ADVANCED SUBSIDIARY GCE

ECONOMICS

F582

The National and International Economy

Candidates answer on the question paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Wednesday 19 January 2011
Morning

Duration: 1 hour 30 minutes

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer **all** the questions.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- Your quality of written communication will be taken into account when marking your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

DC (SJF5674) 23808/3

Irish Republic – from miracle to nightmare?

Between 1990 and 2006 the Irish economy appeared to be transformed. The so-called Celtic Tiger became Europe's fastest growing economy, with an average annual growth rate of real Gross Domestic Product (GDP) of 7%, and experienced one of the most rapid falls in unemployment – from 17% to 4%. As a result, it went from having a GDP equivalent to 70% of the European Union (EU) average in 1990 to a GDP equivalent to 136% in 2006. So good was Ireland's macroeconomic performance in this period that The Economist magazine declared that the overall quality of life in the country was the highest in the world.

Initially Irish expansion was fuelled by higher exports and more foreign companies setting up in the country. Both these factors were promoted by the Irish government's investment in education and infrastructure. Low corporate taxes also proved attractive to a range of high-tech multinational companies. After 2002, the main driving force behind economic growth switched to a boom in house building and retail sales. Injections rose more rapidly than leakages which in turn increased the circular flow of income. So rapid was the growth in the Irish economy that some economists argued in favour of a cut in government spending to reduce demand-pull inflation.

By 2007, with its real GDP at £180 billion the Irish economic miracle, however, started to falter. Economic growth slowed and unemployment started to rise. A year later Ireland became the first country in the euro area (those EU members which have adopted the euro) to go into recession. Economists were forecasting that real GDP would fall by 8% in 2009 and by an even higher percentage in 2010. Some multinational companies including Dell, the world's second largest personal computer maker, pulled out of the country. Ireland also experienced a property slump and a rise in household debt as a percentage of GDP from 60% to almost 200%, one of the highest figures in the world. In addition, unemployment rose faster and the government's budget position (tax revenue minus government expenditure) moved into deficit (see Fig. 1). This deficit was the highest in the EU in percentage terms.

Fig. 1 The Irish unemployment rate and budget balance 2004–2009

Year	Unemployment rate (%)	Budget balance as % of GDP
2004	4.0	1.0
2005	4.0	1.8
2006	4.0	2.4
2007	4.5	0.0
2008	5.0	–4.0
2009*	10.0	–12.0

*estimate

The Irish government reacted to the rising budget deficit by cutting public spending and raising income tax. It was also hoping that a depreciation in the euro, Ireland's currency, would improve its trade in goods balance, despite a rise in the tariffs imposed by some foreign governments on some of Ireland's exports. Exports play a key role in Ireland's macroeconomic performance as the country sells a high proportion of its output to other countries. Indeed, in 2007 Ireland exported four-fifths of what it produced.

Answer **all** questions.

1 **(a)** Define the term 'unemployment rate'.

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.... [3]

(b) Identify **two** economic costs of unemployment.

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2 Analyse how **two** of the policies pursued by the Irish government between 1990 and 2006 may have promoted economic growth.

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3 **(a)** What is meant by the circular flow of income?

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(b) State the **three** injections into the circular flow of income.

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4 **(a)** Describe what happened to output in Ireland in 2007.

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(b) State and explain **three** likely reasons why consumer expenditure may have fallen in Ireland in 2009.

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5 Comment on whether the relationship between unemployment and the budget balance shown in Fig. 1 is the one economists would expect.

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6 **(a)** Describe how tariffs imposed by foreign governments may make it difficult for a country to sell its exports.

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(b) Using information in the case study, calculate the value of Ireland's exports in 2007.

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(c) Comment on whether a depreciation in its exchange rate is likely to improve a country's trade in goods balance.

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7* Discuss the effectiveness of reducing government spending in order to lower demand-pull inflation. **[18]**

[18]

Additional answer space

If you use these lined pages you **must** write the question number next to your answer.

PLEASE DO NOT WRITE ON THIS PAGE