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)

Four questions to be answered in your answer book(s).
All questions carry equal marks (75 marks).
Note the sub-divisions in the questions.
SECTION A (100 Marks)

Answer six of the nine short response type questions in the spaces provided.

1. Define economic development. State TWO policies by which governments in less developed countries (LDCs) might promote economic development.

   Definition: _______________________________________________________________________
   ___________________________________________________________________________________
   _____________________________________________________________________________

   Policy 1: _______________________________________________________________________
   Policy 2: _______________________________________________________________________

   (16 marks)

2. Outline FOUR steps involved in calculating a Composite Price Index.

   Step 1: _______________________________________________________________________
   Step 2: _______________________________________________________________________
   Step 3: _______________________________________________________________________
   Step 4: _______________________________________________________________________

   (16 marks)

3. Define occupational mobility of labour. Outline TWO factors which influence it.

   Definition: _______________________________________________________________________
   ___________________________________________________________________________________

   Factor 1: _______________________________________________________________________
   Factor 2: _______________________________________________________________________

   (16 marks)

4. Outline THREE key ideas which John Maynard Keynes contributed to economic thought.

   (i) _____________________________________________________________________________
   (ii) _____________________________________________________________________________
   (iii) _____________________________________________________________________________

   (16 marks)

5. Outline TWO benefits to consumers of non-price competition.

   (i) _____________________________________________________________________________
   (ii) _____________________________________________________________________________

   (16 marks)
6. Distinguish between tax avoidance and tax evasion.

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

(17 marks)

7. (a) State the Law of Diminishing Marginal Returns.

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

The table below illustrates the Law of Diminishing Marginal Returns.

<table>
<thead>
<tr>
<th>Number of persons employed</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total output (in units)</td>
<td>12</td>
<td>27</td>
<td>47</td>
<td>63</td>
<td>73</td>
</tr>
<tr>
<td>Marginal Output (in units)</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) Complete the table above and state the point after which diminishing returns set in.

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

(17 marks)

8. From the table below, calculate (i) and (ii), showing all your workings.

<table>
<thead>
<tr>
<th>Period</th>
<th>National Income</th>
<th>Consumption</th>
<th>Investment</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>€4,200</td>
<td>€3,750</td>
<td>€400</td>
<td>€600</td>
<td>€550</td>
</tr>
<tr>
<td>2</td>
<td>€4,600</td>
<td>€4,050</td>
<td>€500</td>
<td>€700</td>
<td>€650</td>
</tr>
</tbody>
</table>

(i) The Marginal Propensity to Consume.

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

(ii) The size of the Multiplier.

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

(17 marks)

9. Explain why GNP rather than GDP (both at Market Prices) is generally regarded as a better measure of average standard of living in Ireland.

___________________________________________________________________________________
___________________________________________________________________________________
___________________________________________________________________________________

(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)

Four questions to be answered in your answer book(s).
All questions carry equal marks (75 marks).
Note the sub-divisions in the questions.

1. (a) Outline the assumptions underlying the theory of Perfect Competition. (20 marks)

(b) (i) Explain, with the aid of a labelled diagram, how a firm in Perfect Competition achieves equilibrium in the short run.

(ii) Derive and explain the short run supply curve of this firm. (20 marks)

(c) Discuss, with the aid of labelled diagrams, the impact which the entry of new firms would have on the short run equilibrium of existing firms, in perfectly competitive markets, earning supernormal profits. (20 marks)

(d) Firms in Perfect Competition tend not to engage in advertising. State and explain TWO reasons why. (15 marks)

2. (a) (i) Draw a short-run average cost curve and a short-run marginal cost curve.

(ii) Explain the relationships between the shapes of these curves. (20 marks)

(b) It is generally agreed that the long-run average cost curve initially slopes downward due to economies of scale and then slopes upward due to diseconomies of scale. These economies and diseconomies can be both internal and external.

(i) Define the underlined terms. (30 marks)

(ii) Distinguish between internal and external economies of scale, giving TWO examples in each case and explaining how each arises. (30 marks)

(c) Discuss the possible social costs and social benefits of the new roads being constructed throughout Ireland. (25 marks)
3. (a) Define (i) Income Elasticity of Demand. (ii) Cross Elasticity of Demand. (15 marks)

(b) (i) “Income elasticity of demand is usually positive but sometimes negative”. Explain, giving examples, the meaning of this statement.

(ii) A consumer spends 40% of income on a certain good. After the consumer’s income doubles (everything else remaining unchanged), only 30% of income is spent on the good. State whether this good is a normal or inferior good and explain your answer. (20 marks)

(c) Which of the figures stated below is likely to represent:

(i) Income elasticity of demand for potatoes;
(ii) Income elasticity of demand for designer clothes;
(iii) Price elasticity of demand for airline seats.

-2.8, -0.1, +2.5

Explain each of your choices. (30 marks)

(d) Income elasticity of demand for a good is +1.8 and sales in Year 1 are 20,000 units. If consumers’ incomes are expected to rise by 5% in Year 2, calculate the expected level of sales. Show your workings. (10 marks)

[75 marks]

4. (a) Define: (i) Capital (ii) Marginal Efficiency of Capital. (iii) Investment (20 marks)

(b) (i) State and explain TWO reasons why investment is considered to be important for the Irish economy.

(ii) State and explain FOUR factors that influence the level of investment in the Irish economy at present. (30 marks)

(c) J. M. Keynes identified three reasons (motives) for holding money.

Explain the THREE reasons and outline ONE main influence on each reason. (25 marks)

[75 marks]
5. (a) (i) Explain how it is possible for banks to create credit.

(ii) State and explain THREE limitations on the amount of credit which banks can create.

(b) Explain how an increase in the use of ‘plastic money’ (credit cards, etc.) by customers affects the ability of banks to create credit.

(c) The main objective of the European Central Bank’s monetary policy is to control inflation.

(i) Explain the underlined terms.

(ii) The ECB reduced interest rates in 2001. Discuss the effects of this reduction in interest rates on the Irish economy.

6. (a) (i) State the Law of Comparative Advantage.

(ii) State and explain the assumptions underlying this law.

(b) The table below illustrates the Law of Comparative Advantage.

<table>
<thead>
<tr>
<th>Country</th>
<th>Commodity</th>
<th>(Hourly Production per Person)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Food</td>
<td>Machinery</td>
</tr>
<tr>
<td>Country X</td>
<td>5 tonnes</td>
<td>10 units</td>
</tr>
<tr>
<td>Country Y</td>
<td>20 tonnes</td>
<td>30 units</td>
</tr>
<tr>
<td>Total Output</td>
<td>25 tonnes</td>
<td>40 units</td>
</tr>
</tbody>
</table>

(i) Use the above example to show how both countries could benefit from international trade.

(ii) Calculate the terms of trade for both commodities.

(c) Ireland, as a small open economy, relies on international trade. Discuss the factors which affect the competitiveness of Irish-based firms in international trade.
7. (a) Outline, using appropriate figures, how the Irish economy performed in the past twelve months in each of the following areas:

(i) price inflation  
(ii) the national debt  
(iii) economic growth  
(iv) employment.

(20 marks)

(b) Outline the positive and negative economic consequences of a Current Budget Surplus.

(25 marks)

(c) (i) Outline, giving examples, TWO reasons why Irish semi-state companies are facing increasing competition.

(ii) Discuss ONE advantage and ONE disadvantage of this development for:

- Consumers  
- Employees of semi-state firms

(30 marks)

[75 marks]

8. (a) (i) Name the TWO main sources from which the figures relating to unemployment in the Irish economy are taken.

(ii) State, with reasons, which of these gives the most accurate measurement of Irish unemployment.

(20 marks)

(b) (i) Define full employment.

(ii) Outline the major economic consequences of very high employment in the Irish economy.

(30 marks)

(c) In 2001 the Irish economy began to experience a downturn in the level of economic activity. Discuss the reasons for this development in the Irish economy.

(25 marks)

[75 marks]

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