

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 - ORDINARY 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. A firm produces 4 units of a product each week. It receives €2,000 in total from the sale of these four units. The firm pays the following costs when producing these four units:

Raw Materials €500; **Rent of Buildings** €400; **Wages** €400; **Insurance on Buildings** €200.

- (a) Write, in the spaces below, which two are fixed costs and which two are variable costs:

Fixed Costs		Variable Costs	
1.	2.	1.	2.

- (b) Calculate the following, showing your workings:

- (i) the **TOTAL COST** of producing all 4 units; _____

- (ii) the **PROFIT** made on sales; _____

(16 marks)

2. What organisations do the following initials stand for?

- (i) CSO _____

- (ii) ECB _____

(16 marks)

3. Define **indirect tax**.

- (i) Definition: _____

- (ii) Circle the **TWO** examples of indirect taxes from this list below. (Circle **ONLY TWO** of these.)

PAYE Excise Duty Corporation Tax VAT (16 marks)

4. Name the economist primarily associated with each of the economic ideas listed below:

The Canons of Taxation _____

Liquidity Preference Theory _____

Theory on Population and Food Supply _____

(16 marks)

5. (i) Complete the following sentence:

Income Elasticity of Demand (YED) measures the percentage change in _____ for a good caused by a percentage change in the _____ of the consumer.

- (ii) 'Income elasticity of demand for a normal good is **positive**'. Explain this statement.

(16 marks)

6. You are given the following information relating to a particular country.

	1995	2005
Gross National Product (GNP) at market prices	€500 m	€1,200 m
Population	10 million	12 million

Calculate the **GNP per person** for both years. Show your workings.

1995	2005
<u>Workings</u>	<u>Workings</u>
Answer:	Answer:

(17 marks)

7. One of the functions of the Central Bank (now called the Central Bank and Financial Services Authority of Ireland) is **to act as a banker to the government**.

Explain the underlined function and state **TWO** other key functions of the Central Bank.

Explanation: _____

Function 1: _____

Function 2: _____

(17 marks)

8. State **ONE** economic advantage and **ONE** economic disadvantage of the recent enlargement of the European Union (EU) for the Irish economy.

One economic advantage _____

One economic disadvantage _____

(17 marks)

9. One of the assumptions of a firm in **Perfect Competition** is that there is *perfect knowledge of profits and prices*.

State **FOUR** other assumptions of a firm in Perfect Competition.

(i) _____

(ii) _____

(iii) _____

(iv) _____

(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.

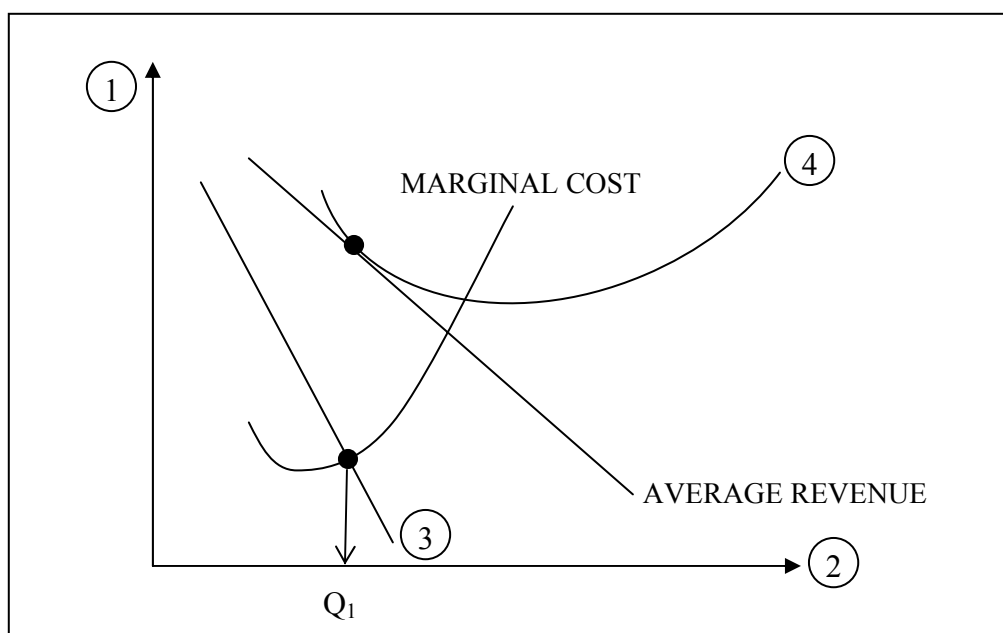
Write the answers in your answer book(s).

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. The diagram below represents the long run equilibrium of a firm in **Imperfect Competition**.



- (a) (i) Copy the diagram into your answer book. Clearly label each of the lines numbered 1 to 4.
- (ii) The above firm produces Q_1 , as shown in the diagram. Show on your diagram:
- the price the firm will charge for Q_1 (use label P_1)
 - the average cost of producing this output (use label C_1)
- (iii) Explain, with reference to the diagram, why the above firm is earning normal profit. (30 marks)
- (b) State **THREE** assumptions of an **Imperfectly Competitive Market**. Write brief notes on each of these. (25 marks)
- (c) State and explain **ONE** advantage and **ONE** disadvantage of **Imperfectly Competitive** markets for each of the following:
- Producers;
 - Consumers.

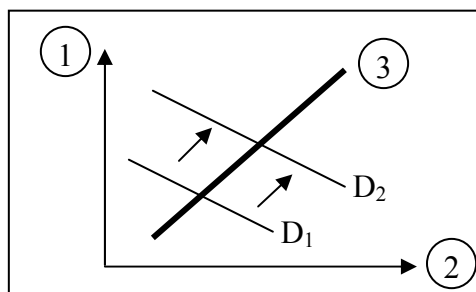
(20 marks)

[75 marks]

2. (a) For a commodity to be considered an economic good it must be **scarce**, **transferable** and provide the consumer with **utility**.
- (i) Explain each of the underlined terms.
- (ii) 'Good health is desirable but it is not considered an economic good'. Explain the meaning of this statement.

(20 marks)

- (b) The diagram below represents the demand and supply of mobile phones in Ireland.



- (i) Copy the diagram into your answerbook. Clearly label each of the lines 1 to 3.
- (ii) State and explain **TWO** reasons why the demand for mobile phones has increased as shown in the diagram.
- (iii) Suggest a substitute good for a mobile phone and explain your answer.

(20 marks)

- (c) In recent years the demand for houses in Ireland has increased.

- (i) State and explain **TWO** reasons for this development.
- (ii) Explain briefly how each of the following have been affected by this development:
- The Building / Construction Industry;
 - The Government;
 - The Banks' Shareholders.

(35 marks)

[75 marks]

3. (a) **Medium of exchange** and **store of wealth** are two functions of money. Explain each of the underlined terms and state **ONE** other function of money.

(20 marks)

- (b) (i) Explain what is meant by the term 'price inflation'.
- (ii) State and explain the possible effects which an **increase** in the rate of price inflation may have on each of the following:
- Old age pensioners;
 - Wage demands by workers;
 - The government.

(30 marks)

- (c) State and explain the benefits of a fall in interest rates for each of the following:
- Borrowers;
 - Employers;
 - Government.

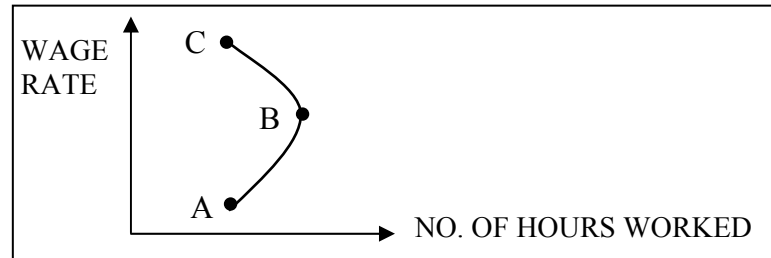
(25 marks)

[75 marks]

4. (a) (i) Define **labour** as a factor of production.
(ii) State and explain **TWO** reasons why different wage rates are paid for different jobs.
(iii) State and explain **ONE** development which might result in a firm **reducing** the number of workers it employs at present.

(25 marks)

- (b) The diagram below represents the supply of labour by a particular individual. From point A to point B this individual is prepared to work more hours as the wage rate per hour increases.



- (i) Explain how this individual reacts to further wage increases from point B to point C. Give **ONE** reason why this may occur.
(ii) In addition to wages an employer may offer employees **benefits-in-kind**. Explain the underlined term and give **TWO** examples of benefits-in-kind.
- (c) The minimum wage paid to workers in Ireland was increased in 2005 to €7.65. Explain the possible effects which this increase could have on each of the following:
- The supply of labour;
 - The demand for labour by individual firms;
 - The rate of inflation in Ireland.

(25 marks)

(25 marks)
[75 marks]

5. The table below shows the production of machinery and clothes in China and India. While China is more efficient in the production of both goods it will still benefit from specialisation.

Country	Commodity (production per worker per hour)	
	Machinery	Clothes
India	5 units	10 units
China	6 units	20 units
Total Output	11 units	30 units

- (a) (i) Explain why China should concentrate on the production of clothes and India should concentrate on the production of machinery.
(ii) Name the Economic Law which applies to the table above.
(iii) Calculate the resulting total output if specialisation takes place. Show your workings.
- (b) (i) State and explain **THREE** reasons why imports are important to the Irish economy.
(ii) Irish people attending the World Cup in Germany are an example of an invisible import for Ireland. State **TWO** other examples of **invisible imports**.
- (c) Governments may decide to restrict free international trade.
(i) State and explain **TWO reasons** why a government would wish to restrict imports.
(ii) State and explain **TWO methods** a government may use to restrict imports.

(30 marks)

(25 marks)

(20 marks)
[75 marks]

6. (a) One of the problems currently being experienced by less developed countries (LDCs) is a high rate of population growth.
- (i) State and explain **THREE** economic problems (other than population growth) which these countries are experiencing.
- (ii) Suggest **TWO** measures, which people in the developed world could take to help reduce the problems being experienced by these countries.
- (25 marks)*
- (b) The Irish economy is currently experiencing full employment.
- (i) Explain the underlined term.
- (ii) State and explain the effects which full employment may have on **each** of the following:
- the level of spending in the economy;
 - levels of immigration into Ireland.
- (20 marks)*
- (c) Many Irish people are concerned with the level of alcohol consumption in Ireland.
- (i) State and explain **TWO** economic measures which the Government could take to encourage a **decrease** in alcohol consumption.
- (ii) If alcohol consumption decreased, state and explain the economic effects which this development may have on **each** of the following:
- firms in the Irish drinks sector;
 - levels of absenteeism by workers;
 - hospital accident and emergency admissions.
- (30 marks)*

[75 marks]

7. (a) (i) Ireland is a small open economy which relies on investment to achieve economic growth. Explain **each** of the underlined terms.
- (ii) Given: National Income as $Y = C + I + G + X - M$
 $C = €5,000m$; $I = €2,500m$; $G = €2,300m$; $X = €1,000m$ and $M = €800m$.
- Calculate, using the figures provided, the level of national income.
 Show all your workings.
- (25 marks)*
- (b) Ireland has experienced high economic growth in recent years.
- (i) State and explain **TWO** possible **advantages** to the country of economic growth.
- (ii) State and explain **TWO** possible **disadvantages** to the country of economic growth.
- (25 marks)*
- (c) Foreign investment has helped Ireland's economic growth.
- (i) State and explain **TWO** economic reasons why foreign firms choose to locate in Ireland.
- (ii) State and explain **ONE** way these foreign firms affect **each** of the following:
- The level of employment in Ireland;
 - The level of exports from Ireland;
 - The revenue collected from taxation in Ireland.
- (25 marks)*

[75 marks]

8. (a) A Minister for Finance prepares the following Current Budget for 2006:

Current Budget - 2006			
Government Current Income	€3,800m	Government Current Spending	€3,000m

- (i) State **TWO** examples of government current income and **TWO** examples of government current expenditure.
- (ii) Calculate the Current Budget Surplus for the above budget. Show your workings.
- (iii) If you were Minister for Finance and this Current Budget Surplus was available to you, state and explain **TWO** measures you would take to improve the standard of living within the country.
- (25 marks)*
- (b) Income from taxation has been increasing in Ireland in recent years.
- (i) State and explain **TWO** reasons for this development.
- (ii) If the Government **reduced rates of indirect taxation** state and explain the effects that this development would have on each of the following:
- Consumers;
 - Manufacturers;
 - Firms in the service industry (e.g. hotels / restaurants).
- (20 marks)*
- (c) The Government has been preparing for the **privatisation** of Aer Lingus.
- (i) Explain the underlined term.
- (ii) State and explain **ONE** possible economic advantage and **ONE** possible economic disadvantage of this development for each of the following:
- Aer Lingus employees;
 - Aer Lingus passengers;
 - Irish Taxpayers.

(30 marks)

[75 marks]

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