

**WARNING**

This examination paper **MUST** be returned with your answer book(s) at the end of the examination, otherwise marks will be lost.

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# Coimisiún na Scrúduithe Stáit State Examinations Commission

LEAVING CERTIFICATE EXAMINATION 2018

## **ECONOMICS - HIGHER LEVEL**

(400 marks)

**THURSDAY 21 JUNE - MORNING 9:30 - 12:00**

Answer **six** questions from Section A and **four** questions from Section B.

### **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.

**You must return this examination paper with your answer book(s) at the end of the examination.**

## SECTION A (100 marks)

Answer **six** of the **nine** short response type questions in the spaces provided.

1. The firm in perfect competition is a '**price taker**'.

(a) Explain this statement.

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(b) Other than price taking, outline **two** characteristics of a perfectly competitive market.

(i) \_\_\_\_\_

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(ii) \_\_\_\_\_

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(16 marks)

2. *Raising interest rates before the end of the decade could threaten the long sought-after economic recovery in the Eurozone, the OECD has warned.*

Outline **two** possible economic effects of an increase in interest rates on the Irish economy.

(i) \_\_\_\_\_

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(ii) \_\_\_\_\_

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(16 marks)

3. The EU is an example of a **customs union**. Explain the term customs union.

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(16 marks)

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

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(b) Does this law apply in the short run or in the long run? Explain your answer.

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(16 marks)

5. Read each statement below and indicate if the statement is **TRUE** or **FALSE**.  
[Tick (✓) the correct box.]

STATEMENT	TRUE	FALSE
'Double counting' could occur when economic activity is measured using the expenditure method.		
Exports represent an injection into the circular flow of income.		
Gross Domestic Product (GDP) includes a provision for depreciation.		
Primary school teacher salaries are categorised as transfer payments in Ireland.		

(16 marks)

6. State and explain Adam Smith's **four** Canons of Taxation.

(i) \_\_\_\_\_  
\_\_\_\_\_

(ii) \_\_\_\_\_  
\_\_\_\_\_

(iii) \_\_\_\_\_  
\_\_\_\_\_

(iv) \_\_\_\_\_  
\_\_\_\_\_

(17 marks)

## SECTION A (continued)

7. (a) Outline **two** policies a government could consider to reduce income inequality.

(i) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(ii) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- (b) Outline **one** possible challenge for the Irish economy of reducing income inequality.

\_\_\_\_\_  
\_\_\_\_\_

(17 marks)

8. Outline **three** economic consequences of raising the retirement age for public sector workers to 70 years.

**Economic consequences:**

(i) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(ii) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(iii) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(17 marks)

**SECTION A (continued)**

9. (a) Define the term **price discrimination**.

**Definition:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(b) Outline **three** conditions necessary for price discrimination to occur.

(i) \_\_\_\_\_  
\_\_\_\_\_

(ii) \_\_\_\_\_  
\_\_\_\_\_

(iii) \_\_\_\_\_  
\_\_\_\_\_

**(17 marks)**

***Remember to return this examination 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) (i) Distinguish between a **movement along** a demand curve and a **shift** in a demand curve.
- (ii) Explain, using a supply and demand diagram how a market would return to equilibrium following a surplus (excess supply) in the market.

[25]

- (b) *The owners of a music venue, with a maximum capacity of 400 people, conducted market research into consumer demand for tickets at different prices. The information they obtained is shown in the table below.*

Price (€)	Quantity Demanded	Quantity Supplied
€100	0	400
€80	200	400
€60	400	400
€40	600	400
€20	800	400

- (i) Using the above data, draw the demand and supply curve for this music venue, showing the price and quantity of tickets at which this market is in equilibrium.
- (ii) Explain the reason for the shape of the supply curve for this music venue.
- (iii) Explain the terms **consumer surplus** and **total revenue**.
- (iv) Show clearly on the diagram you have drawn in part (i) above, the areas of consumer surplus **and** total revenue at equilibrium.

[35]

- (c) *The owners of this venue decide to charge €60 per ticket.*

- (i) Calculate the **total revenue** from the ticket sales for the above venue, assuming there is a full house. **Show your workings.**
- (ii) Explain how a knowledge of the concept of **consumer surplus** could benefit the owners of the music venue.

[15]

[75 marks]

2. (a) *An oligopoly is a market structure in which a few firms dominate the market.*
- (i) Describe how firms in this market structure compete with each other.
- (ii) Discuss the advantages and disadvantages of oligopoly as a market structure. [30]
- (b) (i) Explain, using a clearly labelled diagram, the long-run equilibrium of a firm operating under oligopoly conditions.
- (ii) With reference to the 'kinked' demand curve drawn in part (i) above, explain the rationale for '**price rigidity**'. [25]
- (c) '*Motor insurance providers in Ireland targeted in anti-cartel inquiry.*'  
(Source: *The Irish Times*, July 2017)
- (i) Explain the likely effects on consumers if collusion (e.g. cartel agreement) existed in the motor insurance industry.
- (ii) Suggest **two** measures the government could consider to discourage anti-competitive practices in industry. Explain your answer. [20]
- [75 marks]**

3. (a) The table below shows the output and total cost for a firm. The selling price for its product is fixed at €30 regardless of output.

Output (units)	0	1	2	3	4	5	6	7
Total Cost (€)	20	40	50	65	85	115	160	210

- (i) Define the term **marginal cost**.
- (ii) Draw and clearly label a graph to illustrate the marginal cost at each level of output.
- (iii) Indicate on the graph that you have drawn the profit-maximising level of output **and** explain your answer.
- (iv) Calculate the profit earned at this profit-maximising level of output. [25]
- (b) (i) Define the term **price elasticity of supply (PES)**.
- (ii) Explain, by means of an example, why the PES might be different in the long run than in the short run.
- (iii) Discuss **two** factors, other than time period, that influence the PES of a product. [25]
- (c) (i) Outline the potential impact a fall in the value of Sterling (£) against the Euro (€) would have on the price UK consumers pay for Irish products.
- (ii) Explain how knowledge of **price elasticity of demand (PED)** might be helpful to Irish exporters who wish to maximise their total revenue in the UK market. [25]
- [75 marks]**

4. (a) (i) Define the term **labour productivity**.  
(ii) Explain how a firm could increase the productivity of labour. [20]
- (b) *Globalisation allows firms to exploit economies of scale.*  
(i) Explain the term **economies of scale**.  
(ii) Discuss how a firm might benefit from economies of scale, providing examples to support your answer.  
(iii) Can firms become 'too big'? Explain your answer. [30]
- (c) *Restrictions placed on workers' mobility can impact on economic growth.*  
(i) Distinguish between occupational mobility of labour and geographic mobility of labour.  
(ii) Discuss the factors that limit the geographic mobility of labour.  
(iii) Suggest **one** measure which could be considered to address any factor identified in (ii) above. Explain your answer. [25]
- [75 marks]**
5. (a) (i) Explain the terms **fiscal policy** and **monetary policy**.  
(ii) Outline how Ireland's membership of the Eurozone affects the operation of the Government's monetary policy **or** fiscal policy in Ireland. [20]
- (b) *Indirect taxes are frequently used as a government policy instrument to change certain consumer behaviour.*  
(i) Explain the term **indirect tax**.  
(ii) Explain how **indirect taxes** could be used to change certain consumer behaviour, using examples to support your answer.  
(iii) Outline **one** intervention, other than taxation, that a government could consider to change consumer behaviour. [25]
- (c) *In 2016, the Government [budget] deficit was €1.8 billion, an improvement on the 2015 deficit of €5.0 billion. (Source: CSO, July 2017)*  
(i) Define the term **budget deficit**.  
(ii) Discuss the possible economic consequences of a reduction in the budget deficit for the Irish economy.  
(iii) Is a budget deficit always bad for an economy? Outline **two** reasons for your answer. [30]
- [75 marks]**



6. *Ireland's net inward migration in 2017, according to CSO, was +19,800 the highest net inward migration since 2008.*

- (a) (i) Describe the factors that drive migration between countries.  
(ii) Discuss the economic consequences of increased immigration for the Irish economy. [30]

- (b) Discuss the economic arguments for **and** against Ireland being a member of the Single European Market. [25]

*For 2018, the Irish government has allocated just over €707 million for **Official Development Assistance (ODA)** to Less Developed Countries (LDCs).*

- (c) Discuss the benefits **and** challenges of Official Development Assistance for LDCs. [20]  
[75 marks]

7. (a) Assess the performance of the Irish economy in the past 12 months in **each** of the following areas.  
(i) Economic growth  
(ii) Employment / unemployment  
(iii) Inflation  
(iv) The size of the National Debt. [20]

- (b) Outline the economic advantages of effective regulation of the banking sector. Your answer should include advantages for citizens **and** advantages for the banking industry. [25]

- (c) *The Government's Summer Economic Statement has confirmed that it will increase capital spending by €500m each year from 2019 to 2021.*

(Source: [www.rte.ie](http://www.rte.ie), 2017)

- (i) Explain **three** economic arguments in favour of an increase in government capital expenditure in the Irish economy.  
(ii) Discuss how this planned expenditure on capital projects (i.e. large infrastructural projects) by the Irish government may conflict with any **two** other government objectives.

[30]

[75 marks]

8. (a) The table shows National Income (Y), Consumption (C), Investment (I), Exports (X) and Imports (M) for 2016 and 2017.

	Y	C	I	X	M
2016	?	80,000	20,000	90,000	90,000
2017	150,000	100,000	30,000	120,000	?

Calculate the following, **showing all your workings**:

- (i) the value of National Income in 2016
- (ii) the value of Net Exports in 2017
- (iii) the level of Savings in the economy in 2017
- (iv) the size of the Multiplier. [20]

- (b) Discuss the benefits **and** challenges of Foreign Direct Investment (FDI) for the Irish economy. [25]

- (c) *'Official greenhouse gas emission projections indicate that Ireland will fail to meet the EU 2020 targets by a substantial margin.'*

(Source: Climate Change Advisory Council)

- (i) Outline **three** economic reasons why protection of the environment is an increasing concern for governments.
- (ii) Explain **one** measure **each** of the following could take to help achieve Ireland's EU targets (i.e. reduce carbon emissions):  
Individuals; Firms; the Irish Government.

[30]

[75 marks]

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