

**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, 2009**

**WEDNESDAY, 17 JUNE 2009 – MORNING 9.30 – 12.00**

**ECONOMICS - HIGHER 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. Outline **two** non-insurable risks faced by entrepreneurs.

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

(16 marks)

2. The diagram below represents the demand curve facing a firm in Perfect Competition.



This demand curve is;

(✓ correct answer)

- Unitary Elastic
- Perfectly Inelastic
- Perfectly Elastic

State the reason for your choice:

\_\_\_\_\_

\_\_\_\_\_

(16 marks)

3. Ireland has a mixed economy. What do you understand by the underlined term? State **one** economic advantage and **one** economic disadvantage of this type of economic system.

**Explanation:** \_\_\_\_\_

\_\_\_\_\_

**Advantage:** \_\_\_\_\_

**Disadvantage:** \_\_\_\_\_

(16 marks)

4. Define 'cost-push' inflation. Identify **two** sources of this form of inflation in the Irish economy.

**Definition:** \_\_\_\_\_

\_\_\_\_\_

**Source 1:** \_\_\_\_\_

**Source 2:** \_\_\_\_\_

(16 marks)

5. The demand for land is a derived demand. Explain what is meant by the underlined term with reference to land.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(16 marks)

6. Outline **two** possible economic effects of UK Sterling (£) falling in value relative to the Euro (€) for the Irish economy.

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

(17 marks)

7. (a) State the **Law of Diminishing Marginal Utility**: \_\_\_\_\_

\_\_\_\_\_

(b) The table below illustrates the Law of Diminishing Marginal Utility.

Number of units consumed	1	2	3	4	5	6
Total Utility in units	30	65	85	100	110	115
Marginal Utility in units	30					

Complete the table and state the point after which diminishing utility sets in.

\_\_\_\_\_

(17 marks)

8. Define 'economic development'. Explain **two** social costs of economic development.

**Definition:** \_\_\_\_\_

\_\_\_\_\_

**Cost 1:** \_\_\_\_\_

\_\_\_\_\_

**Cost 2:** \_\_\_\_\_

\_\_\_\_\_

(17 marks)

9. Economists have commented on Ireland's 'greying population', i.e. the structure of Ireland's population is getting older. Outline **two** economic effects of this development for the Irish economy.

(i) \_\_\_\_\_

\_\_\_\_\_

(ii) \_\_\_\_\_

\_\_\_\_\_

(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.

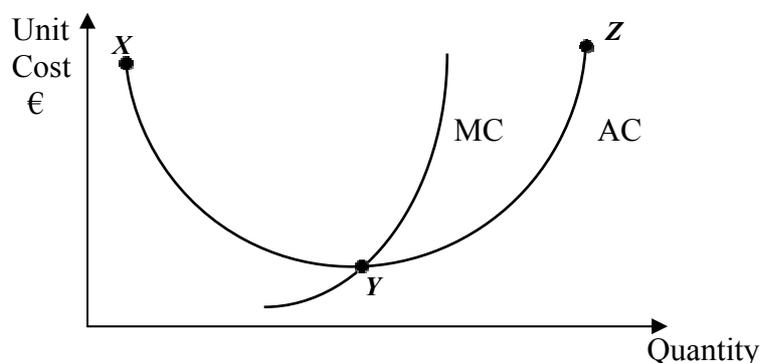
1. (a) (i) Show, by means of a labelled diagram, the market demand and supply curves for games consoles e.g. Xbox, PlayStation, Nintendo DS. Identify and explain the market equilibrium position.
- (ii) Explain, with the aid of a separate diagram in **each** case, the effects which **each** of the following is most likely to have on the above equilibrium position:
- 50% reduction in the price of computer games used with the games console;
  - Quota placed on the quantity of games consoles entering Ireland;
  - Government introduce a 2% levy (tax) on all income earned. (30 marks)
- (b) (i) Define income elasticity of demand **and** price elasticity of demand.
- (ii) Which figure stated below is most likely to represent each of the following:
- **Income** elasticity of demand for low price cuts of meat;
  - **Income** elasticity of demand for Apple iPhones;
  - **Price** elasticity of demand for Petrol.
- 1.6            - 0.1            + 4.3
- Give reasons for your choice in **each** case. (30 marks)
- (c) Assume **Income** elasticity of demand for games consoles is + 2.5 and total sales in 2008 were 100,000 units.
- Calculate the expected total sales for the year if consumers' incomes are expected to fall by 8% in 2009. Show your workings. (15 marks)
- [75 marks]**

2. (a) (i) State and explain the assumptions underlying the theory of **imperfect competition**.
- (ii) Outline the advantages imperfect competition may offer consumers. (30 marks)
- (b) Explain with the aid of a diagram in **each** case the conditions for a profit maximising firm to be in equilibrium under imperfect competition:
- (i) in the short run;
- (ii) in the long run. (30 marks)
- (c) 'Major food retailers in the Irish market, such as Aldi, Dunnes, SuperValu and Tesco operate under conditions of Imperfect Competition'.
- Do you agree with this statement? Give reasons for your answer, referring to major food retailers in the Irish market mentioned above. (15 marks)
- [75 marks]**

3. (a) The Short Run Average Cost (AC) of a firm is usually shown as a U-shaped curve.

(i) State and explain the reason(s) for the shape of the AC curve:

- From point X to Y;
- From point Y to Z.



(ii) Explain the relationship between the Marginal Cost (MC) and Average Cost (AC) curves as shown above.

(25 marks)

(b) 'The shape of a Long Run Average Cost (LRAC) curve is determined by economies and diseconomies of scale'.

- Explain this statement, with the aid of a clearly labelled diagram.
- Define **Internal Economies of Scale** and **External Economies of Scale**.
- State and explain **two** examples of **each** economy.

(30 marks)

(c) 'The Irish government should encourage initiatives that will prevent further cost increases and in turn sustain employment in small firms'.

Suggest with reasons actions the government could take to improve the competitiveness of small firms.

(20 marks)

[75 marks]

4. (a) 'Banks may fail by over-extending their loan book'.

Explain this statement within the context of a bank's twin requirements of liquidity and profitability.

(25 marks)

(b) Keynes' concept of 'Liquidity Preference' is based on three reasons why people desire to hold wealth in money form.

- State and explain **each** of these reasons.
- Discuss the effect a fall in interest rates is generally expected to have on **each** of these reasons.

(30 marks)

(c) Outline how the recent tightening (reduction) in the availability of credit may affect:

- The Irish Motor Industry;
- Inflation;
- Ireland's Balance of Payments.

(20 marks)

[75 marks]

5. (a) The following table shows the level of National Income its Consumption, Investment and Export components at the end of periods 1 and 2, and the level of Imports at the end of period 1. (For the purpose of this question you may ignore the Government sector).

	National Income	Consumption	Investment	Exports	Imports
Period 1	€40,000	€30,000	€15,000	€15,000	€20,000
Period 2	€50,000	€39,000	€18,000	€21,000	?

Calculate the following, showing all your workings:

- (i) Level of imports at the end of period 2;  
(ii) Level of savings at the end of period 2;  
(iii) Marginal Propensity to Consume (MPC);  
(iv) Size of the Multiplier.
- (20 marks)*
- (b) ‘Ireland is described as a small open economy and this affects the government’s ability to influence the level of aggregate demand in the country’.  
Explain this statement, using the Circular Flow of Income diagram to support your answer.
- (30 marks)*
- (c) Outline the limitations of using Gross National Product at Current Market Prices when comparing the average standard of living between two different years.
- (25 marks)*  
**[75 marks]**

6. (a) Define **each** of the following terms:

- (i) Current Budget Deficit;  
(ii) Exchequer Borrowing Requirement;  
(iii) Public Sector Borrowing Requirement;  
(iv) National Debt.

*(20 marks)*

- (b) Ireland’s National Debt grew from €36bn at end of 2006 to €50.4bn at end of 2008.

- (i) Outline the major reasons for the increase in National Debt.  
(ii) Describe the economic consequences (positive and negative) of the increase in National Debt in recent years.

*(35 marks)*

- (c) The Irish economy will experience a substantial Current Budget Deficit for 2009. You have been employed as an Economic Advisor to the Minister for Finance.

- (i) State and explain **two** specific courses of action (one on the revenue side and one on the expenditure side of the Government Account) you would advise the Minister to take in order to reduce significantly the Current Budget Deficit.  
(ii) Outline the possible economic effect(s) of **each** course of action you have chosen.

*(20 marks)*

**[75 marks]**

7. (a) The ‘Law of Comparative Advantage’ suggests that specialisation and trade increases world output.
- (i) Explain the meaning of the underlined term in the context of international trade.
  - (ii) Identify the main assumptions underlying this law.
  - (iii) Identify **two** sources of comparative advantage for the Irish economy.
- (30 marks)*
- (b) Ireland is a small open economy which relies very heavily on international trade.
- (i) Discuss the importance of international trade to the Irish economy.
  - (ii) Are there any economic justifications for a government intervening in order to restrict international trade? Outline reasons for your answer.
- (30 marks)*
- (c) Write a brief note on David Ricardo’s contributions to economic thought.
- (15 marks)*  
**[75 marks]**
8. (a) Discuss the factors that influence the size of the Irish labour force.
- (20 marks)*
- (b) ‘According to the Quarterly National Household Survey (QNHS) the rate of unemployment was 7.7% in December 2008’.
- (i) Name a source, other than QNHS, for unemployment statistics in Ireland.
  - (ii) State, with reasons, which of the measurements of unemployment used by each of these sources gives the most accurate estimate of Irish unemployment.
- (15 marks)*
- (c) (i) Outline the major causes of the recent increases in unemployment in the Irish economy.  
(ii) Discuss economic policies which the Irish government might pursue in order to reduce the level of unemployment.
- (40 marks)*  
**[75 marks]**

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

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