

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 ⇒

AN ROINN OIDEACHAIS AGUS EOLAÍOCHTA

LEAVING CERTIFICATE EXAMINATION, 2002

WEDNESDAY, 19 JUNE 2002, 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)

Four questions to be answered in your answer book(s).

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. Define **economic development**. State **TWO** policies by which governments in less developed countries (**LDCs**) might promote economic development.

Definition: _____

Policy 1: _____

Policy 2: _____

(16 marks)

2. Outline **FOUR** steps involved in calculating a **Composite Price Index**.

Step 1: _____

Step 2: _____

Step 3: _____

Step 4: _____

(16 marks)

3. Define **occupational mobility of labour**. Outline **TWO** factors which influence it.

Definition: _____

Factor 1: _____

Factor 2: _____

(16 marks)

4. Outline **THREE** key ideas which John Maynard Keynes contributed to economic thought.

(i) _____

(ii) _____

(iii) _____

(16 marks)

5. Outline **TWO** benefits to consumers of **non-price competition**.

(i) _____

(ii) _____

(16 marks)

6. Distinguish between **tax avoidance** and **tax evasion**.

(17 marks)

7. (a) State the **Law of Diminishing Marginal Returns**.

The table below illustrates the Law of Diminishing Marginal Returns.

Number of persons employed	1	2	3	4	5
Total output (in units)	12	27	47	63	73
Marginal Output (in units)	12				

(b) Complete the table above and state the point after which diminishing returns set in.

(17 marks)

8. From the table below, calculate (i) and (ii), showing all your workings.

Period	National Income	Consumption	Investment	Exports	Imports
1	€4,200	€3,750	€400	€600	€550
2	€4,600	€4,050	€500	€700	€650

(i) The Marginal Propensity to Consume.

(ii) The size of the Multiplier.

(17 marks)

9. Explain why GNP rather than GDP (both at Market Prices) is generally regarded as a better measure of average standard of living in Ireland.

(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)

Four questions to be answered in your answer book(s).

All questions carry equal marks (75 marks).

Note the sub-divisions in the questions.

1. (a) Outline the assumptions underlying the theory of Perfect Competition. (20 marks)
- (b) (i) Explain, with the aid of a labelled diagram, how a firm in Perfect Competition achieves equilibrium in the **short run**.
(ii) Derive and explain the short run supply curve of this firm. (20 marks)
- (c) Discuss, with the aid of labelled diagrams, the impact which the entry of new firms would have on the short run equilibrium of existing firms, in perfectly competitive markets, earning supernormal profits. (20 marks)
- (d) Firms in Perfect Competition tend not to engage in advertising. State and explain **TWO** reasons why. (15 marks)

[75marks]

2. (a) (i) Draw a short-run average cost curve and a short-run marginal cost curve.
(ii) Explain the relationships between the shapes of these curves. (20 marks)
- (b) It is generally agreed that the long-run average cost curve initially slopes downward due to **economies of scale** and then slopes upward 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 and explaining how each arises. (30 marks)
- (c) Discuss the possible social costs **and** social benefits of the new roads being constructed throughout Ireland. (25 marks)

[75 marks]

3. (a) Define (i) Income Elasticity of Demand.
(ii) Cross Elasticity of Demand. (15 marks)
- (b) (i) “Income elasticity of demand is usually positive but sometimes negative”.
Explain, giving examples, the meaning of this statement.
- (ii) A consumer spends 40% of income on a certain good. After the consumer’s income doubles (everything else remaining unchanged), only 30% of income is spent on the good. State whether this good is a normal or inferior good and explain your answer. (20 marks)
- (c) Which of the figures stated below is likely to represent:
- (i) **Income** elasticity of demand for potatoes;
(ii) **Income** elasticity of demand for designer clothes;
(iii) **Price** elasticity of demand for airline seats.
- 2.8, -0.1, + 2.5**
- Explain **each** of your choices. (30 marks)
- (d) Income elasticity of demand for a good is **+1.8** and sales in Year 1 are 20,000 units. If consumers’ incomes are expected to rise by 5% in Year 2, calculate the expected level of sales. Show your workings. (10 marks)

[75 marks]

4. (a) Define: (i) Capital
(ii) Marginal Efficiency of Capital.
(iii) Investment (20 marks)
- (b) (i) State and explain **TWO** reasons why investment is considered to be important for the Irish economy.
- (ii) State and explain **FOUR** factors that influence the level of investment in the Irish economy **at present**. (30 marks)
- (c) J. M. Keynes identified three reasons (motives) for holding money.
Explain the **THREE** reasons and outline **ONE** main influence on each reason. (25 marks)

(25 marks)

[75 marks]

5. (a) (i) Explain how it is possible for banks to create credit.
(ii) State and explain **THREE** limitations on the amount of credit which banks can create. (30 marks)
- (b) Explain how an increase in the use of ‘plastic money’ (credit cards, etc.) by customers affects the ability of banks to create credit. (15 marks)
- (c) The main objective of the European Central Bank’s monetary policy is to control inflation.
(i) Explain the underlined terms.
(ii) The ECB reduced interest rates in 2001. Discuss the effects of this reduction in interest rates on the Irish economy. (30 marks)
- [75 marks]**

6. (a) (i) State the Law of Comparative Advantage.
(ii) State and explain the assumptions underlying this law. (30 marks)
- (b) The table below illustrates the Law of Comparative Advantage.

<u>Country</u>	<u>Commodity</u> (Hourly Production per Person)	
	Food	Machinery
Country X	5 tonnes	10 units
Country Y	20 tonnes	30 units
Total Output	25 tonnes	40 units

- (i) Use the above example to show how **both** countries could benefit from international trade.
(ii) Calculate the terms of trade for **both** commodities. (20 marks)
- (c) Ireland, as a small open economy, relies on international trade. Discuss the factors which affect the competitiveness of Irish-based firms in international trade. (25 marks)
- [75 marks]**

7. (a) Outline, using appropriate figures, how the Irish economy performed in the past twelve months in **each** of the following areas:
- (i) price inflation
 - (ii) the national debt
 - (iii) economic growth
 - (iv) employment.
- (20 marks)
- (b) Outline the positive **and** negative economic consequences of a Current Budget Surplus.
- (25 marks)
- (c) (i) Outline, giving examples, **TWO** reasons why Irish semi-state companies are facing increasing competition.
- (ii) Discuss **ONE** advantage and **ONE** disadvantage of this development for:
- Consumers
 - Employees of semi-state firms
- (30 marks)
- [75 marks]**
8. (a) (i) Name the **TWO** main sources from which the figures relating to unemployment in the Irish economy are taken.
- (ii) State, with reasons, which of these gives the most accurate measurement of Irish unemployment.
- (20 marks)
- (b) (i) Define **full employment**.
- (ii) Outline the major economic consequences of very high employment in the Irish economy.
- (30 marks)
- (c) In 2001 the Irish economy began to experience a downturn in the level of economic activity. Discuss the reasons for this development in the Irish economy.
- (25 marks)
- [75 marks]**

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