

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, 2003

WEDNESDAY, 18 JUNE 2003, 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 **regressive tax** and state **TWO** examples of this type of tax.

Definition: _____

Example 1: _____

Example 2: _____

(16 marks)

2. State **FOUR** **economic aims** of government.

(i) _____

(ii) _____

(iii) _____

(iv) _____

(16 marks)

3. Define **Monetary Policy**. State **TWO** measures by which the European Central Bank implements monetary policy within the euro-zone countries.

Definition: _____

Measure 1: _____

Measure 2: _____

(16 marks)

4. Define the term '**Balance of Payments on Capital Account**'. State **TWO** examples of items which may appear in it.

Definition: _____

Example 1: _____

Example 2: _____

(16 marks)

5. State **THREE** economic reasons why entrepreneurs are important to the development of an economy.

(i) _____

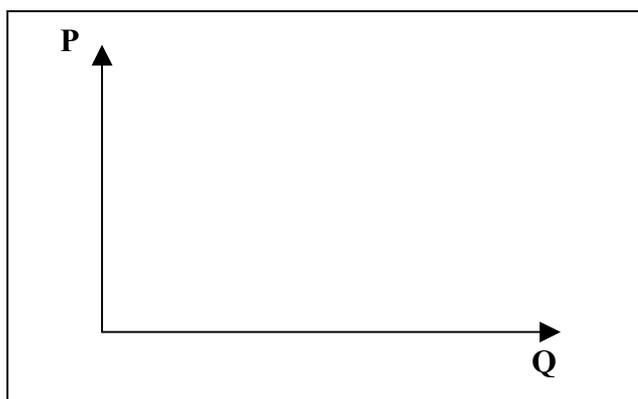
(ii) _____

(iii) _____

(16 marks)

6. Using the diagram, explain how higher consumers' incomes (other factors unchanged) may affect the demand curve for mobile phones in Ireland.

Diagram



Explanation

(17 marks)

7. State **FOUR** economic assumptions used for analysing consumer behaviour.

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

(17 marks)

8. Define **social benefits** and state **TWO** examples of social benefits which may arise from the Irish Government's payment of student fees for most third level colleges in Ireland.

Definition: _____

Example 1: _____

Example 2: _____

(17 marks)

9. A firm wishes to attract more labour. In order to increase its labour force from 7 to 8 employees, the firm must increase the weekly wage rate from €250 to €300 per worker. Calculate the firm's **marginal cost of labour**. Show your workings.

(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 **THREE** key features of an oligopolistic market and state **ONE** example of an oligopolistic market in Ireland.

(20 marks)

- (b) With the aid of **ONE** clearly labelled diagram:

- (i) Explain the shape of the demand curve facing a firm in oligopoly.
(ii) Explain the relationship between this demand curve and the firm's marginal revenue curve.
(iii) Explain the long run equilibrium position of this firm.

(40 marks)

- (c) Explain **THREE** methods by which firms in oligopolistic markets may collude.

(15 marks)

[75marks]

2. (a) Define (i) *price elasticity of demand* and (ii) *cross elasticity of demand*. In **each** case, state the formula by which it is measured.

(20 marks)

- (b) When the price of Good X is €27, the quantity demanded of Good Y is 1,200 units. When the price of Good X falls to €23 (the price of Good Y unchanged) the quantity demanded of Good Y falls to 800 units.

- (i) Using the *cross elasticity of demand formula*, calculate the cross elasticity of demand for Good Y. Show all your workings.

- (ii) Is Good Y a substitute for or complement to Good X? Explain your choice.

(25 marks)

- (c) A firm has the following price elasticities of demand for two goods, Good X and Good Y:

Good X 2.0 Good Y 0.5

What changes, if any, should the firm make in the selling price of each of the goods to increase overall revenue. Explain your answer.

(30 marks)

[75 marks]

3. (a) (i) State and explain **FOUR** factors which affect a consumer's demand schedule, other than the price of a good itself.
(ii) Explain the economic rationale for assuming that a person's demand curve for a normal good slopes downward.

(30 marks)

- (b) For something to be considered an *economic good*, it must possess certain characteristics. State and explain **THREE** of these characteristics.

(20 marks)

- (c) A consumer spends all income on two goods, Good A and Good B. Both goods are normal goods but they are not complementary goods. The price of Good A is reduced and the price of Good B remains unchanged. The consumer continues to spend all income on the two goods.

Distinguish between the **substitution effect** and the **income effect** of the price reduction in Good A.

(25 marks)

[75 marks]

4. (a) Define **each** of the following:
(i) Supply price of a factor of production.
(ii) Transfer earnings.
(iii) Economic Rent.

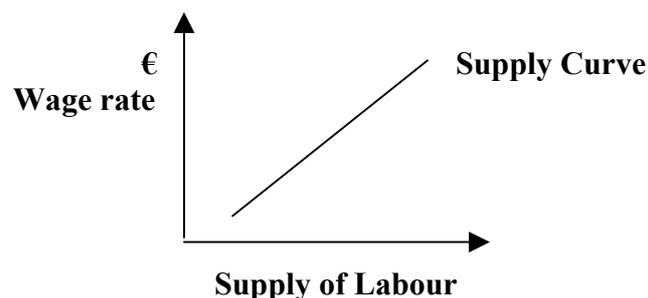
(20 marks)

- (b) A principal factor influencing the demand for labour by an individual firm is the **Marginal Revenue Productivity of Labour** (MRP).

- (i) Explain what is meant by the underlined term.
(ii) Discuss the factors, other than MRP, which influence the demand for labour by an individual firm.

(30 marks)

- (c) The diagram below represents the supply curve of labour to a particular firm.



Explain the effect which each of the following developments may have on this supply curve. Illustrate each answer by means of a diagram.

- (i) The workers shift their preference towards increased leisure time.
(ii) The workers' trade union negotiates a minimum wage.

(25 marks)

[75 marks]

5. (a) Discuss the ways in which money can contribute to the smooth working of an economy. *(20 marks)*
- (b) Explain the likely economic effects if:
- (i) the supply of money grows at a **faster** rate than a country's production of goods and services
 - (ii) the supply of money grows at a **slower** rate than a country's production of goods and services. *(20 marks)*
- (c) (i) Explain what is meant by the term **price inflation**.
- (ii) Name the main index used to measure price inflation in the Irish economy.
- (iii) Outline the economic consequences of a rise in the rate of price inflation in Ireland. *(35 marks)*
- [75 marks]**

6. (a) Explain the following terms and show the relationship which exists between both:
- (i) Gross Domestic Product at Factor Cost
 - (ii) Gross National Product at Market Prices. *(20 marks)*
- (b) Outline the effects which each of the following could have on the level of GNP at Market Prices.
- (i) a **RISE** in the general level of VAT;
 - (ii) a **REDUCTION** in subsidies to first-time house buyers.
- Explain your answer in each case. *(20 marks)*
- (c) Discuss the positive **and** negative economic consequences which a fall in the level of economic growth (GNP) may have on the Irish economy. *(35 marks)*
- [75 marks]**

7. (a) Discuss the economic effects which the recent rise in Ireland's population may have on the Irish economy. *(25 marks)*
- (b) Outline the effects which a rise in the level of unemployment in Ireland may have on:
- (i) Government current finances.
 - (ii) The Balance of Payments (Current Account).
 - (iii) Price Inflation. *(20 marks)*
- (c) Immigration replaced high levels of emigration during the 'Celtic Tiger' period.
- (i) Discuss **THREE** reasons why the trend has changed from emigration to immigration in Ireland.
 - (ii) Discuss the economic consequences (positive **and** negative) for a country experiencing increased immigration. *(30 marks)*
- [75 marks]**
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8. (a) Explain how specialisation and the division of labour promotes globalisation/international trade. *(20 marks)*
- (b) The World Trade Organisation (WTO) aims to reduce trade barriers between countries.
- (i) Outline **THREE** possible economic advantages of free trade.
 - (ii) Explain **THREE** economic reasons why countries may impose barriers to restrict trade.
 - (iii) State and explain **TWO** methods of restricting free trade. *(35 marks)*
- (c) Adam Smith, author of 'The Wealth of Nations' (1776), explained the reasons for and benefits of free trade.
- Outline **FOUR** other areas in which he made contributions to economic thought. *(20 marks)*
- [75 marks]**

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