Leaving Certificate Economics Worksheet

Inflation, Prices & Monetary Policy

Name		**Date**	

Instructions:

- Answer all questions in **Section A** and **Section C**.
- In **Section B**, answer **3** questions.
- In **Section D**, answer **1** question.
- Show workings in calculations and use correct terms: **inflation/deflation, simple index, composite index, CPI, HICP, weights, demand-pull, cost-push, imported inflation, real interest rate, price stability, monetary policy, QE, open market operations, reserve requirements**.
- Diagrams must have axes and clear labels (AD/AS, price level, real output, shifts, outcomes).

Section A – Short questions

Answer briefly. (15 × 2 marks)

A1. Define **inflation**.

A2. Define **deflation**.

A3. State **one** reason why deflation may cause consumers to postpone spending.

A4. What is a **simple index**?

A5. State the formula for a simple index (base year = 100).

A6. Why do economists use a **composite price index** rather than a simple index for one good?

A7. What does the **CPI** measure?

A8. What are **weights** in CPI and where do they come from?

A9. Give **one** practical use of CPI for workers/trade unions.

A10. Give **one** limitation of CPI as a measure of the cost of living.

A11. Define **demand-pull inflation**.

A12. Define **cost-push inflation**.

A13. What is meant by **imported inflation**?

A14. What is **HICP** and what is it used for?

A15. Define **monetary policy**.

Section B – Calculations & interpretation (Answer 3 of 5)

Each question: 12 marks (Workings + final answer + brief interpretation where asked.)

B1. Simple index and inflation rate

The price of a coffee is:

Base year (Y1): €3.20 Year 2 (Y2): €3.68

(i) Calculate the **simple index** in Y2 (base year = 100).

(ii) Calculate the **percentage rise** in price from Y1 to Y2.

(iii) State, in one sentence, what your index number **means**.

B2. Composite price index (weights)

A simplified "basket" contains 4 items. Base year is Y1.

Item	Price Y1	Price Y2	Weight (%)	Note
Food basket	€2.00	€2.20	20	(compute index)
Transport pass	€60	€66	15	(compute index)
Rent	€900	€990	40	(compute index)
Streaming	€10	€9	5	(compute index)
Other goods	–	–	20	simple index given = 103

(i) Calculate the **simple index** for the first four items.

(ii) Calculate the **weighted index contribution** for each item and hence find the **composite index** for Y2.

(iii) Calculate the implied **inflation rate** from Y1 to Y2.

B3. Using CPI-type indices to measure price change

Base year (Dec Y1) = 100. Indices are recorded as follows:

	Jan Y2	Dec Y2
Bread index	100.0	119.7
Car index	100.3	100.7

Use the formula:

$$\left(\frac{\text{Latest index}}{\text{Earliest index}} \times 100\right) - 100$$

(i) Calculate the **% change** in the bread index from Jan to Dec.

(ii) Calculate the **% change** in the car index from Jan to Dec.

(iii) Explain why the CPI is not determined by one product like bread (refer to **weights** and the "average basket").

B4. Inflation and the real return on savings

A saver earns a **nominal interest rate** of 1% on their savings. Inflation for the year is 2.5%.

(i) Using the approximation **real** $\approx$ nominal $-$ inflation, calculate the **real return**.

(ii) A person saves €8,000. Calculate the **euro change in real value** over the year using your real return (show sign clearly).

(iii) Explain why inflation can **discourage saving**.

B5. Monetary policy: reserve requirements

A bank has customer deposits of €250 million. The reserve requirement is 2%.

(i) Calculate the **minimum reserves** the bank must hold.

(ii) If the reserve requirement rises to 3%, calculate the new minimum reserves and the **extra reserves** required.

(iii) Explain how a higher reserve requirement could reduce **credit creation** in the economy.

Section C – Data & visual interpretation

C1. CPI trend and identifying inflation/deflation

Stimulus: A simplified CPI index (base year = 100) for an economy:

Month	Jan	Feb	Mar	Apr	May	Jun
CPI index	100.0	100.8	101.6	101.0	100.4	100.9

C1.1 Calculate the **inflation rate** from Jan to Mar (use index numbers).

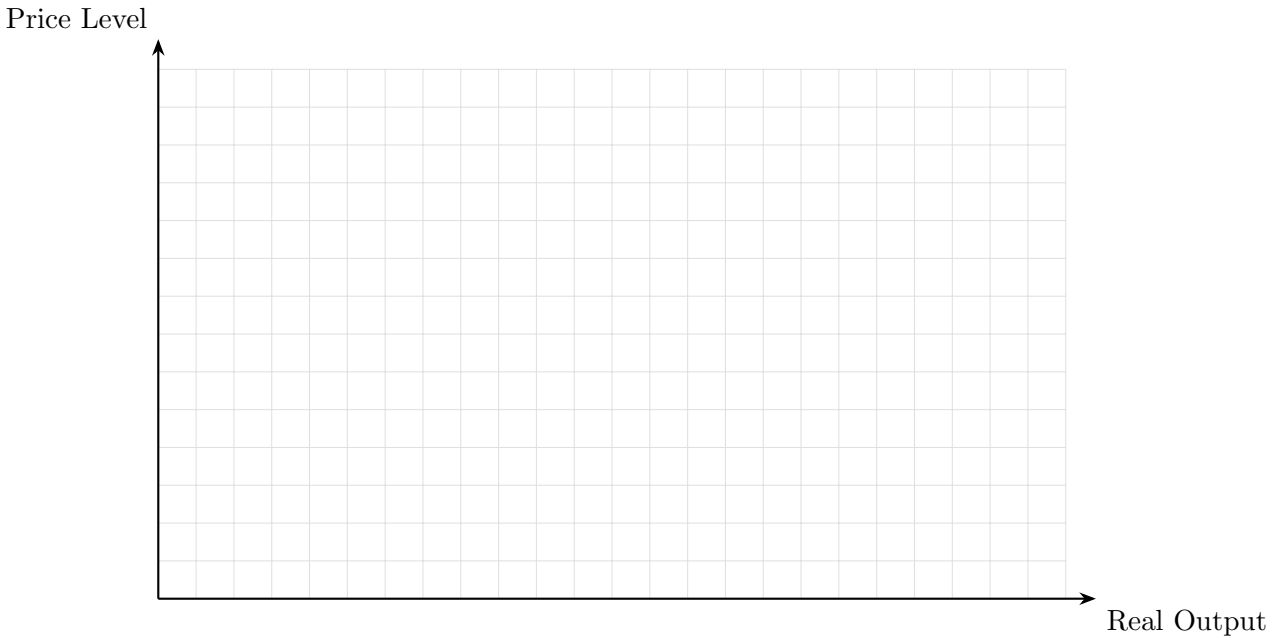
C1.2 Identify one period of **deflation** in the table and justify using the data.

C1.3 Explain how a short period of falling prices could reduce **aggregate demand**.

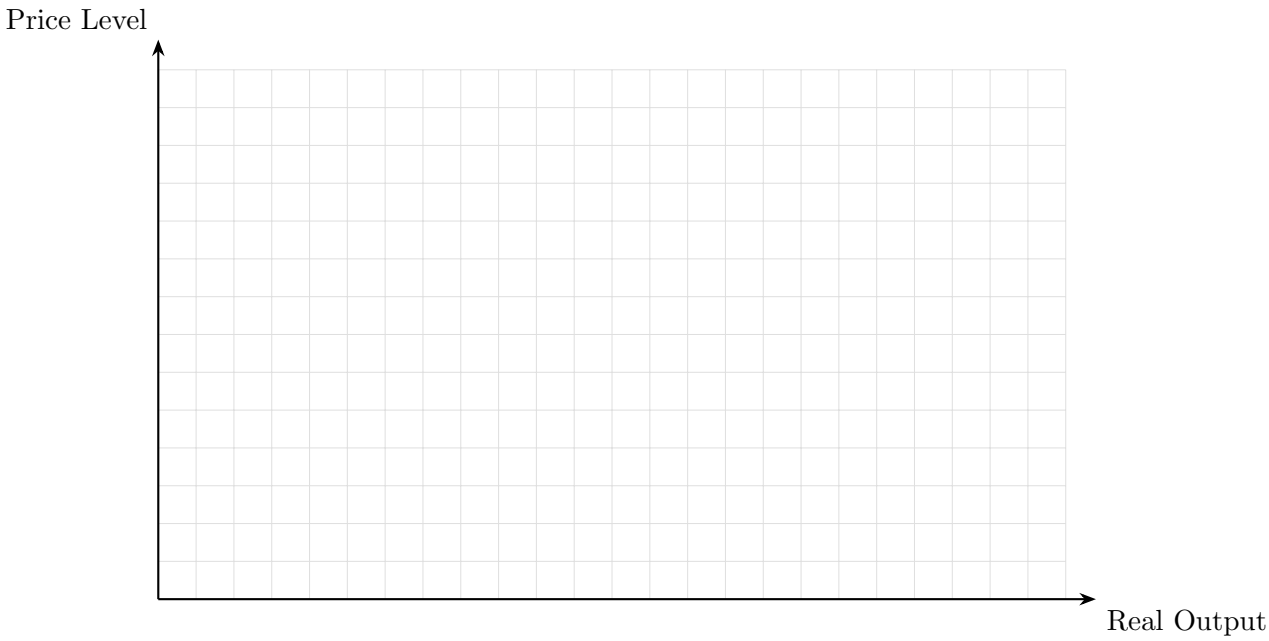
C2. Causes of inflation: demand-pull vs cost-push

Use AD/AS diagrams to show **how the general price level changes**.

C2.1 Demand-pull inflation: show AD rising above AS. Label the change in **price level** and **real output**.



C2.2 Cost-push inflation: show a rise in production costs shifting SRAS. Label the change in price level and real output.



C3. CPI vs HICP and the ECB's role

The notes distinguish between **CPI** (Ireland) and **HICP** (harmonised EU comparison) and explain that the ECB aims to maintain **price stability**.

C3.1 Complete the table with **two differences** between CPI and HICP.

Difference 1	
Difference 2	

C3.2 Explain **two** reasons why the ECB cares about **price stability**.

C3.3 Ireland is in a currency union. Explain **two** ways a **single ECB interest rate** can affect Ireland differently from another eurozone country.

Section D – Evaluation & discussion

HL style: definitions + developed arguments + real-world relevance + clear judgement.

D1. "Inflation is always harmful." Discuss.

In your answer:

- define inflation and distinguish it from deflation,
- explain **three impacts** of inflation (choose from consumers, firms, economy, trade competitiveness, saving/speculation),
- include **one possible advantage** of moderate inflation,
- finish with a clear judgement (when is inflation harmful vs acceptable?).

D2. Monetary policy and price stability in the eurozone

In your answer:

- explain what monetary policy is and why the ECB targets price stability,
- describe **three tools** the ECB can use (e.g. open market operations/QE, standing facilities, reserve requirements),
- explain **how ECB policy transmits** to Ireland (credit conditions, exchange rate/trade balance, confidence),
- finish with one drawback of a single monetary policy for Ireland.