

4.4 Price Levels - Long Questions

2000 Q6

- (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]

2001 Q6

- (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]

2003 Q5

- (b) Explain 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)
- (c) (i) Explain what is meant by the term **price inflation**.
- (ii) Name the main index used to measure price inflation in the Irish economy.
- (iii) Outline the economic consequences of a rise in the rate of price inflation in Ireland.
- (35 marks)

2006 Q7

- (a) (i) What economic uses are made of a **Consumer Price Index**?
(ii) Explain how a Consumer Price Index is constructed.

(25 marks)

- (b) Explain the likely economic effects on the Irish economy of a significant increase in the annual rate of price inflation.

(25 marks)

2008 Q8

- (b) Irish citizens experienced an increase in the rate of price inflation during 2007.

- (i) Explain the underlined term.
(ii) Discuss the economic effects of this development on the Irish economy.

(20 marks)

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

Category	% of Income spent on item(s)	Price of Item(s) in base year	Price of Item(s) in current year
		€	€
Food	40%	20.00	24.50
Clothing & Footwear	25%	42.00	40.00
Other Items	35%	30.00	36.00
	100%		

(25 marks)

[75 marks]

2011 Q6

- (a) Money is usually defined by reference to the functions it performs.
- (ii) Explain the term 'Monetary Policy'.
 - (iii) Explain a central bank's function as 'lender of last resort'.
- (35)
- (c) It is being suggested that the ECB will increase interest rates in the 2011/2012 period. Explain the economic effects of rising interest rates on the Irish economy.
- (20)

2010 EC Q7

(a) The Irish economy has recently experienced a period of **deflation**.

- (i) Define **deflation**.
- (ii) Outline the economic effects of deflation.

(30 marks)

2013 Q6

- (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)

2015 Q6

- (a) *“Prices on average as measured by the Consumer Price Index (CPI) were 0.1% higher in November 2014 compared with November 2013.”*
(CSO statistics)
- (i) Do you consider the CPI an accurate measure of changes in the cost of living? Explain your answer.
 - (ii) Discuss **two** possible economic effects of price **deflation** on the Irish economy.

(25)

2017 Q6

- (a)
- (i) Explain briefly how the Consumer Price Index (CPI) is calculated.
 - (ii) Discuss **three** possible limitations of the CPI as an accurate measure of changes in the cost of living in Ireland. [20]
- (b)
- (i) Define the terms **demand-pull inflation** and **cost-push inflation**.
 - (ii) *The Irish inflation rate was at, or close to, 0% between 2013 and 2016.*
Is such a low rate of inflation good or bad for (a) households and (b) firms?
Explain your answer in **each** case.
 - (iii) Outline how the European Central Bank’s (ECB) monetary policy changes might affect the rate of inflation. [30]

2018 Q5

- (a)
- (i) Explain the terms **fiscal policy** and **monetary policy**.
 - (ii) Outline how Ireland’s membership of the Eurozone affects the operation of the Government’s monetary policy **or** fiscal policy in Ireland. [20]

2019 Q5

- (b) *The President of the European Central Bank, Mario Draghi, has outlined his intentions to increase the ECB’s base interest rate from its historic low of 0%.*
(Source: www.ft.com, June 2018)

Given the current state of the Irish economy, outline the possible arguments **against** an increase in the interest rate. [20]

2019 Q6

- (a) *The CPI is an example of a composite price index.*
- (i) Explain the steps involved in constructing a composite price index.
 - (ii) Distinguish between the terms **nominal wage** and **real wage**.
 - (iii) With reference to the table below, calculate the percentage change in real wages in each of the years 2014 – 2016. **Show your workings.**

Consumer Price Index (CPI) and Wage Inflation in Ireland

Year	CPI Annual % Change	Nominal Wage Rate Annual % Change	Real Wage Rate Annual % Change.
2014	0.3	-0.2	?
2015	-0.3	1.2	?
2016	0.0	1.1	?

(Source: CSO) [25]

- (b) (i) State and explain **two** causes of inflation.
- (ii) Outline **three** possible economic effects of high inflation in an economy.
- (iii) Explain how deflation might, in the short run, lead to lower economic growth.
- [30]