

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, 2004

WEDNESDAY 23 JUNE 2004, 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 **FOUR** factors that affect **the supply of a good**, other than the price of the good itself.

- (i) _____
 - (ii) _____
 - (iii) _____
 - (iv) _____
- (16 marks)**

2. Define the '**Black Economy**' (also referred to as the '**Underground Economy**') and state **ONE** example to support your definition.

- _____
- _____
- Example: _____
- (16 marks)**

3. Name the economist primarily associated with the following economic concepts:

- (i) **Iron Law of Wages :** _____
 - (ii) **Law of Comparative Advantage:** _____
 - (iii) **Laissez Faire :** _____
 - (iv) **Liquidity Preference Theory:** _____
- (16 marks)**

4. Identify **FOUR** features of an oligopolistic market.

- (i) _____
 - (ii) _____
 - (iii) _____
 - (iv) _____
- (16 marks)**

5. State **THREE** limitations on the power of banks to create credit.

- (i) _____
 - (ii) _____
 - (iii) _____
- (16 marks)**

6. Define the **Law of Diminishing Marginal Utility** and state **TWO** assumptions underlying the law.

Definition: _____

Assumption (i): _____

Assumption (ii): _____

(17 marks)

7. Outline **TWO** private benefits and **TWO** social benefits of the possible decline in the consumption of tobacco products, which is being promoted by government policies.

Private benefits:

(i) _____

(ii) _____

Social benefits:

(i) _____

(ii) _____

(17 marks)

8. “There is no opportunity cost to a firm in using an asset which it already owns”. **True / False.**
(Place a circle around your choice and give a one sentence explanation of your answer.)

(17 marks)

9. State **FOUR** reasons why different categories of workers are paid at different wage rates.

(i) _____

(ii) _____

(iii) _____

(iv) _____

(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) Explain, with the aid of a diagram, the long run equilibrium position of a monopoly firm. (25 marks)
- (b) If firms wish to enter a monopoly market they will face barriers to entry. Explain **THREE** of these barriers. (15 marks)
- (c) If a monopoly firm wishes to engage in price discrimination, certain conditions must apply. State and explain **THREE** of these conditions. (15 marks)
- (d) Irish semi-state transport companies are facing increasing competition. Discuss **ONE** possible advantage and **ONE** possible disadvantage of this development for:
- Consumers;
- AND**
- Employees of semi-state transport companies. (20 marks)

[75 marks]

2. (a) Define the following types or degrees of **price** elasticity of demand:
- (i) Perfectly elastic demand;
 - (ii) Perfectly inelastic demand;
 - (iii) Elastic demand;
 - (iv) Unitary elastic demand. (20 marks)
- (b) State and explain **FIVE** factors that affect **price** elasticity of demand. (25 marks)
- (c) A consumer spends €120 per month on a product when its unit price is 80c, and continues to spend €120 per month on this product when its unit price increases to €1.
- (i) Using the formula below, calculate the consumer's price elasticity of demand. Show all your workings.
- $$\frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2}$$
- (ii) Is demand for this product elastic, inelastic or unitary elastic?
- (iii) Should the seller make any changes in the selling price of this commodity to increase overall revenue? Explain your answer. (30 marks)

[75 marks]

3. (a) (i) State the **Law of Diminishing Marginal Returns**.
(ii) Using the table below, state after which level of employment diminishing marginal returns set in. Explain your answer.

Number of persons employed	1	2	3	4	5
Total Output (in units)	14	30	50	64	76
Marginal Output (in units)	14				

(15 marks)

- (b) The **short-run average cost curve** of a firm initially slopes downwards and afterwards slopes upwards. Explain why this is the pattern of short-run average costs.
(15 marks)

- (c) It is generally agreed that the long-run average cost curve initially slopes downwards due to **economies of scale** and then slopes upwards due to **diseconomies of scale**. These economies and diseconomies can be both internal and external.

- (i) Define the underlined terms.
(ii) Distinguish between **internal** and **external** economies of scale, giving **TWO** examples in each case.
(30 marks)

- (d) While there can be advantages from producing on a large scale, the majority of firms in Ireland are small. Explain **THREE** reasons why small firms survive in the Irish economy.
(15 marks)

[75 marks]

4. (a) In relation to the factor of production **Enterprise**:
(i) Distinguish between insurable risks and non-insurable risks and state **TWO** examples in each case.
(ii) Explain **TWO** reasons why 'enterprise' is considered to be a unique factor of production.
(25 marks)

- (b) (i) Explain what is meant by the term **Marginal Efficiency of Capital** (MEC).
(ii) Discuss **FOUR** factors, other than MEC, which influence the level of investment by entrepreneurs.
(30 marks)

- (c) Discuss the role of profits in promoting development in a modern market economy.
(20 marks)

[75 marks]

5. (a) Discuss how economic development in **less developed countries** (LDCs) might be promoted:
- (i) by their own governments;
 - (ii) by foreign governments / agencies. (30 marks)
- (b) (i) Discuss **THREE** economic benefits of economic development to LDCs.
(ii) Discuss **THREE** economic costs of economic development to LDCs. (30 marks)
- (c) Discuss steps which could be taken to solve the debt crisis which LDCs are experiencing. (15 marks)
- [75 marks]**

6. (a) Explain the following terms which are commonly used in estimating the National Income statistics of a country:
- (i) Incomes-in-kind;
 - (ii) Transfer Payments;
 - (iii) Net Factor Income from the Rest of the World. (20 marks)
- (b) The table below shows the levels of National Income, Consumption, Investment, Exports and Imports at the end of Year 1 and Year 2.
(For the purpose of this question you may ignore the government sector.)

Year	National Income	Consumption	Investment	Exports	Imports
1	€5,000	€4,300	€500	€600	€400
2	€5,600	€4,750	€650	€750	

Calculate the following, showing all your workings:

- (i) The level of Imports in Year 2.
 - (ii) The Marginal Propensity to Import.
 - (iii) The Marginal Propensity to Save.
 - (iv) The size of the Multiplier. Explain the economic meaning of this figure. (25 marks)
- (c) National Income statistics provide important information, but are subject to certain limitations.
- (i) Explain **THREE** reasons why it is useful to have these statistics.
 - (ii) Explain **THREE** limitations as to the use of these statistics. (30 marks)

[75 marks]

7. (a) Explain **FOUR** assumptions underlying the Law of Comparative Advantage. (20 marks)
- (b) Ireland relies heavily on international trade. Explain **THREE** factors which affect the competitiveness of Irish-based firms in international trade. Use examples to support your answers. (30 marks)
- (c) The enlargement of the European Union (EU) to include many new countries will be economically significant for Ireland. Outline the main economic opportunities and challenges for the Irish economy following enlargement of the EU. (25 marks)
- [75 marks]**
8. (a) Outline, using appropriate figures, how the Irish economy performed in the past twelve months in **each** of the following areas:
- (i) employment;
 - (ii) price inflation;
 - (iii) economic growth;
 - (iv) government spending.
- (20 marks)
- (b) In recent years Ireland's National Debt as a percentage of Gross Domestic Product (GDP) has declined. Discuss the economic consequences of this development for the Irish Economy. (25 marks)
- (c) (i) Outline the main sources of government revenue.
(ii) Discuss the economic consequences of a government policy to increase public service charges (e.g. road tolls, bin charges, TV, licences) rather than raise tax levels for the Irish economy. (30 marks)
- [75 marks]**

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