain **TWO** reasons for this development.
   (ii) Explain briefly how each of the following have been affected by this development:
        • The Building / Construction Industry;
        • The Government;
        • The Banks’ Shareholders.  
        (35 marks)

3. (a) **Medium of exchange** and **store of wealth** are two functions of money.
     Explain each of the underlined terms and state **ONE** other function of money.  
     (20 marks)

(b) (i) Explain what is meant by the term ‘**price inflation**’.
(ii) State and explain the possible effects which an **increase** in the rate of price inflation may have on each of the following:
     • Old age pensioners;
     • Wage demands by workers;
     • The government.  
     (30 marks)

(c) State and explain the benefits of a fall in interest rates for each of the following:
     • Borrowers;
     • Employers;
     • Government.  
     (25 marks)
4. (a) (i) Define **labour** as a factor of production.
(ii) State and explain **TWO** reasons why different wage rates are paid for different jobs.
(iii) State and explain **ONE** development which might result in a firm **reducing** the number of workers it employs at present.

(25 marks)

(b) The diagram below represents the supply of labour by a particular individual. From point A to point B this individual is prepared to work more hours as the wage rate per hour increases.

(i) Explain how this individual reacts to further wage increases from point B to point C.
Give **ONE** reason why this may occur.

(ii) In addition to wages an employer may offer employees **benefits-in-kind**.
Explain the underlined term and give **TWO** examples of benefits-in-kind.

(25 marks)

(c) The minimum wage paid to workers in Ireland was increased in 2005 to €7.65.
Explain the possible effects which this increase could have on each of the following:
- The supply of labour;
- The demand for labour by individual firms;
- The rate of inflation in Ireland.

(25 marks)

5. The table below shows the production of machinery and clothes in China and India. While China is more efficient in the production of both goods it will still benefit from specialisation.

<table>
<thead>
<tr>
<th>Country</th>
<th>Commodity (production per worker per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Machinery</td>
</tr>
<tr>
<td>India</td>
<td>5 units</td>
</tr>
<tr>
<td>China</td>
<td>6 units</td>
</tr>
<tr>
<td><strong>Total Output</strong></td>
<td><strong>11 units</strong></td>
</tr>
</tbody>
</table>

(a) (i) Explain why China should concentrate on the production of clothes and India should concentrate on the production of machinery.
(ii) Name the Economic Law which applies to the table above.
(iii) Calculate the resulting total output if specialisation takes place. Show your workings.

(30 marks)

(b) (i) State and explain **THREE** reasons why imports are important to the Irish economy.
(ii) Irish people attending the World Cup in Germany are an example of an invisible import for Ireland. State **TWO** other examples of **invisible imports**.

(25 marks)

(c) Governments may decide to restrict free international trade.
(i) State and explain **TWO reasons** why a government would wish to restrict imports.
(ii) State and explain **TWO methods** a government may use to restrict imports.

(20 marks)

[75 marks]
6. (a) One of the problems currently being experienced by less developed countries (LDCs) is a high rate of population growth.
   (i) State and explain THREE economic problems (other than population growth) which these countries are experiencing.
   (ii) Suggest TWO measures, which people in the developed world could take to help reduce the problems being experienced by these countries.

   (25 marks)

(b) The Irish economy is currently experiencing full employment.
   (i) Explain the underlined term.
   (ii) State and explain the effects which full employment may have on each of the following:
       • the level of spending in the economy;
       • levels of immigration into Ireland.

   (20 marks)

(c) Many Irish people are concerned with the level of alcohol consumption in Ireland.
   (i) State and explain TWO economic measures which the Government could take to encourage a decrease in alcohol consumption.
   (ii) If alcohol consumption decreased, state and explain the economic effects which this development may have on each of the following:
       • firms in the Irish drinks sector;
       • levels of absenteeism by workers;
       • hospital accident and emergency admissions.

   (30 marks)

[75 marks]

7. (a) (i) Ireland is a small open economy which relies on investment to achieve economic growth. Explain each of the underlined terms.
   (ii) Given: National Income as \( Y = C + I + G + X - M \)
       \( C = \€5,000m; \quad I = \€2,500m; \quad G = \€2,300m; \quad X = \€1,000m \) and \( M = \€800m \).
       Calculate, using the figures provided, the level of national income. Show all your workings.

   (25 marks)

(b) Ireland has experienced high economic growth in recent years.
   (i) State and explain TWO possible advantages to the country of economic growth.
   (ii) State and explain TWO possible disadvantages to the country of economic growth.

   (25 marks)

(c) Foreign investment has helped Ireland’s economic growth.
   (i) State and explain TWO economic reasons why foreign firms choose to locate in Ireland.
   (ii) State and explain ONE way these foreign firms affect each of the following:
       • The level of employment in Ireland;
       • The level of exports from Ireland;
       • The revenue collected from taxation in Ireland.

   (25 marks)

[75 marks]
8. (a) 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) State **TWO** examples of government current income and **TWO** examples of government current expenditure.

(ii) Calculate the Current Budget Surplus for the above budget. Show your workings.

(iii) If you were Minister for Finance and this Current Budget Surplus was available to you, state and explain **TWO** measures you would take to improve the standard of living within the country.

(25 marks)

(b) Income from taxation has been increasing in Ireland in recent years.

(i) State and explain **TWO** reasons for this development.

(ii) If the Government **reduced rates of indirect taxation** state and explain the effects that this development would have on each of the following:
- Consumers;
- Manufacturers;
- Firms in the service industry (e.g. hotels / restaurants).

(20 marks)

(c) The Government has been preparing for the **privatisation** of Aer Lingus.

(i) Explain the underlined term.

(ii) State and explain **ONE** possible economic advantage and **ONE** possible economic disadvantage of this development for each of the following:
- Aer Lingus employees;
- Aer Lingus passengers;
- Irish Taxpayers.

(30 marks)

[75 marks]

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