

AN ROINN OIDEACHAIS AGUS EOLAÍOCHTA

LEAVING CERTIFICATE EXAMINATION, 2001

ECONOMICS — HIGHER LEVEL
(400 marks)

WEDNESDAY, 20 JUNE 2001— MORNING, 9.30 to 12.00

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

Credit will be given for clear, precise, relevant answering and for orderly presentation of material.

SECTION A (100 marks)

The questions in this section are on a separate sheet which also provides space for your answers.
The completed sheet is to be returned with your answer books at the end of the examination.

SECTION B (300 marks)

Four questions to be answered.

All questions carry equal marks (i.e. 75).

Note the sub-divisions in the questions.

1. (a) State and explain the assumptions underlying the theory of **Imperfect Competition**. (25 marks)
- (b) Draw the demand curve which faces a firm in imperfect competition and justify its shape. (10 marks)
- (c) Discuss, with the aid of a clearly labelled diagram, the implications of the assumptions in (a) above, on the equilibrium of the firm in the long run under conditions of imperfect competition. (30 marks)
- (d) State **ONE FEATURE** of this firm in long run equilibrium which would be common to a firm in long run equilibrium under **EITHER** perfect competition **OR** monopoly. (10 marks)
- [75 marks]**

2. (a) Define what is meant by price elasticity of demand. (10 marks)
- (b) A consumer buys 80 units of a good when the price is £1.50. The price increases to £1.75 and the consumer now buys 70 units.
- (i) Using the formula below, calculate the consumer's price elasticity of demand. Show all your workings.

$$\frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2}$$

- (ii) Is demand for this good elastic, inelastic or unitary elastic?
- (iii) The seller of the above good wishes to earn maximum revenue. What changes, if any, should the seller make in the selling price of the good to earn maximum revenue? Explain your answer. (35 marks)
- (c) State and explain **FOUR** factors that affect price elasticity of demand. (30 marks)
- [75 marks]**

3. (a) State **FOUR** factors that affect the supply of a good, other than the price of the good itself, and explain how each factor affects supply. (25 marks)
- (b) State and explain the principal economic assumptions made about consumer behaviour. (25 marks)
- (c) The law of diminishing marginal utility states that as additional units of a good are consumed the marginal utility of this good will eventually decline.
- (i) State and explain the assumptions underlying the law of diminishing marginal utility.
- (ii) Give **TWO** examples of commodities which do not comply with this law. Justify each choice with a brief explanation. (25 marks)
- [75 marks]**

4. (a) A principal factor determining the wages to be paid to a worker is the **Marginal Revenue Productivity of Labour** (MRP).
- (i) Explain what is meant by the underlined term.
 - (ii) Discuss the factors, other than MRP, which influence the wage rates paid to different categories of workers. (30 marks)
- (b) How appropriate is MRP for setting wages in the public sector? Explain your answer. (20 marks)
- (c) At present, the demand for labour exceeds the supply of labour in certain sectors of the Irish Economy. Discuss the possible economic effects which this situation may have on the Irish economy. (25 marks)
- [75 marks]**

5. (a) Define clearly any **THREE** of the following terms:
- (i) Invisible Exports;
 - (ii) Tariffs;
 - (iii) Balance of Payments on Current Account;
 - (iv) Balance of Payments on Capital Account. (25 marks)
- (b) Irish exports have been steadily rising in recent years. Discuss how this development affects each of the following:
- (i) the level of Irish imports;
 - (ii) the amount of borrowing by the Irish government. (25 marks)
- (c) Discuss the possible effects on the Irish economy of the EURO declining in value relative to other international currencies. (25 marks)
- [75 marks]**

6. (a) For a composite (weighted) price index covering the three types of expenditure given in the following table, calculate the index for the current year. The base year value is 100. Show your workings.

Category	% of Income spent on Item(s)	Prices of Item(s) in base year	Price of Item(s) in current year.
		£	£
Food	35	8.50	12.75
Clothing & Footwear	15	37.50	45.00
Other Items	50	20.00	35.00
	100		

(20 marks)

- (b) Does the **Consumer Price Index** (CPI) accurately measure changes in the cost of living in Ireland? Explain your answer. (30 marks)
- (c) Over the past year the rate of inflation, as measured by the CPI, has fluctuated. Discuss the effects of this development on the Irish economy. (25 marks)
- [75 marks]**

7. (a) Define clearly the following terms:
- (i) Current Budget Surplus;
 - (ii) Exchequer Borrowing Requirement;
 - (iii) National Debt. (20 marks)
- (b) Discuss the main characteristics of a good system of taxation. (20 marks)
- (c) Discuss the main effects on the Irish economy of the reduction in rates of income tax in recent Government Budgets. (25 marks)
- (d) Explain what is meant by the term ‘**tax harmonisation**’. (10 marks)
[75 marks]

8. (a) Explain by means of a diagram of **Circular Flow of Income** for an open economy the forces which influence the level of aggregate demand. (25 marks)
- (b) The following table shows the levels of National Income, Consumption, Investment, Exports and Imports at the end of Period 1 and Period 2. For the purpose of this question you may ignore the government sector.

Period	National Income	Consumption	Investment	Exports	Imports
1	£5,800	£4,800	£1,200	£1,000	£1,200
2		£5,250	£1,300	£1,200	£1,350

Calculate the following, showing all your workings:

- (i) The level of National Income in period 2.
 - (ii) The Marginal Propensity to Save.
 - (iii) The Marginal Propensity to Import.
 - (iv) The size of the Multiplier. (20 marks)
- (c) Given **Gross National Product at Current Market Prices** for the years 1990 and 2000, state and explain the relevance of **FOUR** other pieces of information in assessing changes in the average standard of living between 1990 and 2000. (30 marks)
[75 marks]

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WARNING

You must return this paper with your answerbook, otherwise marks will be lost.

**An Roinn Oideachais agus Eolaíochta
Leaving Certificate Examination 2001**

WEDNESDAY 20 JUNE 9.30 – 12.00

ECONOMICS — HIGHER LEVEL

SECTION A (100 marks)

Examination Number

Answer any six of the following:

1. What is meant by the concept '*consumer surplus*'?

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.....
.....

(16 marks)

2. State **TWO non-insurable risks** which entrepreneurs face.

(i)
(ii)

(16 marks)

3. Define **SOCIAL COSTS**. Give **TWO** examples.

.....
.....
Example (i)
Example (ii)

(16 marks)

4. State **THREE** economic benefits of economic development to the citizens of underdeveloped countries.

(i)
(ii)
(iii)

(16 marks)

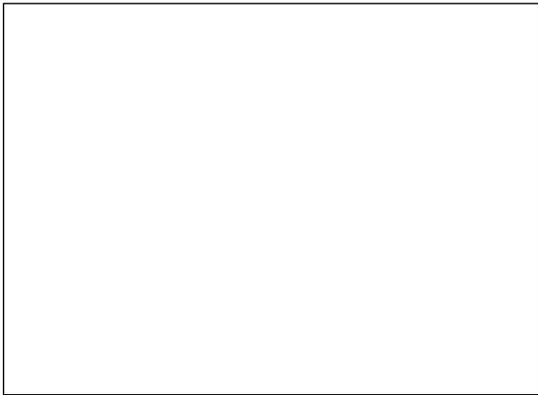
5. Identify **TWO** means by which semi-state companies which are monopolies could be made operate more cost effectively.

(i)
(ii)

(16 marks)

6. With the aid of a clearly labelled diagram, explain the relationship between the **average** and **marginal** costs.

Diagram



Explanation

.....
.....
.....
.....

(17 marks)

7. State **THREE** roles of profits in a market economy.

(i)
(ii)
(iii)

(17 marks)

8. State **THREE** contributions made to economic thought by the **Monetarist economists**.

(i)
(ii)
(iii)

(17 marks)

9. A country is said to be **overpopulated** in the economic sense when

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.....
.....

(17 marks)

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