

WARNING

This question paper **MUST** be returned with your answer book(s) at the end of the examination, otherwise marks will be lost.

Write your Examination Number here ⇒



Coimisiún na Scrúduithe Stáit State Examinations Commission

LEAVING CERTIFICATE EXAMINATION, 2017

ECONOMICS – HIGHER LEVEL (400 marks)

WEDNESDAY 21 JUNE - MORNING 9:30–12:00

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. The Irish government is under pressure to restore public sector pay to pre-financial crisis levels. Outline **two** opportunity costs for the Irish economy of this restoration.

(i) _____

(ii) _____

(16 marks)

2. Indicate by means of a tick (✓) which of the following statements is **TRUE** or **FALSE**.

STATEMENT	TRUE	FALSE
The labour force includes part-time workers.		
Quasi-rent is economic rent earned by a factor of production in the long run.		
The market value of an existing bond rises if the rate of interest falls.		
Capital Widening refers to the situation where the capital stock is increasing at the same rate as the labour force.		

(16 marks)

3. (a) Distinguish between Direct Taxation and Indirect Taxation **and** state **one** example of each.

(b) Why are Indirect Taxes sometimes seen as inequitable? _____

(16 marks)

SECTION A (continued)

4. State **three** limitations on the power of banks to create credit.

- (i) _____
- (ii) _____
- (iii) _____

(16 marks)

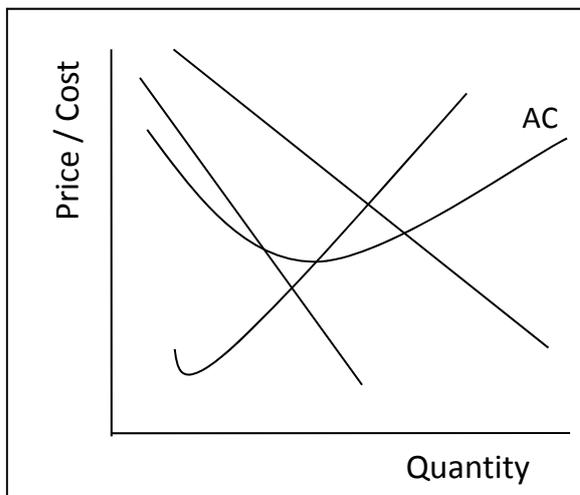
5. After plans for 'Brexit' were revealed there was a 'flash crash' where the value of the Pound Sterling (£) fell sharply against the Euro (€). State and explain **two** possible economic consequences of the above situation for the Irish Economy.

- (i) _____

- (ii) _____

(16 marks)

6. The diagram below shows a firm operating under conditions of **Monopoly**. (a) Label the lines/curves in the diagram and (b) Use the diagram to explain the **long run equilibrium position** for a firm in Monopoly.



Explanation:

- (i) _____
- (ii) _____
- (iii) _____
- (iv) _____

(17 marks)

SECTION A (continued)

7. (a) A consumer buys 80 units of Good A when the price of Good B is €100. When the price of Good B falls to €90 (the price of Good A remaining unchanged), the consumer buys 120 units of Good A. Using an appropriate formula, calculate this consumer's cross price elasticity of demand for Good A. **(Show your workings.)**

Workings:

Answer:

- (b) Is Good A a substitute **or** a complement to Good B? Explain your answer.

(17 marks)

8. Explain how the following Government policy objectives may conflict with each other.

Economic growth *versus* Balance of Payments equilibrium: _____

Economic growth *versus* a Just Social Policy: _____

(17 marks)

9. The Irish government is considering the reintroduction of tuition fees for third-level education. Outline **one** possible economic advantage and **one** possible economic disadvantage of this for the economy:

Economic advantage: _____

Economic disadvantage: _____

(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) In the case of any **two** of the following distinguish between the concepts.
- (i) The Law of Demand *and* the Law of Supply.
 - (ii) Consumer Surplus *and* Producer Surplus.
 - (iii) Derived Demand *and* Joint Demand.
- [25]
- (b) Assume the market for electric cars is in equilibrium. Describe with the aid of a **separate** diagram in **each** case the effects each of the following market situations is likely to have on the equilibrium position for electric cars.
- (i) A technological advance in the production process of electric cars.
 - (ii) The motor tax on petrol engine cars is expected to rise in the near future.
 - (iii) The government increases subsidies on public transport, reducing prices for its commuters.
- [30]
- (c) *The average monthly rental price for private residential property in Ireland is €1,078.*
(Source: *Daft.ie 2016*)
- (i) Assume the average monthly **equilibrium** rental price is €1,078. On one diagram, illustrate the effect on the market if the Irish Government introduced a rent control that sets the maximum rent at €715.
 - (ii) Discuss the likely economic consequences of such a rent control (i.e. price ceiling on rental costs) on the Irish rental property market.
- [20]
[75 marks]
2. (a) (i) Show, by means of **two** separate labelled diagrams, the **short run** and **long run** equilibrium positions of a profit maximising firm in **perfect competition**.
- (ii) Compare the short run equilibrium position with the long run equilibrium position of a perfectly competitive firm under the following headings:
- Price and Output
 - Profits
 - Efficiency.
- [35]
- (b) The table below shows data for a perfectly competitive firm in equilibrium.
- | Average Revenue (€) | Average Variable Cost (€) | Average Total Cost (€) |
|---------------------|---------------------------|------------------------|
| 50 | 40 | 60 |
- (i) Using your knowledge of perfect competition, what is the marginal revenue earned by this firm? Explain your answer.
- (ii) Should this firm continue in business? Explain your answer. [20]
- (c) Bord Bia reported the total value of the Artisan Food market to be growing strongly, leading to more firms entering the industry. (Bord Bia defines Artisan Food as being “high-quality, distinctive and produced in small quantities”, e.g., farmhouse cheeses, breads etc.)
- (i) State a market structure which most closely reflects this situation, giving reasons for your answer.
 - (ii) Explain the shape of the demand curve of a firm in this market structure. [20]
- [75 marks]

3. (a) The table below shows the output and the total cost of a firm producing wireless earphones. The firm charges €13 per unit of output. Use this table to answer the questions which follow. (Show your workings.)

Output (units)	0	1,000	2,000	3,000	4,000	5,000	6,000
Total Cost (€)	5,000	13,000	18,000	24,000	32,000	45,000	60,000

- (i) Calculate the **fixed cost** and the **variable cost** when output is 3,000 units.
 (ii) Calculate the **average variable cost** when output is 5,000 units.
 (iii) Calculate total profit if 4,000 units are sold.
 (iv) Using the data in the table above, draw **one** graph showing the **average cost** and the **marginal cost** of the firm, labelling them AC and MC. (You may use graph paper.)
- [30]

- (b) (i) Explain the term **Marginal Efficiency of Capital** (MEC).
 (ii) Outline **two** possible reasons for a fall in MEC.
- [20]

- (c) (i) Explain with the aid of a diagram the Marginal Revenue Product of **labour** (MRP_L).
 (ii) Discuss the reasons why MRP_L might **not** be a suitable method for setting wages in the public sector.
- [25]
[75 marks]

4. (a) (i) *One method for calculating National Income is the output method.* Outline **two other methods** used to calculate National Income.
 (ii) Describe the problem of 'double counting' when compiling National Income statistics.
- [20]

- (b) (i) Explain, with the aid of a diagram, the **Circular Flow of Income** in an open economy.
 (ii) Outline how **each** of the following Budget 2017 policies should affect the circular flow of income.
- Capital spending on road and rail projects to increase by €4.5 billion.
 - A reduction in the amount of the universal social charge (USC) that workers must pay.
- [35]

- (c) *The CSO recorded an increase in GDP of 26.3% for Ireland in 2015. Experts agreed that this figure, though calculated using approved methods, overestimated the true GDP increase.*
- (i) Describe **three** uses of a country's National Income statistics.
 (ii) Outline an economic implication for the Irish Government of using an overestimated GDP figure.
- [20]
[75 marks]

5. (a) (i) Distinguish between the concepts **Absolute Advantage** and **Comparative Advantage** in relation to international trade, using an example to support your answer.
(ii) State and explain reasons why one country might be better than another country in the production of a particular good.

[30]

(b) *In his 1958 study, "Economic Development" T. K. Whitaker urged the Irish Government to stop sheltering 'behind a protectionist blockade' and to accept instead the challenge of free trade.*

- (i) Describe **two** trade protectionist measures.
(ii) Discuss the economic arguments **for** and **against** a government introducing trade protectionist measures to protect 'infant industries'.

[25]

(c) The table below shows Ireland's **terms of trade** for selected years. (Base Year = 2010)

Year	Index of Export prices	Index of Import prices	Terms of Trade
2010	100	100	100
2011	96.6	98.7	?
2015	106.8	100.3	106.5

(Source: CSO, *Goods Exports and Imports*, Published August 2016)

- (i) Explain the phrase **terms of trade**.
(ii) Calculate the terms of trade for 2011 from the data in the table above.
(Show your workings.)
(iii) Outline the possible effects on the Irish economy of the movement shown in the Terms of Trade for 2015, relative to the base year 2010.

[20]

[75 marks]

6. (a) (i) Explain briefly how the Consumer Price Index (CPI) is calculated.
(ii) Discuss **three** possible limitations of the CPI as an accurate measure of changes in the cost of living in Ireland.

[20]

(b) (i) Define the terms **demand-pull inflation** and **cost-push inflation**.
(ii) *The Irish inflation rate was at, or close to, 0% between 2013 and 2016.*
Is such a low rate of inflation good or bad for (a) households and (b) firms?
Explain your answer in **each** case.

- (iii) Outline how the European Central Bank's (ECB) monetary policy changes might affect the rate of inflation.

[30]

(c) *"From the trough in early 2013, residential property prices nationally have increased by 49.1%."*

(Source: CSO, *Residential Property Price Index*, December 2016)

- (i) State and explain **three** factors that caused the price of residential property to increase considerably since 2013.
(ii) Discuss **two** possible economic consequences of the above situation.

[25]

[75 marks]

7. (a) Explain the following terms:
- National Debt
 - Fiscal Policy
 - Budget Deficit
 - Tax Avoidance.
- [20]
- (b) *The National Broadband Plan is the government's commitment, over the next five years, to bring high speed broadband to every home and business in rural Ireland. In July 2016 the government announced that this national infrastructure will be privatised when built.*
- (i) Explain the term **privatisation**.
- (ii) State and explain the economic arguments for **and** against privatisation using any Irish example. [30]
- (c) Outline the key contributions to economic thought by any **three** of the following economists:
- (i) Adam Smith
- (ii) Milton Friedman
- (iii) Karl Marx
- (iv) Thomas Robert Malthus
- (v) John Maynard Keynes.
- [25]
[75 marks]

8. (a) The information below refers to data taken from the Census of Population in Ireland.

Population (2011)	Population (2016)	Natural Increase (2011 -2016)	Net Migration
4,588,252	4,757,976	198,282	?

(Source: CSO, Census 2016 Preliminary Report)

- (i) Explain the terms **natural increase** and **net migration**.
- (ii) Using the above data, calculate net migration between 2011 and 2016.
(Show your workings.)
- (iii) State and explain **three** reasons why people emigrate from Ireland. [30]
- (b) *The 2016 Census of Population in Ireland showed that the Irish population has grown since 2011 and now exceeds 4.7 million.*
- Discuss the economic consequences of Ireland's increasing population. [25]
- (c) *In December 2016 the European Investment Bank opened a permanent office in Dublin. It has agreed to provide a loan to the Irish Housing Finance Agency to finance a large social housing project in Ireland.*
- Discuss the social benefits **and** economic benefits of investment in social housing in Ireland. [20]
- [75 marks]

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