



**Economics
Leaving Certificate
Higher Level**

**Past Exam Questions
Marking Scheme on
Production and Consumption**

Q8 Section A 2013

8. Define the term 'Average Propensity to Consume' (APC) and calculate the APC for 2012 from the information below. (Show your workings.) (17 marks)

WORKINGS

$$€34,000^* - €5,200^* = €28,800^*$$

$$\frac{€28,800}{€34,000} = 0.847 \text{ or } 84.7\%$$

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

Definition:

The proportion / fraction of total income which is spent on goods and services.

9 marks

Calculate APC:

8 marks

Each * item at 2 mark = 6 marks. 2 bolded figures at 1 mark each

Q1 Section B 2013

Q1 Demand / Substitution effect and Income effect.

- (a) (i) Distinguish between the terms 'effective demand' and 'derived demand'.
(ii) Outline two possible exceptions to the Law of Demand. (25)

- (i) Distinguish between the terms 'effective demand' and 'derived demand'.

Effective demand	Derived demand
Effective demand is demand supported by the necessary purchasing power.	Where a factor or production is demanded not for its own use but for its contribution to the production process.

1st correct response: 7 marks: (4 + 3)

2nd correct response: 4 marks: (2 + 2)

- (ii) Outline two possible exceptions to the Law of Demand.

1. Giffen Goods

- As the price falls, real incomes increase and consumers buy less of these goods and purchase more of better quality goods.
- As the price rises consumers have less income to spend on other types of goods so they tend to devote more of their income to these goods.

2. Status Symbols / Snob items / Ostentatious Goods / Goods of Conspicuous Consumption

- A rise in price makes these goods more exclusive, and therefore more attractive to those who have the incomes to purchase them.
- A fall in price may lead to a fall in quantity demanded as they may no longer appear as exclusive to the rich and are still outside the price range of the poor.

3. Goods the purchase of which is influenced by expectations as to future prices

/ Speculative goods

- If prospective consumers think that prices are likely to be even higher in the future, the current level of demand may not fall even if prices increase.
- If a person is considering buying a house the possibility that prices are likely to be even higher in the future will probably stimulate demand at current prices.

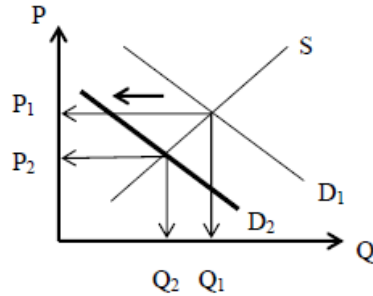
4. Goods of Addiction

- Consumers become so addicted to the drug that in order to get the same 'buzz' from consumption of the drug, demand for the commodity may increase, even when the price of the commodity increases.

2 at 7 marks (4+3) each

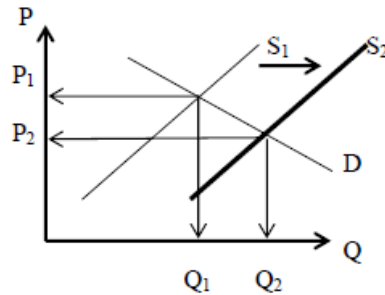
(b) The market for a brand of blue jeans is in equilibrium. Explain, with the aid of a separate diagram in each case, the effects which each of the following is most likely to have on the equilibrium position:

(i) Due to the economic downturn there is a reduction in the real income of consumers. (30)



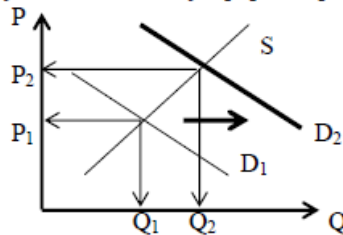
- Diagram: S/C; D₁; D₂; Lower P, Lower Q: all at 1 mark each = 5 marks
- D/C shifts to the left (D₂) shown on diagram at 1m
- Because consumer income has fallen / they can't afford the product at 2m
- New lower P₂ at 1m
- New lower Q₂ at 1m

(ii) A fall in the price of cotton, a key input in the production of the blue jeans.



- Diagram: D/C; S₁; S₂; Lower P, Larger Q: all at 1 mark each = 5 marks
- S/C shifts to the right (S₂) shown on diagram at 1m
- Because the costs of production have fallen at 2m
- New lower P₂ at 1m
- New higher Q₂ at 1m

(iii) The blue jeans have recently been endorsed by a popular sports star.



- Diagram: S/C; D₁; D₂; Higher P, Higher Q: all at 1 mark each = 5 marks
- D/C shifts to the right (D₂) shown on diagram at 1m
- Because consumers' taste / preference for these jeans has increased: at 2m
- New higher P₂ at 1m
- New higher Q₂ at 1m

- (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)

(i)

Substitution effect	Income effect
When the price of a good rises customers may shift to cheaper substitutes to maximise utility.	When the price of a good falls it means that the consumer's real income will rise.

2 explanations at 5 marks each

(ii)

Price of inferior product falls	Substitution effect	Income effect
Effect on demand	Demand will rise	Demand will fall
Explanation	The consumer is getting more marginal utility for this good now that it is cheaper.	Because the good is an inferior good, demand will fall as the consumer will buy less as income has increased.

2 explanations at 3 marks each

If positive substitution effect is greater than the negative income effect then demand for the product will increase.

or

If negative income effect is greater than positive substitution effect then demand for the product will decrease.

4 marks

Q3 Section B 2010

Question 3 Labour, Black Economy

- (a) With reference to the factor of production labour, explain the following terms:
Derived Demand / Marginal revenue Productivity / Wage Drift / Cyclical Unemployment. (20 marks)

Derived Demand

Where labour is demanded for its contribution to the production process.

MRP

The extra revenue earned when an additional unit of labour/ is employed.

Wage Drift

When wage levels rise above the negotiated levels.

Cyclical Unemployment

Unemployment that results from reduced demand for goods and services.
(Unemployment resulting from the economic recession / decline in trade cycles / reduced aggregate demand).

4 at 5 marks each.

- (b) (i) State and explain four factors which influence the efficiency of labour as a factor of production.
(ii) Outline one possible economic advantage and one possible economic disadvantage, to the Irish economy, of reducing the National Minimum Wage. (30 marks)

Education / Training / Qualifications: the better the quality of education / training / qualifications attained by the worker the more efficient / productive they may be.	Degree of specialisation: by concentrating on performing a single task workers become faster and more skillful and therefore are more efficient.
Innate / natural talent of the worker: some workers may possess innate / natural talents making them highly efficient.	Climatic conditions: if a place of work is too hot or too cold then this may affect the workers productivity.
Quality of the other factors: the better the quality of the other factors which the worker uses then the more efficient the worker.	Management expertise: good managers can get the best out of their workforce, leading to efficiencies, improved staff morale/staff motivation, leading to increased output.
Availability of other factors: efficiency may be improved if the worker has a greater quantity of other factors of production available for use.	Commitment of the worker: if workers are highly motivated and committed to work then they will operate more efficiently
Living conditions of the workforce: if workers are healthy, well nourished and have decent accommodation then they will work in a more efficient manner.	

4 points at 5 marks each. State: 2 marks. Explain: 3 marks.

- (ii) **One possible economic advantage and one possible economic disadvantage, to the Irish economy, of reducing the National Minimum Wage.**

Advantages	Disadvantages
<p>Lower labour costs Resulting in continued production and reduced risk of business closure.</p>	<p>Reduced standard of living Workers will now receive lower income and so their standard of living will fall</p>
<p>Lower selling prices With production costs falling this may lead to lower consumer prices and increased competition</p>	<p>Reduced aggregate demand /spending Lower incomes will reduce spending and so the demand for goods and services may fall resulting in unemployment/less VAT receipts.</p>
<p>Increased demand / protection of jobs The lower wage rate leading to lower prices may lead to increased demand and hence greater demand for workers. Indigenous jobs are protected e.g. jobs in the tourism sector.</p>	<p>Impact on general wage levels This reduction may indicate to employers that all wage levels should fall and this may result in a possible reduction in standard of living among the entire workforce.</p>
<p>Investment stimulus Reduced costs may lead to increased investment by entrepreneurs / increased foreign direct investment.</p>	<p>Workers on lower incomes suffer most If the reduction is confined to those on the minimum wage rate then the burden is not being shared equally within the workforce, which is not equitable.</p>
<p>Reduced risk of re-location Irish wage levels may fall more into line with other countries and this may result in less firms considering re-locating to countries outside Ireland.</p>	<p>Discourage employment The reduction may not encourage people to join the workforce/ it may lead to a greater participation in the black economy.</p>
<p>1 at 5 marks. State 2 marks. Explain: 3 marks</p>	<p>1 at 5 marks. State 2 marks. Explain: 3 marks</p>

- (c) (i) State and explain **three** economic effects of this activity in Ireland (black economy).
(ii) Outline **two** economic measures the Irish Government could take to discourage this activity. (25 marks)
- (i) State and explain **three** economic effects of this activity in Ireland (black economy).

Loss of tax revenue to the government.

Tax revenues essential to the provision of state services are lost to the exchequer. These could have been used by the government for varied uses.

Decline in legitimate business activity/ threat to jobs

Those businesses which are legitimate will suffer a decline in sales, leading to possible job losses and a decline in economic activity.

Increased government expenditure on enforcement.

To curb this activity the government may have to increase spending on enforcement which will lead to further pressure on the state's finances / necessity to raise taxes.

Pressure on government services / finances

With the loss of revenue to the state the government may have to cut spending, find additional sources of tax revenue and/or reduce the volume of services which it provides and /or increase borrowing.

Increase crime levels.

An increase in black economic activities results in increased crime and may instill fear in citizens and further reduce economic activities.

Standards of products/services

Because of lack of regulation products may be unsafe / harmful to consumers.

3 points at 5 marks each. State: 2 marks. Explain: 3 marks.

- (ii) Outline **two** economic measures the Irish Government could take to discourage this activity.

1. Reduce direct taxation rates.

By doing this the citizens may be more inclined to pay their full tax/ be tax compliant as there is less of their income being deducted in taxation.

2. Reduce indirect taxation.

By reducing rates of VAT and excise duties on goods and services prices should fall and this may encourage less activity in the black economy e.g. smuggling of cigarettes etc.

3. Better enforcement by revenue commissioners.

Continued enforcement by the revenue commissioners may deter people from engaging in the black economy. More deterrents / heavier fines / longer sentences by the courts may also help.

4. Educate the public about the importance of tax revenue to the state.

If the government were successful in educating the public about the important uses to which tax revenue is put and linked revenue with the provision of state services it may succeed in convincing citizens to avoid black economy activities.

5. Simplification of the tax system / close all tax loopholes.

A tax system which is easy to follow and understand may reduce tax evasion.

2 at 5 marks each. State: 2 marks. Explain: 3 marks.

Q1 Section A 2008

1. State **three** factors that determine the efficiency of labour:
 1. **Education:** the level / quality of education attained by the worker.
 2. **Training:** the quality / extent of training available to the worker which may improve the worker's skill.
 3. **Innate talent of the worker:** some workers may possess innate talents making them highly efficient.
 4. **Quality of the other factors:** if these are exceptional in quality then the worker's efficiency will be enhanced.
 5. **Quantity of other factors available:** efficiency will be improved if the worker has sufficient quantity of other FOPs available for use.
 6. **Living conditions of the workforce:** if workers are healthy, well nourished and have decent accommodation then they will work in a more efficient manner.
 7. **Degree of specialisation:** by concentrating on performing a single task workers become faster and more skilful and therefore are more efficient.
 8. **Climatic conditions:** if a place of work is too hot or too cold then this may affect the workers effort.
 9. **Management expertise:** good managers can get the best out of their workforce, leading to efficiencies, improved staff morale/staff motivation.
 10. **Commitment of the worker :** if workers are highly motivated and committed to work then they will operate more efficiently

16 marks graded.

Q3 Section A 2008

3. A firm manufacturing 100 school desks weekly has the following total costs of production: Labour €2,000 (hired weekly); Raw Materials: €3,500; Normal Profit €1,500; Rent €3,000. What is the minimum price per school desk this firm could charge in the **short run**?

Workings / Explanation	€
Labour	2,000
+ Raw Materials	3,500
Total Cost	5,500
Cost per unit	<u>5,500</u>
	100
Cost per unit	55
A firm must cover its variable costs in the short run.	

16 marks graded.

Q5 Section A 2006

5. Define **internal economies of scale**. State **TWO** examples.

These are forces within a firm which cause the average / unit costs of that firm to decline as the firm grows in size.

Examples

1. Increased use of specialised machinery/equipment resulting in lower unit costs.
2. Labour economies / specialisation of workers:
Dividing a job into distinct components may result in lower unit costs.
3. Construction economies: Larger plants cost less per cubic metre to construct than smaller ones.
4. Purchasing economies: Larger discounts are received from bulk purchasing.
5. Economies in distribution: Bulk deliveries result in a lower unit cost of transport.
6. Financial economies: Bigger firms may avail of more competitive rates of interest.
7. Managerial economies:
As a firm grows its management costs may not grow at the same rate as the firm grows.
8. Production Process economies:
A large firm may be able to run one process into the next without costly discontinuities.
9. Indivisibility problems reduced: Expansion may allow for continuous production.
10. Marketing economies: Firms may experience saving in the costs of advertising.
11. Reduction in Waste: Large firms, with more lines of production, may reduce waste costs / less wastage of materials.

16 marks graded.