

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, 2006

WEDNESDAY, 21 JUNE 2006, 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. State **THREE** economic uses for a census of population in Ireland.

(i) _____

(ii) _____

(iii) _____

(16 marks)

2. State three reasons why **profits** are important in a **market economy**.

(i) _____

(ii) _____

(iii) _____

(16 marks)

3. A firm wishes to attract more labour. In order to increase its labour force from 5 to 6 employees, the firm must increase the weekly wage rate from €400 to €440 per employee. Calculate the firm's **marginal cost of labour**. Show your workings.

Workings

Answer:

(16 marks)

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

Definition: _____

Policy (i): _____

Policy (ii): _____

(16 marks)

5. Define **internal economies of scale**. State **TWO** examples.

Definition: _____

Example (i): _____

Example (ii): _____

(16 marks)

6. In equilibrium a consumer buys 8 bars of chocolate at €1.00 each and 12 sandwiches at €4.00 each. The marginal utility of the eighth bar of chocolate is 10 utils. Using the Equi-Marginal Principle of Consumer Behaviour **calculate the marginal utility of the twelfth sandwich.**

Show all your workings.

Workings

Answer:

(17 marks)

7. Define **price discrimination**. State **TWO** conditions under which it would be possible for a firm to price discriminate.

Definition: _____

Condition (i): _____

Condition (ii): _____

(17 marks)

8. State **TWO** functions of the **Irish National Treasury Management Agency**:

Function 1: _____

Function 2: _____

(17 marks)

9. Savers who have **SSIAs** (Special Savings Investment Accounts) are being subsidised by the Irish government through the receipt of additional bonus payments.

Outline **TWO** economic advantages **and** **TWO** economic disadvantages of this scheme for the Irish economy.

Advantages:

(i) _____

(ii) _____

Disadvantages:

(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) For analytical purposes economists make certain assumptions about consumer behaviour. State and explain **FOUR** principal assumptions. *(15 marks)*
- (b) A manufacturer of three different products calculates the price elasticity of demand for each product as follows:
- | | | |
|-----------------|-----------------|-----------------|
| Product X: -1.5 | Product Y: -1.0 | Product Z: -0.3 |
|-----------------|-----------------|-----------------|
- The company wishes to maximise its revenues. Explain in respect of **each** of these products, what change, if any, the company should make in the prices currently being charged to enable it to achieve its aim. *(30 marks)*
- (c) A consumer buys 10 units of Good A when the price of Good B is €5. When the price of Good B rises to €6 (the price of Good A remaining unchanged) the consumer buys 14 units of Good A.
- (i) Define **cross elasticity of demand**.
- (ii) Using an appropriate formula, calculate this consumer's cross elasticity of demand for Good A. Show your workings.
- (iii) Is Good A a substitute for, or a complement to, Good B? Explain your reasoning. *(30 marks)*
- [75 marks]**
2. (a) State and explain **THREE** key features of an **oligopolistic market**. *(15 marks)*
- (b) With the aid of **ONE** clearly labelled diagram:
- (i) Explain the shape of the 'kinked demand curve' under oligopoly.
- (ii) Explain the long run equilibrium position of a firm facing a 'kinked demand curve'.
- (iii) Explain what is meant by the term 'rigidity of prices' under a 'kinked demand curve'. *(35 marks)*
- (c) (i) Explain **THREE** types of collusion which may occur in an oligopolistic market.
- (ii) Do you believe that the Irish retail market for banking services (e.g. personal current accounts.) operates under oligopolistic conditions? Explain your answer. *(25 marks)*
- [75 marks]**

3. (a) Distinguish between the following terms, using relevant examples in **each** case:
- (i) Fixed Capital and Social Capital;
 - (ii) Savings and Investment;
 - (iii) Capital Widening and Capital Deepening.
- (25 marks)
- (b) State and explain **FIVE** factors affecting the level of investment in the Irish economy.
- (25 marks)
- (c) (i) State and explain Keynes's **THREE** motives for holding money.
- (ii) Explain, with the aid of a diagram(s), Keynes's theory on the relationship between the holding of money and the rate of interest.
- (25 marks)
[75 marks]

4. (a) (i) Explain what is meant by the term '**National Income**'.
- (ii) In Ireland at present, would you expect **GNP** to be greater than, equal to, or less than, **GDP**? Explain your answer.
- (20 marks)
- (b) (i) Explain what is meant by the term '**the multiplier**'.
- (ii) State the formula by which the multiplier is measured in an open economy.
- (iii) Explain the variable elements in the formula.
- (iv) It has been estimated that in the Irish economy:
 $MPM = 0.4$, $MPT = 0.24$, $MPS = 0.26$.
 Calculate the value of the multiplier in the Irish Economy. Show your workings.
- (30 marks)
- (c) Gross National Product at Current Market Prices for the year 2005 in Ireland was approximately 45% higher than the figure for the year 2000.
- State and explain the relevance of **FOUR** other pieces of economic information which you would use to assess whether or not the average standard of living had also risen by approximately 45% between 2000 and 2005.
- (25 marks)
[75 marks]

5. (a) Among Adam Smith's contributions to economic thought, was his **Canons of Taxation**.
- (i) State and explain Adam Smith's **FOUR** Canons of Taxation.
(ii) Do you consider that these Canons are useful for analysing the taxation system in Ireland today? Justify your answer. (25 marks)
- (b) Outline possible positive **and** negative economic consequences of a Government Current Budget Surplus. (25 marks)
- (c) You are the economic advisor to the Minister for Finance. The Minister is considering raising tax revenue through indirect taxation. Discuss the economic advantages **and** economic disadvantages of such a policy. (25 marks)
[75 marks]
6. (a) (i) Explain why international trade is essential for the Irish economy.
(ii) Has Ireland, in recent years, tended to have a surplus or a deficit on the Balance of Payments Current Account? Outline the economic consequences of this situation. (30 marks)
- (b) State and explain how **imports** into the Euro-zone would be affected by each of the following developments:
- (i) the US dollar **rises** in value against the euro;
(ii) employment within the Euro-zone **increases**. (20 marks)
- (c) Ireland has attracted many multinational companies to establish operations in recent years. There has also been a recent trend for some of these companies to relocate to eastern Europe or Asia.
- (i) Outline reasons why these multinational companies locate in Ireland.
(ii) Outline possible reasons for the current relocation to other regions. (25 marks)
[75 marks]

7. (a) (i) What economic uses are made of a **Consumer Price Index**?
(ii) Explain how a Consumer Price Index is constructed.
- (25 marks)*
- (b) Explain the likely economic effects on the Irish economy of a significant increase in the annual rate of price inflation.
- (25 marks)*
- (c) Outline the economic role played by **TWO** of the following international banking organisations:
- (i) The International Monetary Fund (IMF);
(ii) The World Bank;
(iii) The European Central Bank (ECB).
- (25 marks)*
[75 marks]

8. (a) The government announced plans to **decentralise/re-locate** many government departments and state agencies throughout the country. Discuss **TWO** possible economic advantages and **TWO** possible economic disadvantages of this policy for the development of the Irish economy.
- (20 marks)*
- (b) It is argued that the Irish economy is currently experiencing close to **full employment**.
- (i) Explain the underlined term.
(ii) Discuss **TWO** economic benefits and **TWO** economic difficulties of a full employment economy in Ireland today.
- (25 marks)*
- (c) There has been high expenditure in recent years on developing transport and communications infrastructure in Ireland. With the use of examples, outline **TWO** possible social costs and **TWO** possible social benefits of these developments.
- (30 marks)*
[75 marks]

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