Sample answers to Section A questions

1. State **three** factors that determine the efficiency of labour:

   (i) The quality of training and / or education received by labour and its ability to put this into practice.

   (ii) The amount and quality of capital available to labour. A person can dig out a much bigger area in a day using a JCB than using a shovel.

   (iii) Management expertise. Some managers can organise their workforce more efficiently than others resulting in a more productive labour force.

2. “It is estimated that the ‘**Black Economy**’ costs the Irish Economy over €1 billion per month.”
   *(Irish Small and Medium Enterprises (ISME), August 2007)*
   
   Explain the underlined term and state one method by which the government could discourage this activity.

   **Explanation:** The “Black Economy” is any unregistered economic activity that makes no contribution to the exchequer and whose output is not included in the national income statistics.

   **Method:** Increase penalties on those caught operating in the black economy and ensure greater co-operation and sharing of information among all the state agencies that are responsible for investigating the black economy.

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**?

   **Explain your answer. (Show all your workings).**

   **Workings:**
   
   Labour €2,000 + Raw Materials €3,500 = €5,500 divided by 100 = €55

   **Minimum Price:** €55

   **Explanation:** In the short run a firm has to cover only its variable costs, which in this case are labour and raw materials.
4. Define **economic development**. State **two** policies by which governments in less developed countries (LDCs) might promote economic development.

**Definition:** It is the process of increasing the average income per head of population while changing the structure of the economy.

**Policy 1:** Increase expenditure on education.

**Policy 2:** Encourage direct foreign investment in their economies.

5. Define a **Free Enterprise** economic system and state **one** economic advantage of this system.

**Definition:** This is a system where resources are owned by the private sector and the markets allocate resources through the price mechanism.

**Economic Advantage:** The competitive nature of free enterprise leads to the efficient use of the scarce resources.

6. China will host the Beijing Olympic Games in August 2008 and 7 million tickets are available for the event. On the diagram below draw the supply curve for tickets and explain the reason for its shape.

**Diagram:**

[Diagram showing a vertical line labeled S at 7 million tickets.]

**Explanation:** The supply of tickets is fixed at 7 million and will not change as the price changes.
7. ‘Ireland’s current account in the Balance of Payments is in deficit’. Explain the meaning of this statement and state two reasons why this situation exists.

**Explanation:** The current account in the Balance of Payments is composed of:
The Balance of Trade
+ or - the Balance of Invisible Trade
+ or - Net Factor Income from Abroad
+ or - Net current Transfers.
When these result in a negative number the current account is in deficit.

**Reasons:**
1. The value of total imports is greater than the value of total exports.
2. Profits earned in Ireland and transferred abroad by foreign-owned companies is greater than profits earned abroad and sent back to Ireland by Irish-owned companies based abroad.

8. The diagram below represents the long run equilibrium of a firm in imperfect competition, which seeks to maximise profits. Label the diagram and use it to describe the long run equilibrium position for a firm in Imperfect Competition.

**Description:**
1. The firm produces 100 units to earn maximum profit as here MR = MC.
2. The price received is €20 per unit.
3. The AC of producing each unit is also €20 and is not at its lowest point at this output.
4. The firm is earning normal profit as AC = AR.
9. Oil prices rose steadily during the last year. State two economic reasons for this development. State one social cost and one social benefit of the rising prices.

**Reasons:**
1. The world demand for oil increased at a greater rate than the supply of it.
2. Many speculators entered the market to buy up oil in the expectation of even further price increases.

**Social Costs:**
The inflationary effect has increased the cost of living for the general population.

**Social Benefit:**
The increase in the cost of oil makes people more environmentally conscious and forces them to seek alternative renewable sources of energy.