

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, 2020

ECONOMICS – HIGHER LEVEL

(400 marks)

2 hours and 30 minutes

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.

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Section A (100 marks)

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

1. A fall in the price of a consumer product has both a substitution effect and an income effect. Explain **each** of the underlined terms.

Substitution effect: _____

Income effect: _____

(16 marks)

2. Citizens in some Less Developed Countries may experience social costs when these countries pursue economic development. Explain the underlined term and outline **two** possible social costs which these citizens may experience.

Explanation: _____

Social cost 1: _____

Social cost 2: _____

(16 marks)

3. Up to 800 million global workers will lose their jobs by 2030 and be replaced by robotic automation. (Source: BBC.com)

(a) Name the type of unemployment these workers will experience. Give a reason for your answer.

Type of unemployment: _____

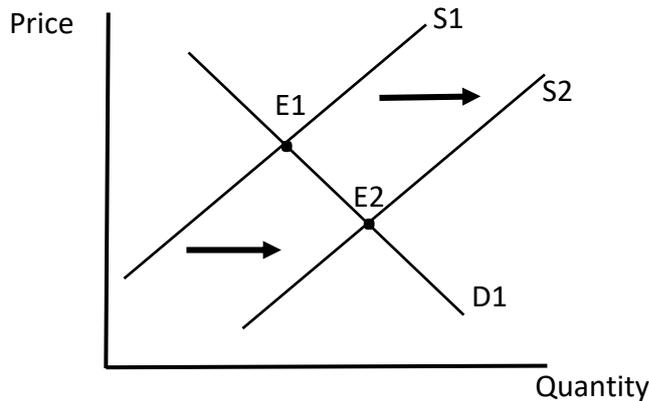
Reason: _____

(b) Outline **one** policy response that the Irish government could take to reduce this type of unemployment in Ireland.

Government policy: _____

(16 marks)

4. The following diagram represents a change in equilibrium for the Irish beef market.



(i) Complete the above diagram by labelling the initial equilibrium price and quantity and new equilibrium price and quantity.

(ii) Indicate by means of a tick (✓) which of the following statements would cause the equilibrium to shift from E1 to E2?

Tick **one** option only and explain your answer.

(a)	Irish farmers' growing fears about Brexit.	
(b)	An increase in a subsidy from the Irish government for beef farmers.	
(c)	An increase in the number of vegetarian consumers in Ireland.	

Explanation: _____

(16 marks)

5. Permanent Trustee Savings Bank (PTSB) plans to close about one fifth of its 77 branches in Ireland. (Source: Irish Times, October 2019)

(a) Outline **one** possible reason for the closure of these PTSB branches.

(b) Outline **two** economic effects of these closures on the Irish economy.

(i) _____

(ii) _____

(16 marks)

6. John Maynard Keynes supported the use of fiscal policy by government in an economy.

(i) Define the term fiscal policy: _____

(ii) Do you agree with Keynes support of government intervention in an economy?
Yes / No. Place a circle around your choice **and** outline **two** reasons for your answer.

Reason 1: _____

Reason 2: _____

(17 marks)

7. The continuing rise of the 'gig economy' has been phenomenal. However, some workers seek an increase in regulation associated with the 'gig economy' and zero-hour contracts. (**Note:** A gig economy is an economy where firms tend to hire independent workers and freelancers on a short term / payment-by-task basis e.g. Deliveroo riders, instead of full-time employees).

(a) Outline **two** arguments in favour of increased regulation of the 'gig economy'.

(i) _____

(ii) _____

(b) Outline **one** argument against increased regulation of the 'gig economy'.

(17 marks)

8. Some citizens are concerned with the decline in economic activity in some towns and rural areas in Ireland.

(a) Explain **two** economic effects of this decline in economic activity on the Irish economy.

(i) _____

(ii) _____

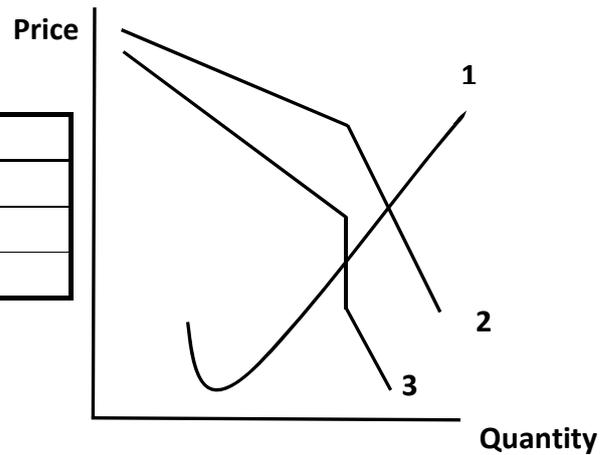
(b) Outline **one** measure which the government could take to address this economic decline.

(17 marks)

9. The diagram below represents the long-run equilibrium of a firm in **Oligopoly**.

- (i) Write **in full** the label (not abbreviation) for each of the lines numbered 1 to 3. Use the answer box provided.

Number	Label
1	
2	
3	



- (ii) Show on the diagram **the equilibrium point (E)**; the **price charged (P_1)** and the **quantity produced (Q_1)** by this firm.
- (iii) With reference to the diagram explain the term **price rigidity**.

(17 marks)

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Section B (300 marks)

Answer **four** questions.

Write the answers in your answer book(s).

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All questions carry equal marks (75 marks).

Note the sub-divisions in the questions.

1. (a) The table below illustrates the Law of Diminishing Marginal Utility.

No. of Units Consumed	1	2	3	4	5
Total Utility in Units / Utils	10	25	37	47	54
Marginal Utility in Units / Utils	10	A	B	C	D

- (i) Explain the Law of Diminishing Marginal Utility.
- (ii) Using the table above calculate the marginal utility at **A**, **B**, **C** and **D** (show all workings in your answer book).
- (iii) State at what point diminishing marginal utility sets in **and** explain your answer.
- (iv) State and explain **two** assumptions underlying this law.

[25]

(b) The Public Health (Alcohol) Act 2018 prohibits the advertising of alcohol in parks, on trains and buses or within 200 metres of a school or playground.

(Source: Oireachtas.ie, November 2019)

- (i) Explain, with the aid of a labelled diagram, the likely impact of the above measures on the market equilibrium of alcohol in Ireland.
- (ii) Discuss **three other** possible measures which could be introduced to help reduce the consumption of alcohol in Ireland.

[25]

(c) Iarnród Éireann (Irish Rail) has warned that overcrowding on trains may worsen as additional train carriages will not arrive until late 2021 at the earliest.

(Source: RTE.ie, October 2019)

- (i) State and explain **one** reason why the demand for train services in Ireland has increased recently.
- (ii) Discuss the case for **and** against increased investment by the Government in Ireland's railways.

[25]

[75 marks]

2. Bord Bia has reported that the number of microbreweries in Ireland has increased to 75 in 2018 (a fivefold increase since 2012). Each brewery produces a range of products, such as lagers, stouts and beers. This market is thus an imperfectly competitive market.

(Source: Craft Beer and Independent Microbreweries in Ireland, 2018.)

- (a) (i) Explain **one** reason why the above industry is imperfectly competitive.
(ii) State and explain **three other** key characteristics of this market structure (other than your answer to (i) above). [20]
- (b) (i) Explain, with the aid of a labelled diagram, the equilibrium position of a firm in short-run imperfect competition.
(ii) With the aid of a labelled diagram, explain the impact which the entry of new firms would have on the equilibrium of the firm in (b)(i) above. [30]
- (c) Firms in some industries tend to engage in non-price competition.
(i) Explain the underlined term.
(ii) Outline **two** examples of effective non-price competitive measures used by firms. Why do you consider these to be effective for the firms?
(iii) Is non-price competition beneficial to consumers?
Outline **two** reasons for your answer. [25]
- [75 marks]

3. (a) The Irish economist Alan McQuaid said that we are as close to full employment as possible. “We are almost back to Celtic Tiger levels of employment”.

(Source: Irish Independent, June 2019)

- (i) Define the underlined term.
(ii) Discuss the possible economic benefits **and** challenges of full employment in the Irish economy. [26]
- (b) Ireland is an attractive location for many multinational companies (MNCs).
Discuss **four** possible economic risks for the Irish economy if some of the MNCs currently in Ireland, choose to re-locate outside Ireland. [24]
- (c) Despite being better educated overall, women aged 25-64 with a third level degree in Ireland earn 28% less than their male counterparts, according to the OECD.
(Source: Irish Independent, September 2019)
(i) Outline **two** reasons why gender pay inequality continues to exist in the Irish economy.
(ii) Discuss **two** measures the Irish government could take to help reduce gender pay inequality in Ireland. [25]
- [75 marks]

4. The cost of doing business in Ireland can be described as ‘high cost, slowly increasing’. The slow growth in costs is welcome from a cost competitiveness perspective.

(Source: Adapted from - Cost of Doing Business in Ireland, April 2019)

- (a) (i) In the short-run firms may stay in the industry even if they are making a loss. Explain this statement.
- (ii) State and explain **three** reasons why it is important for a business to control its costs.

[20]

- (b) The table below shows cost data of a firm.

Output (Q)	0	1	2	3	4	5
Total Cost (TC)	10	20	27	36	52	80

Use the data in the table above to:

- (i) Calculate the marginal cost and average total cost at each unit of output. Show all your workings in your answer book.
- (ii) Draw **one** graph showing **marginal cost** and **average total cost** and explain the relationship between both curves (you may use graph paper if you wish).

[25]

- (c) Fiat Chrysler and Peugeot are engaged in merger talks (to form one company) while the proposed merger between Siemens and Alstom (train manufacturers) has been blocked by the EU’s competition enforcer.

(Source: Financial Times, October 2019)

- (i) Define **internal** economies of scale.
- (ii) Outline **three internal** economies of scale which Fiat Chrysler/Peugeot may experience following the merger.
- (iii) Outline **two** reasons why the EU’s competition enforcer might move to block the proposed merger.

[30]

[75 marks]

5. (a) An American survey has ranked Ireland as the eighth most entrepreneurial society in the world. (Source: The Irish Times, October 2019)
- (i) Define the factor of production enterprise.
- (ii) Discuss **four** economic reasons why entrepreneurship is important to the Irish economy.

[25]

- (b) The table below shows possible employment levels, output, costs and revenue data of a firm.

Units of labour employed	Total output per week (units)	Marginal product (units)	Price of output	Marginal revenue product of labour	Marginal cost of labour
1	10	10	€20	€200	€140
2	25		€20		€140
3	45		€20		€140
4	60		€20		€140
5	70		€20		€140
6	77		€20		€140
7	82		€20		€140

Using this data:

- (i) Calculate the marginal product and marginal revenue product of labour for this firm. Show all your workings in your answer book.
- (ii) State at what point the law of diminishing marginal returns applies to labour in the above situation. Explain your answer.
- (iii) How many workers should be employed in the above firm? Explain your reason.

[30]

- (c) An Irish firm which sells its product in both the EU and US markets provides you with the following information:

	EU	US
Price elasticity of demand	-0.8	-2.4
Income elasticity of demand	+0.72	+2.8

- (i) Explain whether you consider this good to be **normal** or **inferior**?
- (ii) Suggest **one** reason for the difference in the **price elasticity** of demand for this product in each market.
- (iii) If the firm wishes to maximise total sales revenue advise the firm in which market a higher price should be charged. Explain your answer.

[20]

[75 marks]

6. (a) In October 2019 the World Trade Organisation allowed the US to place tariffs on European goods in retaliation for the EU subsidising Airbus, the airplane manufacturer. (Source: www.independent.co.uk, October 2019)
- (i) Explain the terms **tariffs** and **subsidies**.
 - (ii) Explain why the EU would give subsidies to a company such as Airbus?
 - (iii) Discuss the arguments **against** trade protectionism. [30]
- (b) As a member of the EU, Irish businesses enjoy free access to the world's largest single market with a population of 512 million.
- (i) Distinguish between a **free trade area** and a **common market** (such as the EU).
 - (ii) Discuss **three** economic benefits to Ireland from continued EU membership. [25]
- (c) Irish beef exports to China are set to grow from €9m last year to €120m by the end of 2020. (Source: RTÉ News, November 2019)
- (i) Outline the economic advantages of growing new export markets for the Irish economy.
 - (ii) Discuss **two** possible difficulties which Irish exporting companies may experience in entering the Chinese market. [20]
- [75 marks]**
7. (a) In Budget 2020 the government increased the rate of carbon tax by €6 to €26 per tonne. (Source: Budget 2020)
- (i) Why do some people consider the carbon tax to be a regressive tax?
 - (ii) Outline the possible positive **and** negative economic consequences of the above measure for the Irish economy. [25]
- (b) In Budget 2020 the government gave the green light for the construction of the N5 dual carriageway in Mayo and increased funding for An Garda Síochána (Ireland's National Police) to help deliver new recruits. (Source: Budget 2020 Expenditure Report)
- (i) Identify **one** example of current government expenditure and **one** example of capital government expenditure from the above measures. Explain your choice in **each** case.
 - (ii) Discuss the social benefits **and** economic benefits of increased spending on An Garda Síochána.
 - (iii) Outline **one** argument for and **one** argument against making new sections of motorways toll roads. [30]
- (c) An empty home tax is needed to tackle the homelessness crisis says McVerry Trust. (Note: an empty home tax applies to residences that are unoccupied for long periods of time). (Source: Irish Times, September 2019)
- (i) In your opinion, is this empty home tax a good idea? Explain your answer.
 - (ii) Suggest **three** alternative measures the government could take to help reduce homelessness in Ireland. [20]
- [75 marks]**

8. (a) Explain the following economic terms, giving an appropriate example in **each** case:
- Transfer Payments;
 - Benefits-in-kind;
 - Net Factor Income from the Rest of the World.

[21]

- (b) The following table shows National Income (Y), Consumption (C), Investment (I), Government Spending (G), Exports (X) and Imports (M) for 2018 and 2019.

	Y	C	I	G	X	M
2018	€200,000	€70,000	€50,000	?	€80,000	€60,000
2019	?	€105,000	€55,000	€65,000	€90,000	€65,000

Use this data to answer the following: (Show all your workings in your answer book.)

- (i) Calculate the level of government spending in 2018.
- (ii) Calculate the level of National Income in 2019.
- (iii) Define marginal propensity to import (MPM).
- (iv) Calculate the marginal propensity to import (MPM).
- (v) Calculate the value of the multiplier **and** explain the economic meaning of the figure calculated.

[30]

- (c) Ireland's national debt reached €206 billion at the end of 2018.

(Source: Irish Examiner, August 2019)

- (i) Explain the underlined term.
- (ii) Name the agency responsible for managing Ireland's national debt. State and explain one other function of this agency.
- (iii) Outline **three** risks to the Irish economy arising from the above level of national debt.

[24]

[75 marks]

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