

WARNING

This examination 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, 2019

ECONOMICS – HIGHER LEVEL
(400 marks)

FRIDAY 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.

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Section A (100 marks)

Answer **six** of the **nine** short response type questions in the spaces provided.

1. (a) Explain the economic concept of the Equi-Marginal Principle of consumer behaviour.

- (b) In equilibrium, a consumer buys 6 apples at €0.90 each and 7 oranges at €0.50 each.

The marginal utility of the 6th apple is 9 utils.

Calculate the marginal utility of the 7th orange.

(Show your workings.)

Workings:

Answer:

(16 marks)

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

	STATEMENT	TRUE	FALSE
1.	The demand for labour is a derived demand.		
2.	The Live Register is the most accurate measure of Ireland's unemployment rate.		
3.	Cyclical unemployment is caused by a recession.		
4.	The backward bending labour supply curve illustrates the concept that workers substitute leisure for work as wages rise above a certain level.		

(16 marks)

3. Distinguish between the terms Economic Development and Economic Growth.

(16 marks)

4. Outline **two** main contributions to economic thought by the economist John Maynard Keynes.

(i) _____

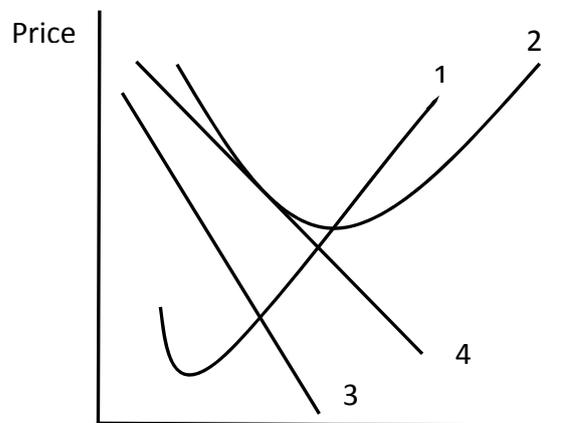
(ii) _____

(16 marks)

5. The diagram below represents the long run equilibrium of a firm in **imperfect competition**.

- (i) Write in full the label (not abbreviation) for each of the lines numbered 1 to 4. Use the answer box provided.

Number	Label
1	
2	
3	
4	



- (ii) Show clearly on the diagram the long run equilibrium price, quantity and cost for the firm.

- (iii) State whether or not the firm is earning supernormal profits. Give a reason for your answer.

(16 marks)

6. Distinguish between a Free Trade Area and a Customs Union.

(17 marks)

7. (a) Place a tick (✓) in the correct box to indicate the approximate rates which reflect Irish Government Debt-to-GDP rate, and Unemployment rate in the past year. Tick **one** box only in each case.

(i)	Government Debt-to-GDP rate			
	40%	70%	120%	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(ii)	Unemployment rate			
	6%	9%	12%	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

(b) Explain the recent trend for each economic indicator above.

Government Debt-to-GDP rate: _____

Unemployment rate: _____

(17 marks)

8. The Taoiseach has pledged to increase the threshold for the top rate of income tax (PAYE) to €50,000 over the next five years.

Outline **two** possible economic advantages and **one** possible economic disadvantage of this measure for the Irish economy.

Advantages:

(i) _____

(ii) _____

Disadvantage: _____

(17 marks)

9. *In Japan 12% of the working population is aged over 65 years, whereas in the UK and Ireland the percentage is closer to 3%.*

(a) Outline **two** reasons why government policies might be changed to support extended working lives.

(i) _____

(ii) _____

(b) Suggest **one** measure which the government **or** firms could take to support extended working lives.

(17 marks)

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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. (a) (i) Define the economic terms **individual demand** and **market demand**.
 (ii) Outline **three** factors that would affect market demand for fitness watches.

[25]

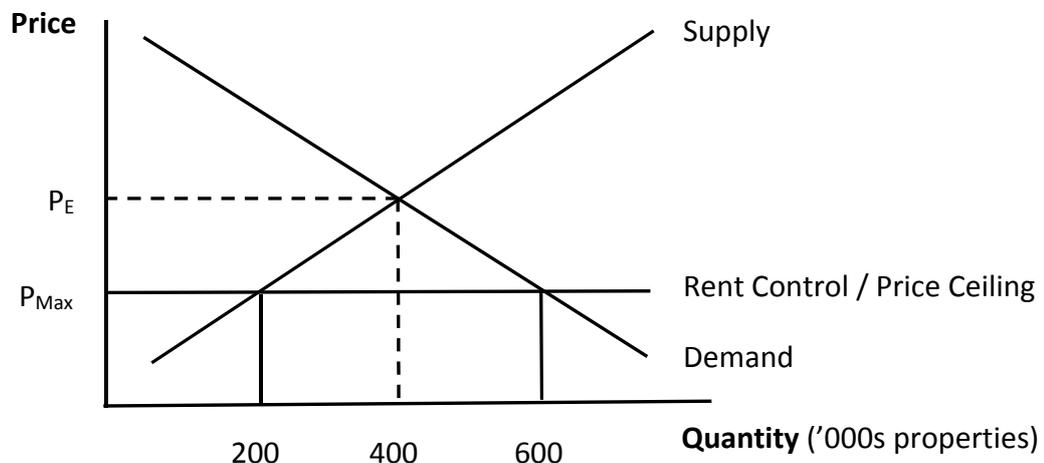
- (b) Assume the market for a brand of **Irish crisps** is in equilibrium. Explain, with the aid of a **separate** diagram in **each** case, the effects which each of the following is most likely to have on the initial equilibrium position of this market:

- (i) The lack of rainfall in 2018 creates a drought which reduces potato crops.
 (ii) Vegan consumers stage protests against animal-derived flavouring on crisps.
 (iii) Crisp companies receive a subsidy from the government.

[30]

- (c) The latest figures from the Residential Tenancies Board (RTB) show rents continue to trend upwards, with average national rent increasing to €1,122 in Q3 2018, an increase of €78 since Q3 2017.

(Source: The RTB Q3 2018 Rent Index, December 2018)



The diagram above illustrates a government intervention in the form of rent control (price ceiling).

- (i) Explain the impact of the implementation of the rent control, with reference to the diagram above.
 (ii) Outline the possible economic consequences on the Irish rental property market of this government intervention.

[20]

[75 marks]

2. (a) (i) Outline **three** characteristics of a monopoly firm.
(ii) Explain why some degree of monopoly power must exist for price discrimination to occur. [20]
- (b) (i) Explain, using a clearly labelled diagram, the long-run equilibrium position of a monopoly firm.
(ii) With reference to the diagram you have drawn in part (b) (i), explain why a firm's demand curve under monopoly differs from a firm's demand curve under perfect competition. [30]
- (c) *Big Western technology firms such as Apple, Google, Facebook and Amazon are accused of being BAADD – Big, Anti-competitive, Addictive and Destructive to Democracy. The presumption that big businesses must necessarily be wicked is plain wrong.*
(Source: The Economist, January 2018)
- (i) State and explain **three** advantages of large-scale businesses, using examples from the technology industry.
(ii) Outline the possible effects on a monopoly market structure of government regulation to reduce anti-competitive behaviour. [25]
- [75 marks]**
3. (a) (i) Explain the term Price Elasticity of Demand (PED).
(ii) Outline **four** factors that affect the PED for a good or service, providing examples to support your answer. [25]
- (b) *The price elasticity of demand for airline tickets from Dublin to Dubai for two different consumer categories, holiday-makers and business travellers, is given below:*
- PED Consumer A = - 0.1 PED Consumer B = - 2.4**
- (i) Using your knowledge of PED, explain which figure above is more likely to correspond to holiday-makers and which to business travellers.
(ii) Explain, with the aid of diagrams, the difference between price **elastic** demand and price **inelastic** demand.
(iii) Explain how knowledge of PED is useful when analysing the effect of price changes on total revenue for an airline. [30]
- (c) (i) Assume that when the price of a tablet device was €500, consumers demanded 25,000 units of a related Good X per year. When the price of the tablet device fell to €350, the price of Good X remaining unchanged, the quantity demanded of Good X decreased to 10,000 units per year.
- Calculate the **cross price elasticity of demand (CED)** for Good X and explain the relationship between the goods. **Show your workings.**
- (ii) Would you expect a similar CED for a tablet device and a tablet case? Explain your answer. [20]
- [75 marks]**

4. (a) (i) In the case of any **two** of the following three pairs, distinguish between the two terms:
 Average Cost and Marginal Cost
 Employment Rate and Participation Rate
 Marginal Physical Product and Marginal Revenue Product.

- (ii) Outline **two** factors which influence the Marginal Revenue Product of **Labour**.

[30]

- (b) The table below shows cost data for a firm in equilibrium.

Quantity of output (units)	Average Variable Cost (AVC)	Average Fixed Cost (AFC)
0		
1	200	600
2	150	300
3	158.33	200
4	187.5	150
5	240	120
6	300	100

Show your workings for all calculations.

- (i) Calculate the **average total cost** of producing the 6th unit of output.
 (ii) Calculate the **total cost** of producing 2 units of output.
 (iii) Calculate the **marginal cost** of increasing output from 4 units to 5 units.
 (iv) If the firm maximises profits where marginal revenue is €100, how many units will it produce? Explain your answer.

[20]

- (c) *The jobs market is currently suffering from skills shortages in the areas of accounting, engineering, pharmaceuticals, I.T. and law, amongst others.*

(Source: The Irish Times, November 2018)

- (i) Explain **three** economic effects of skills shortages for the Irish economy.
 (ii) Outline measures which the government and / or firms could take to address skills shortages in the Irish economy.

[25]

[75 marks]

5. *The Financial Times estimated that cash costs 1.5% of a country's GDP to "count it, distribute it and print it", so less cash could result in a direct improvement to the country's profitability.*
 (Source: www.rte.ie, August 2018)

- (a) (i) State and explain **two** characteristics of money.
 (ii) Outline the possible advantages **and** disadvantages of using electronic money rather than cash for citizens **and** the banking industry.
- [30]

(b) *The President of the European Central Bank, Mario Draghi, has outlined his intentions to increase the ECB's base interest rate from its historic low of 0%.*
 (Source: www.ft.com, June 2018)

Given the current state of the Irish economy, outline the possible arguments **against** an increase in the interest rate. [20]

- (c) (i) Define the term **government budget surplus**.
 (ii) Outline the possible effect of a government budget surplus on a country's national debt.
 (iii) Outline how measures to reduce Ireland's national debt could conflict with any **two** other Irish Government objectives.
- [25]
[75 marks]

6. (a) *The CPI is an example of a composite price index.*
- (i) Explain the steps involved in constructing a composite price index.
 (ii) Distinguish between the terms **nominal wage** and **real wage**.
 (iii) With reference to the table below, calculate the percentage change in **real** wages in **each** of the years 2014 – 2016. **Show your workings.**

Consumer Price Index (CPI) and Wage Inflation in Ireland

Year	CPI Annual % Change	Nominal Wage Rate Annual % Change	Real Wage Rate Annual % Change.
2014	0.3	-0.2	?
2015	- 0.3	1.2	?
2016	0.0	1.1	?

(Source: CSO) [25]

- (b) (i) State and explain **two** causes of inflation.
 (ii) Outline **three** possible economic effects of high inflation in an economy.
 (iii) Explain how deflation might, in the short run, lead to lower economic growth.
- [30]

(c) *National competitiveness is the ability of enterprises to compete successfully in international markets.* (Source: Ireland's Competitiveness Challenge, 2018)

Outline the factors which influence Ireland's international competitiveness.

[20]
[75 marks]

7. (a) (i) State and explain the **uses** of national income statistics.
(ii) Outline the **limitations** of using GDP as a measure of economic activity.

[30]

- (b) Use the information in the table to answer the questions below.

Marginal propensity to consume (MPC)	0.6
Marginal propensity to import (MPM)	0.2
Marginal propensity to pay tax (MPT)	0.2
Current equilibrium level of National Income	€100 bn
Level of National Income that would give full employment	€150 bn

Show your workings for all calculations.

- (i) Define marginal propensity to consume (MPC).
(ii) Calculate the marginal propensity to save (MPS).
(iii) Calculate the value of the multiplier in this open economy **and** explain the economic meaning of the figure calculated.
(iv) Calculate the size of the injection required to bring this economy to the full employment level.

[25]

- (c) *In 2017, the Office of the Revenue Commissioners seized 125,689 litres of illicit fuel destined for sale in the shadow (black) economy.*

(Source: The Office of the Revenue Commissioners Annual Report, 2017)

- (i) Explain what is meant by the economic term **shadow economy**.
(ii) Outline the economic effects for Ireland of increased activity in the shadow economy.

[20]

[75 marks]

8. Budget 2019 failed to increase carbon taxes. Environmentalists viewed this as a missed opportunity for the government to underline its commitment to environmental protection.

- (a) (i) Explain the terms **progressive tax** and **regressive tax** providing an example in **each** case.
- (ii) In your opinion, did the government make the correct decision in failing to increase carbon taxes in Budget 2019? Support your answer with relevant economic information.

[25]

(b) *The key message from the Irish Fiscal Advisory Council (IFAC) on Budget 2019 was that there were repeated failures by the government to prevent unbudgeted government spending.*

(Source: IFAC Fiscal Assessment Report, November 2018)

- (i) Outline the possible negative economic effects of the government's repeated overspending.
- (ii) Ireland's corporation tax rate of 12.5% is one of the lowest in the EU. Outline **three** possible economic effects on the Irish economy of increasing the corporation tax rate.

[30]

(c) *Social Justice Ireland's Poverty Focus 2018 report noted that there are over 100,000 working poor in Ireland, i.e. people who are employed and who live in poverty.*

(Source: Poverty Focus 2018)

- (i) One of the government's objectives is to achieve a just social policy. Explain what this means.
- (ii) Outline measures which the government and/or firms could consider to address the issue of the working poor.

[20]

[75 marks]

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