

WARNING

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

M.59A

An Roinn Oideachais agus Eolaíochta

Leaving Certificate Examination, 2000

WEDNESDAY 21 JUNE 9.30 – 12.00

ECONOMICS - HIGHER LEVEL

SECTION A (100 marks)

Examination Number

Answer any **six** of the following:-

1. State **THREE** examples of barriers preventing free entry into an industry.

- (i)
- (ii)
- (iii) (16 marks)

2. (a) A consumer buys 100 units of a product when the price is £ 1.
When the price is increased to £ 1.25 the consumer buys 80 units.
Calculate the Price Elasticity of demand for this consumer.
(Show all your workings)

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

(b) Is the demand for this good elastic, inelastic or unitary elastic?

..... (16 marks)

3. The **'black economy'** is defined as

.....
.....
..... (16 marks)

4. Define what is meant by the **Broad Money Supply (M3)**.

.....
.....
..... (16 marks)

5. **Balance of Autonomous Transactions** in the Balance of Payments refers to:

.....

.....

.....

(16 marks)

6. **The supply price of a factor of production** is:

.....

.....

.....

(17 marks)

7. Students' fees at most third level colleges in Ireland are now paid for by the Irish government. Outline **TWO** economic advantages **and** **TWO** economic disadvantages of this policy for the Irish economy.

Advantages:

(i)

(ii)

Disadvantages:

(i)

(ii)

(17 marks)

8. (a) Complete the following table:

| | | | | | |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Number of persons employed | 1 | 2 | 3 | 4 | 5 |
| Total Output, in units | 10 | 25 | 42 | 58 | 62 |
| Marginal Output, in units | | | | | |

(b) State at what point **Diminishing Marginal Returns** set in.

(c) Explain why Diminishing Marginal Returns occurs.

.....

.....

(17 marks)

9. State **THREE** contributions made to economic thought by Adam Smith.

(i)

(ii)

(iii)

(17 marks)

**An Roinn Oideachais agus Eolaíochta
Leaving Certificate Examination, 2000**

**ECONOMICS – HIGHER LEVEL
(400 MARKS)**

WEDNESDAY, 21 JUNE 2000 – MORNING, 9.30 - 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) Explain, with the aid of an example, the **Principle or Law of Equi-Marginal Returns of Consumer Behaviour**. (20 marks)
- (b) A consumer spends all income on two goods, Good X and Good Y. Both goods are normal goods but they are not complementary goods. The price of good X is reduced and the price of good Y remains unchanged. The consumer continues to spend all income on the two goods.
Explain, using the **Substitution effect** and **Income effect** how this price reduction affects the demand for both goods. (30 marks)
- (c) (i) Explain briefly, what is meant by the **Law of Demand**.
(ii) There are exceptions to the Law of Demand.
Explain clearly **THREE** of these exceptions. (25 marks)
[75 marks]
2. (a) Define '**price discrimination**' and give **ONE** example. (10 marks)
- (b) State and explain **THREE** conditions which must exist to enable a firm to practise price discrimination. (20 marks)
- (c) A firm is a monopolist in the home market and exports to perfectly competitive markets abroad. It seeks to maximise profits. Explain, with the aid of a clearly labelled diagram, the long run equilibrium of this price discriminating monopolist. (30 marks)
- (d) The above firm may benefit from certain internal economies of scale.
(i) Define what is meant by **internal economies of scale**.
(ii) State **TWO** examples of possible internal economies of scale. (15 marks)
[75 marks]
3. (a) (i) Draw a short-run average cost curve and a long-run average cost curve.
(ii) Explain the reasons for the shape of each curve. (25 marks)
- (b) With the aid of **TWO** clearly labelled diagrams, explain the relationship between:
(i) the short run and long run average cost curves.
(ii) the short run average and marginal cost curves. (30 marks)
- (c) A firm wishes to increase its labour force from 5 to 6 employees.
In order to do this the firm must raise the weekly wage rate from £200 to £230 per worker
(i) Explain what is meant by the term **marginal cost of labour**.
(ii) Calculate, using the information above, this firm's marginal cost of labour. (20 marks)
[75 marks]

4. (a) The marginal efficiency of capital is the additional profit earned by an entrepreneur from employing an additional unit of capital.
State and explain why the marginal efficiency of capital may fall. (20 marks)
- (b) Explain Keynes's **THREE** reasons for holding money. Outline **TWO** main influences on each of these reasons. (30 marks)
- (c) Discuss the effects which a rise in interest rates may have on the Irish economy. (25 marks)
[75 marks]

5. The table below illustrates the Law of Comparative Advantage.

| <u>COUNTRY</u> | <u>COMMODITY</u> (<i>PRODUCTION PER HOUR PER PERSON</i>) | |
|---------------------|---------------------------------------------------------------|------------------|
| | FOOD | MACHINERY |
| Country A | 8 tonnes | 2 units |
| Country B | 16 tonnes | 8 units |
| Total Output | 24 tonnes | 10 units |

- (a) (i) State the Law of Comparative Advantage.
(ii) Using the above example, explain why international trade should take place between the above countries.
(iii) Calculate the limits within which the **terms of trade** would lie for **both** food and machinery. (25 marks)
- (b) (i) Define the following terms:
Terms of Trade **and** Balance of Trade.
(ii) Discuss the effects which an improvement in a country's Terms of Trade would have on a country's Balance of Trade. (25 marks)
- (c) State and explain **FIVE** possible advantages to the Irish economy of Ireland's agreement to introduce the EURO. (25 marks)
[75 marks]
6. (a) Commercial banks have the ability to create credit.
(i) Explain how the commercial banks can create credit.
(ii) State and explain **THREE** limitations on banks' power to create credit. (35 marks)
- (b) A bank wishes to be as profitable as possible, yet it must retain sufficient funds to meet its customers' demands for cash.
How does it attempt to reconcile these conflicting objectives? (20 marks)
- (c) Trace the likely economic effects if:-
(i) the supply of money grows at a **faster** rate than a country's production of goods and services;
(ii) the supply of money grows at a **slower** rate than a country's production of goods and services. (20 marks)
[75 marks]

7. (a) Explain clearly what is meant by the term ‘**National Income**’. (10 marks)
- (b) In Ireland, at present, would you expect GNP to be greater than, equal to, or less than GDP? Explain your answer. (15 marks)
- (c) (i) Explain what is meant by the term ‘**the multiplier**’ and write the formula for calculating it in an open economy.
(ii) It has been estimated that in the Irish economy:
 $MPM = 0.4$, $MPT = 0.24$ and $MPS = 0.26$.
Calculate, using the appropriate formula, the value of the multiplier.
(Show clearly all your workings).
(iii) If there was an increase of £10m in exports, by how much would national income increase?
(Show clearly all your workings). (35 marks)

- (d) You are given the following information relating to a country:

| | 1990 | 1998 |
|-----------------------------------------|---------|---------|
| Gross National Product at Market Prices | £2,000m | £2,400m |

- (i) If the level of prices rose by 10% between 1990 and 1998, while population remained unchanged, has the average standard of living improved or disimproved? Explain your answer.
(ii) If the level of prices remained unchanged but the population increased by 25%, has the average standard of living improved or disimproved? Explain your answer. (15 marks)
[75 marks]

8. (a) How has the Irish Economy performed in the past year in the following areas:

- (i) employment / unemployment;
(ii) inflation;
(iii) interest rates;
(iv) economic growth;
(v) income tax.

Use examples, where appropriate, to illustrate your answers.

(25 marks)

- (b) In recent years the Irish government has pursued a policy of privatising some Irish Semi-State bodies.

- (i) Outline **THREE** possible uses by government of the revenue received from privatisations.
(ii) Discuss the economic reasons **for or against** privatisation.

(25 marks)

- (c) At the end of 1999, the balance outstanding on the National Debt was approximately £31 billion.

Outline both positive and negative economic consequences of incurring the National Debt.

(25 marks)

[75 marks]