

**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, 2017**

**WEDNESDAY 21 JUNE MORNING 9.30 – 12.00**

## **ECONOMICS – ORDINARY LEVEL** (400 marks)

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.

**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. In relation to the following taxes, match the tax with its appropriate explanation.  
(One explanation has no match.)

Tax		Explanation	
A	VAT	1	A tax on income.
B	DIRT	2	A tax on goods imported into a country.
C	PAYE	3	A tax on the profit made on disposal of an asset.
D	Customs duty	4	A tax on interest earned on deposits in financial institutions.
		5	A tax on purchases of goods and services.

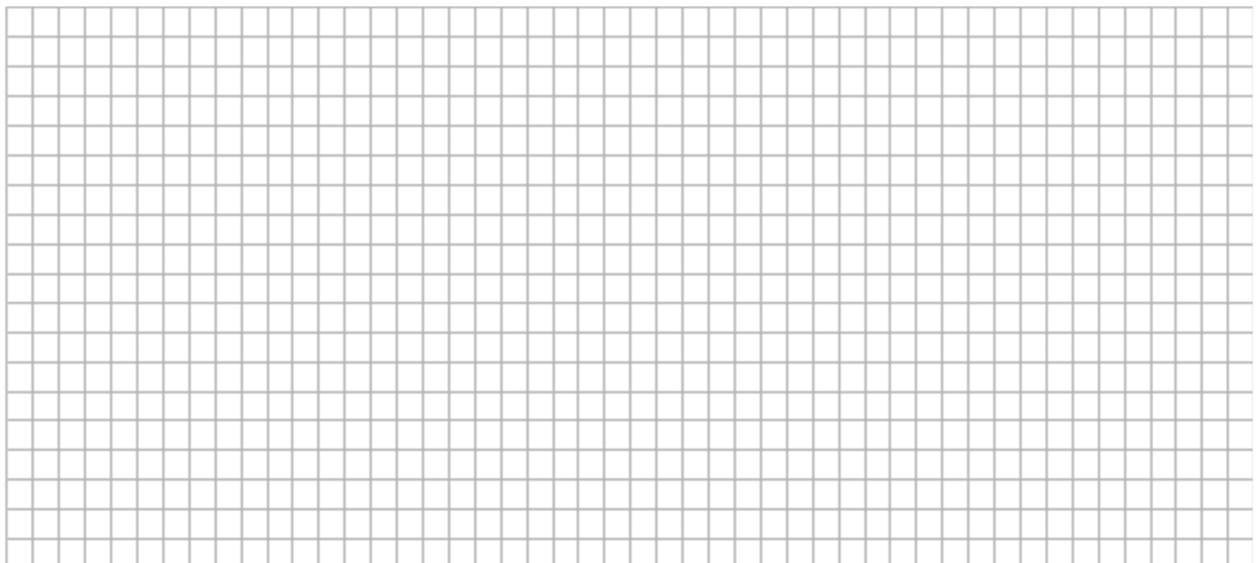
TAX	→	A	B	C	D
EXPLANATION	→				

(16 marks)

2. You are given the following data for a firm.

Quantity (units of output)	1	2	3	4
Fixed costs in €	3,000	3,000	3,000	3,000

- (i) **Draw and label** the fixed costs for this firm.



- (ii) Explain the term **fixed costs** and state **one** example for a firm.

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Example: \_\_\_\_\_

(16 marks)

## SECTION A (continued)

3. Outline **one** possible economic effect which an increase in the number of people travelling from the Republic of Ireland to shop in Northern Ireland may have on **each** of the following:

Retailers in the Republic of Ireland:

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Irish Government's finances:

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(16 marks)

4. Indicate by means of a tick (✓) the category to which each good or service belongs:

Statement	Visible exports	Invisible exports	Visible imports	Invisible imports
Expenditure of Irish soccer supporters having travelled to Austria.				
Irish firms selling cheese in Germany.				
Foreign tourists using Ryanair to travel to Ireland.				
Irish consumers buying cars in the UK and bringing them back to Ireland.				

(16 marks)

5. What do the following letters stand for? Write **each** answer in the appropriate space.

IMF	
ECB	
WTO	

(16 marks)

6. The Irish government invests significant amounts of taxpayers' money in Irish third level education which involves an opportunity cost. Explain the underlined term and state **two** economic advantages to the Irish economy of this investment in third level education.

Explanation: \_\_\_\_\_

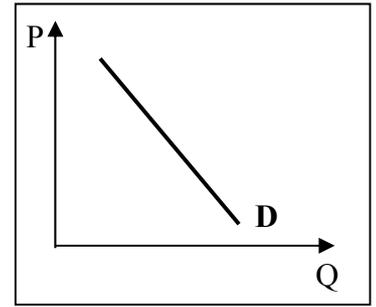
Advantage 1: \_\_\_\_\_

Advantage 2: \_\_\_\_\_

(17 marks)

## SECTION A (continued)

7. This diagram represents the demand for new cars in Ireland in 2015.



(i) The demand for new cars increased in 2016.

**Draw the new demand curve for cars and label it  $D_1$ .**

(ii) Suggest **two** reasons for the increase in the demand for new cars in Ireland in 2016.

Reason 1: \_\_\_\_\_

Reason 2: \_\_\_\_\_

(17 marks)

8. 'The government was advised to consider introducing new taxes on disposable fast-food containers, cans and plastic bottles.'  
*(Source: The Irish Times, July 2016)*

Outline **one** possible economic advantage and **one** possible economic disadvantage of this measure.

Economic advantage: \_\_\_\_\_

\_\_\_\_\_

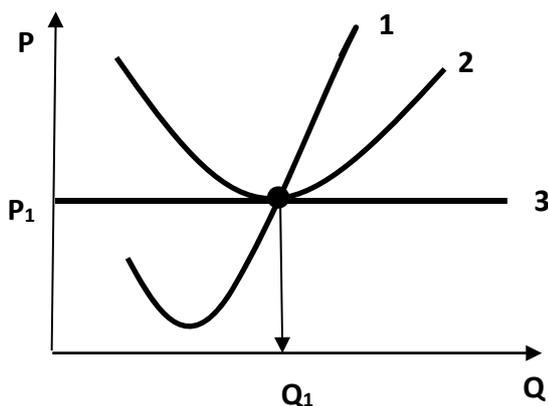
Economic disadvantage: \_\_\_\_\_

\_\_\_\_\_

(17 marks)

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

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



**Answer Box**

Number	Full label
1	
2	
3	

(ii) Is the firm earning supernormal profit? Yes / No.  
**Circle** your choice and **explain** your answer.

\_\_\_\_\_

\_\_\_\_\_

(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.

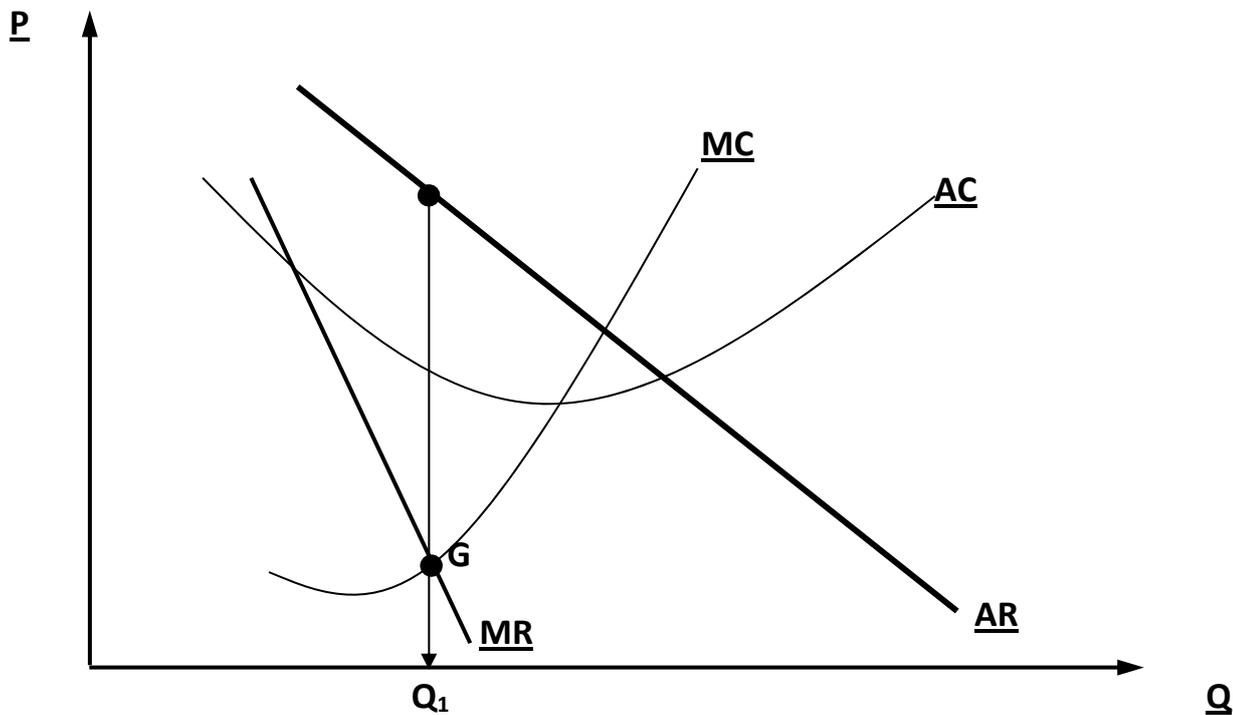
Write the answers in your answer book(s)

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 a **Monopoly** firm in equilibrium.



- (a) Copy the diagram into your answer book.
- (i) Write out what **each** of the **six** underlined labels represents.
  - (ii) The firm is in equilibrium at point G and produces output  $Q_1$ .  
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  $C_1$ )
- (30 marks)
- (b) New firms may wish to enter a monopoly market but they face **barriers to entry**.
- (i) State **three** possible barriers to entry.
  - (ii) Write brief notes on **each** of these.
- (21 marks)
- (c) The state-owned companies Bus Éireann, Irish Rail and An Post are currently experiencing losses. These losses may make it difficult for the companies to continue to provide all their services in the future.
- (i) State and explain **one** reason why some services provided by the above companies are not provided by private entrepreneurs.
  - (ii) State and explain **two** measures these state-owned companies could take to try to reduce their losses.
- (24 marks)  
**[75 marks]**

2. (a) The Apple iPhone 7 is an economic good. Economic goods have the following characteristics: they are scarce, transferable and provide utility for the consumer.

(i) Explain **any two** of the underlined terms, with reference to the Apple iPhone 7.

(ii) Explain **any two** of the following economic terms:

- Normal good
- Substitute good
- Complementary good.

(20 marks)

(b) The information below represents the market demand and supply schedule for Apple iPhone 7.

Price €	Quantity Demanded (units)	Quantity Supplied (units)
400	1,200	400
500	1,000	600
600	800	800
700	600	1,000
800	400	1,200

Using the above information and **one** diagram (you may use graph paper):

(i) Draw **and** label the market demand curve for the Apple iPhone 7

(ii) Draw **and** label the market supply curve for the Apple iPhone 7.

(iii) Show on your diagram:

- The market equilibrium price for the Apple iPhone 7 (use label **P<sub>1</sub>**)
- The market equilibrium quantity for the Apple iPhone 7 (use label **Q<sub>1</sub>**).

(30 marks)

(c) The formula for measuring **Income Elasticity of Demand** (YED) is:

$$\frac{\Delta Q}{\Delta Y} \times \frac{Y_1 + Y_2}{Q_1 + Q_2}$$

(i) Explain what **each** of the above symbols represent.

(ii) The Income Elasticity of Demand (YED) for the Apple iPhone 7 is **+2.8**.

Would you consider the Apple iPhone 7 to be a luxury good, based on your knowledge of YED? Explain your answer.

(25 marks)

**[75 marks]**

3. (a) A construction firm converts inputs (factors of production) to output (houses).  
State and explain the **four** factors of production that might be used to produce houses.  
(20 marks)
- (b) The Irish Government is facing demands for wage increases from employees in the public sector. Employees in the private sector are also seeking wage increases.
- (i) Explain **each** of the underlined terms and state **one** example of an occupation in **each** of the sectors above.
- (ii) State and explain **one** economic reason why employees are currently seeking wage increases.
- (iii) Discuss **one** possible economic **disadvantage** for the Irish economy if employees in both the public and private sectors receive wage increases.  
(30 marks)
- (c) (i) State and explain **two** economic reasons why different wages are paid for different jobs.
- (ii) The Irish Government is trying to encourage Irish emigrants to return and work in Ireland. Suggest **two** measures that the government could take to encourage this.  
(25 marks)  
**[75 marks]**
4. (a) In modern economies money has replaced barter.
- (i) Explain the terms **money** and **barter**.
- (ii) Explain **one** difficulty associated with the use of barter.
- (iii) State **two** other items which are currently used as money, other than coins and notes.  
(25 marks)
- (b) Some banks are offering customers a low interest rate on their savings.
- (i) Explain **each** of the underlined terms.
- (ii) State and explain **two** factors, **other than interest rate**, which households may consider in deciding whether to save or not.  
(26 marks)
- (c) (i) Explain the term **price inflation**.
- (ii) State **one** economic effect which **any two** of the following developments may have on the rate of price inflation in Ireland. Explain your answer in each case.
- an increase in world oil prices
  - a decrease in the rates of Irish indirect taxes
  - a decrease in the Irish level of savings.
- (24 marks)  
**[75 marks]**

5. (a) The multiplier formula for an open economy is

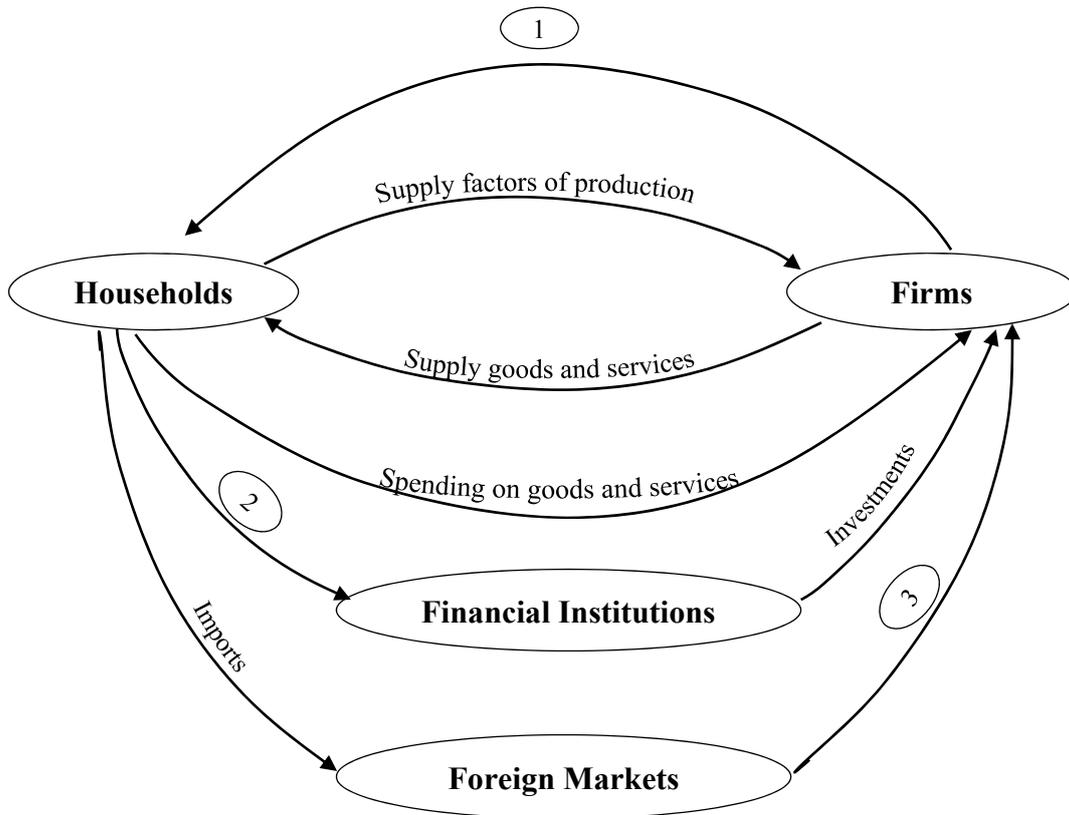
$$\frac{1}{\text{MPS} + \text{MPM}}$$

Assume the MPM is 0.25 and MPS is 0.15

- (i) Explain the term **multiplier**.
- (ii) Using the formula above calculate the size of the multiplier. **Show your workings.**
- (iii) If investment in the economy increases by €10 million, what is the increase in National Income? **Show your workings.**

(21 marks)

(b) The diagram below represents the **Circular Flow of Income** in an open economy without government.



- (i) Ireland is an **open economy**. Explain this statement.
- (ii) State what **each** of the lines numbered **1 to 3** represents.
- (iii) Referring to the diagram above, explain the type of activities which take place between **any two** of the following:
  - Foreign markets and firms
  - Households and foreign markets
  - Households and financial institutions.

(30 marks)

(c) One of the aims of government is to achieve economic growth.

- (i) Explain the term **economic growth**.
- (ii) Outline **two** reasons why it is important for an economy to achieve economic growth.

(24 marks)

**[75 marks]**

6. (a) The estimated Government current budget for 2017 is as follows:

Government Current Income	€53,245m	Government Current Expenditure	€50,548m
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- (i) Calculate the current budget surplus. **Show your workings.**
- (ii) State **one** example of government current income and **one** example of government current expenditure.
- (iii) Explain **two** economic effects of the falling unemployment rate on the Government's current budget. (25 marks)

(b) Outline **one** economic argument in favour of and **one** economic argument against **any two** of the following government policies/measures announced in Budget 2017:

- An increase in social welfare payments of €5 per week
- A decrease in rate of Deposit Interest Retention Tax (DIRT) from 45% to 39%
- Increase in excise duty on tobacco (e.g. 50c increase on a packet of 20 cigarettes).

(24 marks)

(c) Various opinion polls have indicated that people in Ireland favour an improvement in state services rather than a reduction in taxation rates.

- (i) Identify **two** state services which could be improved **and** explain your answer in **each** case.
- (ii) Would you favour a reduction in taxation rates, e.g. income tax rates in Ireland, VAT rates? Outline **two** reasons for your answer. (26 marks)

[75 marks]

7. (a) You are given the following information about a country's trade in a year.

Visible Exports €m	Visible Imports €m
22,000	23,500

- (i) Explain the term **Balance of Trade**.
- (ii) Using the above data, calculate the Balance of Trade **and** state if it is a surplus or deficit. **Show your workings.**
- (iii) If the level of visible exports above increased by €2,000m, calculate the new Balance of Trade **and** state if it is a surplus or deficit. **Show your workings.** (25 marks)

(b) The Irish government retained the rate of Corporation Tax at 12.5% in Budget 2017.

- (i) Explain the underlined term.
- (ii) State and explain **two** economic factors, other than the rate of corporation tax, which a multinational company may consider when choosing Ireland as a location for its business. (24 marks)

(c) In June 2016 the UK voted to leave the EU in what has become known as BREXIT.

- (i) What do the letters EU stand for?
- (ii) Discuss **one** economic effect which the exit of the UK from the EU may have on **any two** of the following:
  - Irish firms exporting to the UK
  - Tourism between Ireland and the UK
  - Consumers in Ireland.

(26 marks)  
[75 marks]

8. (a) The population of Ireland counted in April 2016 by the CSO is estimated to be 4.76 million. This represents an increase of almost 170,000 persons since the population was previously counted in 2011. **(Source: CSO, 2016 Preliminary Report)**

- (i) What do the initials CSO stand for?
- (ii) What is the official term used for a count of the population?
- (iii) State and explain **one** possible economic effect which this increase in Ireland's population may have on **any two** of the following:
  - Demand for goods and services
  - Provision of state services
  - Irish labour market.

(30 marks)

(b) The Irish government is considering introducing a sugar tax in 2018 as one measure to deal with Ireland's obesity problem.

State and explain **two** other economic measures you would suggest to help reduce the level of obesity in Ireland.

(20 marks)

(c) 'The government is going to privatise the long awaited rural broadband network.'

**(Source: Irish Independent, July 2016)**

- (i) Explain the meaning of the term **privatisation**.
- (ii) Outline **two** economic advantages of this investment in broadband for rural areas.

(25 marks)

**[75 marks]**

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