

**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 2013**

**WEDNESDAY 19 JUNE – MORNING 9.30 – 12.00**

## **ECONOMICS – HIGHER 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. The fundamental economic problem is one of 'scarcity'. Explain this concept.

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**(16 marks)**

2. Define the 'Marginal Efficiency of Capital' (MEC). Outline **two** possible reasons for a fall in MEC.

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

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

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

**(16 marks)**

3. Read each statement below and indicate if the price elasticity of demand (PED) for the product is most likely to be elastic or inelastic. (Tick ✓ the correct box.)

STATEMENT	ELASTIC	INELASTIC
Consumers are strongly attached and loyal to the product.		
Many close substitutes are available for the product.		
The product is a luxury product.		
The product accounts for only a small fraction of a consumer's weekly expenditure.		

**(16 marks)**

4. (a) Collusion may be a feature of an oligopolistic market. Explain what is meant by 'collusion'.

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- (b) Collusive practices may be undermined by price wars. Outline **two** benefits of price wars for the consumer.

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

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

**(16 marks)**

5. Outline **three** mechanisms for restricting free trade.

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

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

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

**(16 marks)**

6. Explain what is meant by the economic term 'Paradox of Thrift'.

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(17 marks)

7. Outline **four** contributions of Adam Smith to economic thought.

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

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

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

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

(17 marks)

8. Define the term 'Average Propensity to Consume' (APC) **and** calculate the APC for 2012 from the information below. (Show your workings.)

WORKINGS
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Year	Disposable Income	Savings
2012	€34,000	€5,200

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

\_\_\_\_\_

Answer: \_\_\_\_\_

(17 marks)

9. A recent report to the Irish government highlighted the growing issue of alcohol abuse in Ireland.

(a) Outline **one** private cost and **one** social cost related to excessive alcohol consumption.

(b) Describe **one** advantage and **one** disadvantage of the government imposing a minimum price on alcohol products.

(a) **Private Cost:** \_\_\_\_\_

**Social Cost:** \_\_\_\_\_

(b) **Advantage:** \_\_\_\_\_

\_\_\_\_\_

**Disadvantage:** \_\_\_\_\_

\_\_\_\_\_

(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. (a) (i) Distinguish between the terms ‘effective demand’ and ‘derived demand’.  
(ii) Outline **two** possible exceptions to the Law of Demand. (25)
- (b) The market for a brand of **blue jeans** is in equilibrium. Explain, with the aid of a separate diagram in each case, the effects which **each** of the following is most likely to have on the equilibrium position:  
(i) Due to the economic downturn there is a reduction in the real income of consumers.  
(ii) A fall in the price of cotton, a key input in the production of the blue jeans.  
(iii) The blue jeans have recently been endorsed by a popular sports star. (30)
- (c) A fall in the price of a consumer product has both a substitution effect and an income effect.  
(i) Explain the underlined terms.  
(ii) If the price of an **inferior** product falls (all other things being equal) will more or less of the product be purchased? Explain your answer with reference to the substitution effect and the income effect. (20)
- [75 marks]**

2. (a) Technology companies such as Apple and Samsung are currently involved in legal disputes regarding patents on various aspects of their smartphones. When a company wins a patent dispute it may become the sole producer using the patented technology.  
(i) Explain **three** barriers to entry, other than patents, that can exist in business.  
(ii) Outline **two** reasons why monopolies may not be in the public interest. (25)
- (b) Explain, with the aid of a diagram, the long run equilibrium position of a monopoly firm. (25)
- (c) The global market for toothpaste products can be described as an imperfectly competitive market, where firms engage in competitive advertising and branding.  
(i) Explain the term ‘competitive advertising’.  
(ii) Outline, using an example, how advertising can be used to prevent small firms entering an industry.  
(iii) State and explain **two** possible disadvantages of advertising for the consumer. (25)
- [75 marks]**

3. (a) State and explain **four** economic influences on an individual firm's demand for labour. (25)
- (b) Explain, with the aid of a labour market diagram in each case, how equilibrium wage rates are determined in:
- A free labour market;
  - A labour market where a trade union has negotiated a minimum wage. (25)
- (c) Women in Ireland earn on average 17.1% less per hour than men, according to a study by the European Commission (*Tackling the gender pay gap in the European Union*, 2011).
- (i) Outline **two** possible reasons for the lower wage rates earned by women in the Irish economy.
- (ii) Outline **one** measure that could be taken to close the gender pay gap. (15)
- (d) Explain briefly Karl Marx's economic theory about the exploitation of labour in a capitalist system. (10)

[75 marks]

4. (a) 'The Exchequer deficit in December 2012 was €14.89bn'.  
(Department of Finance, January 2013)
- (i) Discuss **four** possible economic consequences of the Government Current Budget Deficit for the Irish economy.
- (ii) Explain how a government budget could be used to reduce income inequalities in an economy. (30)
- (b) (i) State and explain **two** reasons why the government increased taxes on cigarettes and alcohol in its most recent budget.
- (ii) Outline **three** economic impacts for the Irish economy of an increase in Motor Tax. (30)
- (c) 'The Public Capital Programme must make a further contribution to budgetary consolidation'.  
(Infrastructure and Capital Investment, 2012 – 2016)

As an Advisor to the Minister for Public Expenditure and Reform, discuss **two** economic arguments in favour of a reduction in capital expenditure in the Budget.

(15)

[75 marks]

5. (a) Explain the following terms which are commonly used in estimating the National Income statistics of a country:
- Subsidies;
  - Incomes-in-kind;
  - Net Factor Income from the Rest of the World. (15)
- (b) (i) Illustrate by means of a diagram the **Circular Flow of Income** for an open economy.  
(ii) Are transfer payments an injection into, or a leakage from the Circular Flow of Income? Explain your answer.  
(iii) Outline **three** current determinants of the level of consumption in the Irish economy. (35)
- (c) (i) Using the Keynesian multiplier process outline how a fiscal stimulus ( i.e. a government injection) would affect an economy's Aggregate Demand.  
(ii) Explain why the Irish government might find it difficult to implement such a **Keynesian stimulus plan** at the current time. (25)

[75 marks]

6. (a) (i) Explain, using a numerical example, how banks create credit in an economy.  
(ii) Outline **two** factors which limit the ability of banks to create credit during recessionary times. (30)
- (b) Some central banks have responded to the global financial crisis by introducing the monetary policy measure of 'Quantitative Easing' (i.e. buying financial assets from financial institutions using new money it has created).
- (i) Outline **two** possible economic effects of this measure for an economy.  
The European Central Bank (ECB) reduced interest rates in 2012.
- (ii) Discuss **two** possible economic benefits of falling interest rates for the Irish economy. (20)
- (c) The monetary policy of the ECB aims to maintain the annual euro area inflation rate at a very low level.
- (i) State the rate of inflation in Ireland during 2013, as measured by the Consumer Price Index (CPI).  
(ii) Outline **two** uses of the CPI, other than as a measure of the rate of inflation.  
(iii) Discuss the possible limitations of the CPI as an accurate measure of changes in the cost of living in Ireland. (25)

[75 marks]

7. (a) 'The Balance of Payments figures give the most detailed information on Ireland's large and rapidly growing internationally traded services sector' (*The Irish Times*, September 2012).
- (i) Explain the term Balance of Payments Current Account.
  - (ii) Explain **two** economic consequences of a surplus on the Balance of Payments Current Account.
  - (iii) Describe how foreign firms operating in Ireland may affect Ireland's Balance of Payments Current Account. (30)
- (b) Discuss the possible economic effects for the Irish economy of the euro rising in value relative to many other international currencies. (25)
- (c) 'Exporting businesses need to become the engine of economic growth.'  
(Statement of Strategy 2011-2014, Department of Jobs, Enterprise and Innovation)
- Discuss the key challenges for Irish businesses on international markets. (20)
- [75 marks]**

8. (a) 'The rate of unemployment among 15-24 year olds in Ireland has increased by 74% between 2006 and 2011' (*Profile 3 At Work*, Central Statistics Office, July 2012).
- (i) Explain **three** economic consequences of a high rate of youth unemployment on the Irish economy.
  - (ii) Discuss **three** measures which the Irish government may introduce to reduce the problem of youth unemployment. (30)
- (b) 'Ireland's National Debt was €137.6bn at the end of December 2012'.  
(National Treasury Management Agency)
- (i) Discuss the disadvantages for Ireland of having a high National Debt.
  - (ii) Outline **two** means by which Ireland's National Debt may be made more sustainable. (30)
- (c) Ireland, in common with many developed countries, is facing the challenges of an ageing population.
- Discuss the possible economic consequences of an ageing population for the Irish economy. (15)
- [75 marks]**

**Remember to return this question paper with the answer book(s) used to answer the questions in Section B.**

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