



AN ROINN | DEPARTMENT OF  
OIDEACHAIS | EDUCATION  
AGUS EOLAÍOCHTA | AND SCIENCE

*Scéimeanna Marcála*

*Scrúduithe Ardteistiméireachta, 2001*

*Eacnamaíocht*

*Gnáthleibhéal*

*Marking Scheme*

*Leaving Certificate Examination, 2001*

*Economics*

*Ordinary Level*

Leaving Certificate Examinations 2001

## **Ordinary Level Economics**

**MARKING SCHEME**

**and**

**NOTES**

For use with marking scheme

There is no suggestion that the enclosed notes are exhaustive or definitively complete.

Further points presented by candidates will be marked and rewarded on their merits.

In questions requiring explanations, varied gradations of marks are applied depending on the quality of answer.

**SECTION A (100 marks)**

1. The four E.U. member states that are in the process of introducing the Euro.

SPAIN                      GERMANY                      PORTUGAL                      ITALY

(4x4marks)

Total:16marks

2. Explain what is meant by the terms Balance of Trade.

This is the difference between	4m
visible exports/ exports of goods	6m
and visible imports/ imports of goods.	6m

Total:16marks

3. Complete the sentence below:

“As increasing quantities of a good are consumed, eventually the marginal UTILITY (8m.) obtained from the extra units begins to DECLINE (8m.)

Total:16marks

4. Name the economist you would associate with any TWO of the following:

- |  |    |
|--|----|
| • Canons of Taxation: (Adam) Smith             | 8m |
| • Population and Food supply: (Thomas) Malthus | 8m |
| • The Multiplier Effect: (John M) Keynes       | 8m |

Total: 16marks

5. State TWO examples of 'invisible exports'.

- i. Foreigners on holiday in Ireland.
- ii. Aer Lingus servicing foreign aircraft.
- iii. Emigrants remittances (to Ireland)
- iv. Repatriation of profits by Irish companies based abroad.
- v. Irish employees doing consultancy work abroad.
- vi. Foreigners using Irish transport services.
- vii. Foreigners paying for the use of any other service offered by an Irish company e.g. banking, insurance, advertising.
- viii. Irish entertainers performing abroad.

TWO examples at 8m.

Total: 16marks

6. In relation to market structures, explain the term "Freedom of Entry and Exit" and name ONE market structure to which this characteristic applies.

- Freedom of Entry: new firms can set up operations in the industry concerned. 4m
- Freedom of Exit: existing firms in the industry are free to leave if they so wish. 4m

Name One market structure to which this characteristic applies.

- Perfect Competition.
- Imperfect Competition.
- Oligopoly.

ONE market structure. 9m

**Total 17marks**

7. What is meant by 'Current Revenue' in the government's budget? State ONE example.

This is revenue which the government receives on a regular basis / from the day to day working of the economy 8m  
4m

Examples:

- Taxation revenue, or any example there of e.g. income tax, V.A.T., Corporation Tax etc.
- National Lottery receipts.
- Trading surpluses of state companies.
- Interests on loans / dividends on investments
- Borrowing to finance a budget deficit

ONE example.

5m

**Total 17marks**

8. Explain what is meant by the term 'capital goods' and state ONE example.

Capital goods are goods, which are used in the manufacture of other goods.

OR

They are goods, which contribute to the production of wealth in an economy.

12m

State ONE example:

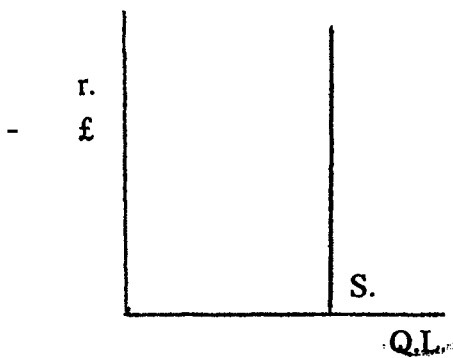
- Machinery
- Buildings
- Vehicles

One correct example

5m

Total 17 marks

9. Explain the supply curve for land, as shown below:



The supply of land is fixed regardless of the payment / price/ rent offered by the potential users of this land.

9m

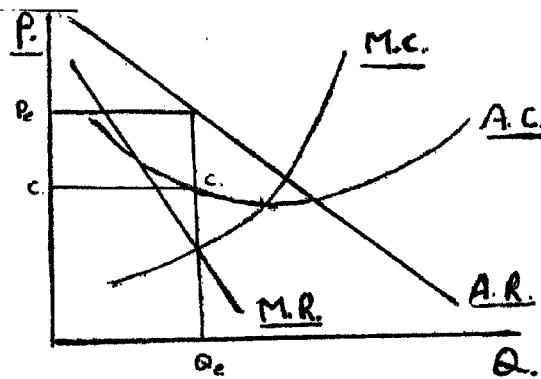
8m

Total 17 marks

## Section B (300 marks)

### Q. 1 MONOPOLY

The diagram below represents a monopoly in equilibrium :



(a)		<p>Write out <u>each</u> of the <u>six</u> under-lined terms on the graph in <u>full</u>.</p> <table style="margin-left: 40px; border: none;"> <tr> <td style="padding-right: 20px;">P</td> <td style="padding-right: 20px;">-</td> <td>Price</td> <td style="padding-left: 20px;">2m</td> <td></td> </tr> <tr> <td>Q</td> <td>-</td> <td>Quantity</td> <td>2m</td> <td></td> </tr> <tr> <td>M.R</td> <td>-</td> <td>Marginal Revenue</td> <td>2m</td> <td></td> </tr> <tr> <td>A.R</td> <td>-</td> <td>Average Revenue</td> <td>2m</td> <td></td> </tr> <tr> <td>A.C</td> <td>-</td> <td>Average Cost</td> <td>2m</td> <td></td> </tr> <tr> <td>M.C</td> <td>-</td> <td>Marginal Cost</td> <td>2m</td> <td>= 12m</td> </tr> </table>	P	-	Price	2m		Q	-	Quantity	2m		M.R	-	Marginal Revenue	2m		A.R	-	Average Revenue	2m		A.C	-	Average Cost	2m		M.C	-	Marginal Cost	2m	= 12m		
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M.C	-	Marginal Cost	2m	= 12m																														
(ii)		<p>Copy the diagram into your answer-book and show on the diagram:</p> <ul style="list-style-type: none"> <li>• the output the firm will produce in equilibrium: <u>answer:</u> <math>Q_e</math> above</li> <li>• the average cost of producing this output <u>answer:</u> <math>c</math> above (marked on cost curve <u>OR</u> on the price axis)</li> <li>• the price the firm will charge for the output produced: <u>answer:</u> <math>P_e</math> above</li> </ul>	<p>6m</p> <p>6m</p> <p>6m</p>	<p>=18m</p> <p><b>Total (a)</b> <b>30 Marks</b></p>																														

(b)	(i)	<p>Briefly explain why the monopolists demand curve (AR) is downward sloping.</p> <p>If the monopolist increased price, demand for the product or service will fall (or visa versa).</p>		9m
	(ii)	<p>Explain <u>ANY TWO</u> of the barriers to entry listed below:</p> <ul style="list-style-type: none"> <li>• <u>Patents and Copyrights:</u></li> </ul> <p>The person responsible for the original invention or idea has the <u>sole right</u> to any monetary gain from it.</p> <ul style="list-style-type: none"> <li>• <u>Economies or Scale:</u></li> </ul> <p>Existing firms have cost advantages/low unit costs which may not apply to new entrants into the industry, (effectively making entry difficult if not impossible)</p> <ul style="list-style-type: none"> <li>• <u>Government Regulation:</u></li> </ul> <p>Government grants the sole right of supply to one producer.</p> <p style="text-align: center;"><u>OR</u></p> <p>The Government commands control of an industry by retaining the power to issue licenses for that industry e.g. the taxi industry, the pub trade.</p>		
		<p>TWO barriers explained at 8m each</p>		<p>16 M</p> <p>Total (b) 25 marks</p>

(c)		<p>State:</p> <p>(i) <u>ONE</u> advantage to the employees of a monopoly firm.</p> <ul style="list-style-type: none"> <li>• Employment is <u>more secure</u> as there is no competition in the industry.</li> <li>• As the monopolist is in a position to earn super-normal profits, employees may be in a position to negotiate <u>better pay</u> and conditions.</li> <li>• If <u>a profit-sharing</u> system of remuneration applies, workers could be in a position to secure substantial gains from their employment.</li> <li>• Many monopolies are state owned, and so <u>are less likely to be the subject of rationalization programmes</u>, compared with firms in the private sector.</li> <li>• If <u>economies</u> of scale are passed on in the form of lower prices, the resulting high level of demand will ensure that employment in the industry remains both secure and at a high level.</li> </ul>		
	(ii)	<p><u>ONE</u> advantage for employees:</p> <p><u>ONE</u> disadvantage to the consumers of a monopoly firm:</p> <ul style="list-style-type: none"> <li>• a restriction on consumer <u>choice</u>.</li> <li>• the monopolist <u>may not produce at the optimum point</u>/may curtail output, thus driving up price per unit</li> <li>• under certain conditions, a monopolist can be in a position to operate <u>price discrimination</u></li> <li>• due to <u>lack of competition</u>, the <u>quality</u> of the good or service may be sub-standard/ a lack of incentive to undertake R &amp; D or innovation.</li> <li>• government efforts to <u>regulate</u> private monopolies are not always effective, as some experiences in the U.K. have illustrated.</li> <li>• <u>a strike</u> in the industry in question would result in a total withdrawal of supply from consumers.</li> </ul>		10 m
	<p><u>ONE</u> disadvantage for consumers:</p>		10 m	
			Total (c) 20 m [75 Marks	

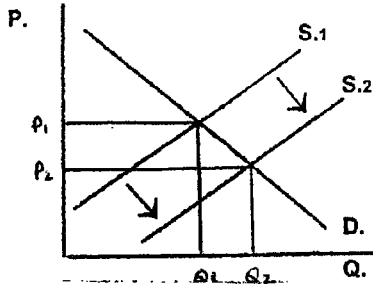


Q 2 SUPPLY & DEMAND

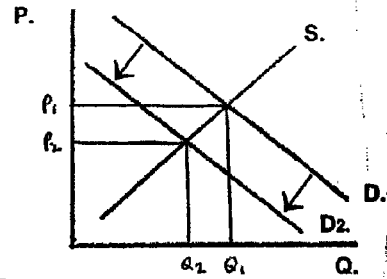
(a)

The diagrams below represent supply and demand in two markets:

**DIAGRAM 1**  
(10 Marks)



**DIAGRAM 2**  
(10 Marks)



Copy the two diagrams into your answer-book and in each case show :

- the initial price and output (use labels P1, Q1),

and

- the new price and output (use P2, Q2)

**Marking:**

For identifying the correct price and quantity lines, 1m per line  
i.e. 8 lines at 1m:  
For correct labeling of prices: 4 prices at 2m:  
For correct labeling of quantities: 4q.s at 1m

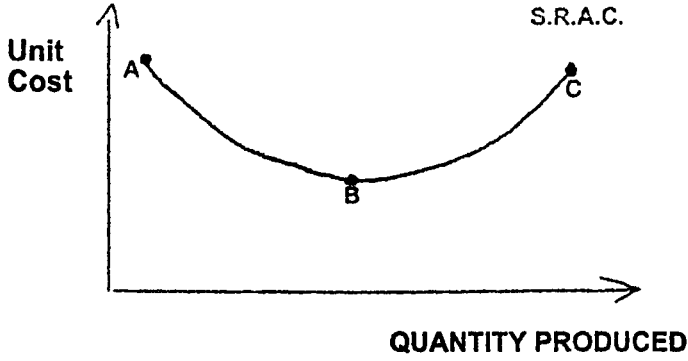
8m
8m
4m
<hr/>
Total (a)
20m

(b)	<p>The following factors cause the change illustrated on <u>either</u> Diagram 1 <u>or</u> Diagram 2</p> <ul style="list-style-type: none"> <li>• real income levels fall</li> <li>• improved production techniques are introduced.</li> </ul> <p>Briefly explain which factor causes the shift <u>on each diagram</u> shown above.</p>	
	<p><u>Answer:</u></p> <p><u>Diagram 1:</u></p> <p><u>Factor:</u> Improved production techniques are introduced</p> <p><u>Explain:</u> Improved production techniques enable the producer to increase output, resulting in an expansion in supply (rightward shift in the supply curve in question.)</p> <hr/> <p><u>Diagram 2:</u></p> <p><u>Factor:</u> real income levels fall.</p> <p><u>Explain:</u> a fall in real income levels result in a drop in the quantity of goods which consumers can afford to buy, resulting in a reduction in demand (a leftward shift in the demand curve.)</p>	<p>5m</p> <p>10m</p> <p>5m</p> <p>10m</p> <p>Total (b) 30m</p>

(c)	<p>The following are characteristics of economic goods</p> <p><u>SCARCITY</u>      <u>UTILITY</u>      <u>TRANSFERABILITY</u></p> <p>(i) Explain the meaning of <u>each</u> of these characteristics.</p> <p><u>Scarcity</u>: there must not be an unlimited supply of the commodity  OR  the product must not be available free from the bounty of nature  OR  supply must be limited in comparison with demand such that the payment of a price becomes feasible.</p> <p><u>Utility</u>: the item in question must provide a feeling of satisfaction/well-being to the buyer.  OR  it must be of some use to the person buying it.</p> <p><u>Transferability</u>: it must be capable of being transferred from person to person</p> <p><u>THREE</u> explanations at 5m each:</p> <p>(ii) In the case of <u>ONE</u> of the characteristics, suggest an item to which the characteristic does <u>not</u> apply. Explain your answer briefly.</p> <table border="0" data-bbox="363 1137 1273 1541"> <thead> <tr> <th><u>Item</u></th> <th><u>Reason</u></th> </tr> </thead> <tbody> <tr> <td>Fresh air</td> <td rowspan="2">not scarce in relation to demand.</td> </tr> <tr> <td>Rain water</td> </tr> <tr> <td>Weeds</td> <td rowspan="2">no utility provided.</td> </tr> <tr> <td>Refuse</td> </tr> <tr> <td>Good health</td> <td rowspan="4">non-transferable</td> </tr> <tr> <td>Intelligence</td> </tr> <tr> <td>Youth</td> </tr> <tr> <td>Beauty</td> </tr> </tbody> </table> <p>Identify the item: 5m  Explanation 5m</p>	<u>Item</u>	<u>Reason</u>	Fresh air	not scarce in relation to demand.	Rain water	Weeds	no utility provided.	Refuse	Good health	non-transferable	Intelligence	Youth	Beauty	15 m	
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Beauty																
			Total (c) 25m [75 Mar													



(b)	(i)	<p>Costs of production can be classified as either <u>FIXED</u> or <u>VARIABLE</u>.</p> <p>Explain the meaning of <u>each</u> of these types of costs.</p> <p><u>FIXED COSTS:</u> are costs which <u>do not</u> change as the level of output changes.</p> <p><u>VARIABLE COSTS:</u> are costs which <u>do</u> change as the level of output changes.</p>	<p>4m 2m</p> <p>4m 2m</p>	<p>6m</p> <p>6m</p>
		(ii)	<p>State <u>ONE</u> example of <u>each</u> of these costs for a manufacturing firm.</p> <p><u>FIXED COSTS:</u> rent of premises, depreciation, rates, remuneration of management, patents/license fees, loan repayments, lease/hire charges.</p> <p><u>VARIABLE COSTS:</u> factory wages, commission, raw materials, bad debts, electric power, phone, office/administration expenses.</p> <p>ONE example of fixed costs. ONE example of variable costs.</p>	<p>4m 4m</p>

<p>(c)</p>	<p>(i)</p>	<p>The following diagram represents short run Average Cost of a firm:</p>  <p>Briefly explain:</p> <p>How specialization of labour affects portion AB of the curve.</p> <p>As output increases, specialization results in (proportionally) <u>fewer workers</u> being required/as labour becomes more specialized the workers become more skilled, increasing output per worker, thus decreasing wage costs per unit</p> <p>This development causes labour costs per unit to fall/the S.R.A.C. to slope downwards.</p>	<p>10m</p> <p>5m</p>	<p>15 m</p>
	<p>(ii)</p>	<p>How the law of Diminishing Marginal Returns affects portion BC of the curve.</p> <ul style="list-style-type: none"> <li>• The implication of this law is that a stage will be reached when each additional unit of the variable factor (labour) is responsible for less output than that attributable to previous units of that variable factor.</li> <li>• The implication of this law is that labour costs per unit rise/the S.R.A.C. slopes upwards.</li> </ul>	<p>10m</p> <p>5m</p>	<p>15m</p> <hr/> <p>Total (c) 30 m</p> <hr/> <p>[75 Mar</p>

Q 4 NATIONAL INCOME & ECONOMIC GROWTH

(a)	<p>Explain how <u>ANY TWO</u> of the following factors can affect the size of National Income.</p>		
	<p><u>he stock of factors of production:</u></p>		
	<p><u>relationship:</u> the greater the stock of factors of production, the greater the (potential) size of National Income.</p>	5m	
	<p><u>explanation:</u> more resources are available for goods &amp; services to be produced.</p>	5m	
	<p><u>The level of Technology available:</u></p>		
	<p><u>relationship:</u> the more advanced the level of technology, the greater the size of National Income.</p>	5m	
	<p><u>explanation:</u> productivity is enhanced by the use of good quality technology in the production process.</p>	5m	
	<p><u>The performance of the Domestic Economy:</u></p>		
	<p><u>relationship:</u> if the economy is experiencing an economic boom, National Income tends to increase.</p>	5m	
	<p><u>explanation:</u> as employment and investment levels increase the demand for goods &amp; services rise.</p>	5m	
<p><u>The performance of other Economies:</u></p>			
<p><u>relationship:</u> if a recession is evident in other countries, this can have a negative effect on the size of National Income in the domestic economy.</p>	5m		
<p><u>explanation:</u> less inward investment, or possibly disinvestment.</p>	5m		
<p align="center"><u>OR</u></p> <p>A reduction in demand from other countries for goods produced by the domestic economy.</p>			
<p>TWO answers required at 10marks each (5m + 5m)</p>			
			<p><b>Total (a)</b> <b>20m</b></p>

(b)	(i)	State and explain <u>TWO</u> possible economic problems arising from growth in National Income.		
	(ii)	Do the problems you have identified above currently apply in the case of the Irish Economy? Explain briefly.		
	(i)	<ul style="list-style-type: none"> <li>• <u>Labour shortages</u></li> <li>• as production levels expand, there are increasing demands on the countries finite resources, including its supply of labour.</li> <li>• this problem applies in Ireland, as evidenced by the difficulties experienced in many firms in acquiring a full complement of labour/rising wage costs</li> </ul>		
	(ii)	<ul style="list-style-type: none"> <li>• <u>demand-pull inflationary pressures</u></li> <li>• due to rising income levels/stronger consumer confidence, the resulting expansion in purchasing power may be responsible for pressure on prices in the economy</li> <li>• inflation has risen sharply in Ireland recently</li> </ul>		
	(iii)	<ul style="list-style-type: none"> <li>• <u>benefits unlikely to be evenly distributed</u></li> <li>• it is very unlikely that all citizens will share equally in the increased prosperity which flows from economic growth</li> <li>• Ireland's taxation and social welfare systems attempt to redistribute wealth, to some degree</li> </ul>		
	(iv)	<ul style="list-style-type: none"> <li>• <u>environmental costs</u></li> <li>• increased pollution levels are an inevitable cost associated with rising production levels/accelerated consumption of the earth's scarce resources</li> <li>• any reference to policies in Ireland designed to improve environmental protection e.g. EPA etc.</li> </ul>		
	(v)	<ul style="list-style-type: none"> <li>• <u>demographic problems/population changes</u></li> <li>• significant migration of large sections of the population to the industrial centers/necessity to recruit immigrant workers</li> <li>• migration to the east coast has always been a feature of Irish demographic patterns/this is expected to accelerate in the future</li> </ul>		
	(vi)	<ul style="list-style-type: none"> <li>• negative impact of growth on peoples <u>quality of life</u></li> <li>• many wealthy nations experience an increase in social problems as they become more affluent e.g. drug abuse, suicide, crime</li> <li>• a significant increase in serious crime /a reduction in leisure time/very serious traffic congestion</li> </ul>		



	(vii)	<ul style="list-style-type: none"> <li>• <u>opportunity cost</u> associated with increased investment in capital</li> <li>• the production of consumer goods will decrease as resources are diverted to the production of capital goods, with a consequent drop in short term living standards</li> <li>• an example in Ireland is the national development plan, which requires the use of factors of production urgently required in other sectors of the economy</li> </ul>		
	(viii)	<ul style="list-style-type: none"> <li>• <u>infrastructure/housing</u></li> <li>• rapid rates of economic growth often put strains on these essential facilities</li> <li>• the following are in need of additional investment in Ireland: transport systems, waste disposal, power and social amenities</li> </ul> <p><u>TWO</u> problems to be analysed at 13m and 12m</p> <ul style="list-style-type: none"> <li>• State (5m+4m)</li> <li>• Explain (4m+4M)</li> <li>• Irish Economy (4m+4m)</li> </ul>		Total (b) 25 Mark

(c)	<p>Explain the effect which <u>each</u> of the following will have on the average living standards of the citizens of an economy in which GNP at current market prices remained constant between Period 1 and Period 2.</p> <ul style="list-style-type: none"> <li>Inflation occurred between Period 1 and Period 2  <u>Result</u>: the average living standards will fall.  <u>Reason</u>: there are less goods and services available to each citizen. / GNP per head has fallen/ citizens are paying higher prices for goods &amp; services</li> <li>The population fell from Period 1 to Period 2:  <u>Result</u>: the average living standards will improve  <u>Reason</u>: there are more goods &amp; services available to each citizen (on average)/ GNP per head has increased.</li> </ul>	5m	Total (c) 30m  [75 Mar
		10m	
		5m	
		10m	

<b>Q5 FISCAL POLICY</b>				
(a)		<p>The Government's Current Budget can have the following outcomes:</p> <p style="text-align: center;"><u>SURPLUS</u>                      <u>BALANCED</u>                      <u>DEFICIT</u></p> <p>State and explain which one applies to the Irish Government's Budget at present.</p> <p><u>Answer</u>:                      Surplus  <u>Explain</u>:                      In recent years, the Irish government's revenue has exceeded its expenditure, resulting in significant surplus.</p>	5m	Total (a) 15 m
		10m		
(b)	(i)	<p>Explain what is meant by Direct Taxes and Indirect Taxes. State TWO examples of each of these types of taxes.</p> <hr/> <p><u>(i) Direct Taxes</u>: are taxes on income/wealth.   <u>Indirect Taxes</u>: are taxes on goods &amp; services <u>OR</u> taxes on spending.</p>	5m	10 m
	(ii)		5m	

	<p><b>(ii) Examples:</b></p> <p><b>Direct Taxes:</b> Income tax (P.A.Y.E), Corporation Profits Tax, Capital Gains Tax, Capital Acquisitions Tax, D.I.R.T.</p> <p><b>Indirect Taxes:</b> V.A.T., Excise Duties, Rates, Stamp Duties, Customs Duties, Motor Car Tax, and V.R.T.</p> <p>TWO examples of direct tax at 3m + 2m TWO examples of indirect tax at 3m + 2m</p>	<p>5m 5m</p>	<p>10 m</p> <p><b>Total (b)</b> 20m</p>
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<b>(c)</b>	<p>State and explain <u>TWO</u> reasons why the revenue from taxation has increased dramatically in Ireland in recent years.</p> <p><b>(i) As <u>employment levels increase</u>, so also will the revenue receivable from income tax.</b></p> <p>With more people employed, greater consumer confidence and better wage rates, the level of spending increases, resulting in more buoyant returns from spending taxes such as V.A.T. and excise duties.</p> <p>More revenue from Corporation Profits Tax as profit levels increase in a booming economy.</p> <p>The dramatic increase in the level of property transactions has resulted in a significant rise in the tax-take from stamp duties, capital gains tax and inheritance tax.</p> <p>More revenue from customs duties as the level of imports increase during a period of sustained economic growth.</p> <p>In recent years Ireland has experienced a significant expansion in the sale of new vehicles. This development has led to increased returns from V.R.T. and motor tax.</p> <p>As more businesses become established, revenue from rates has increased proportionally.</p>		<p><b>Total (c )</b> 10m</p>
	<p><u>TWO</u> reasons required at 5m each. (State: 3M; <u>brief</u> explanation 2m.)</p>		

(d)	<p>State and explain how a decision by the Irish Government to reduce the rates of indirect tax (leaving all other taxes unchanged) might effect <u>ANY TWO</u> of the following:</p> <ul style="list-style-type: none"> <li>• <u>The Government's Current Budget Outcome</u>   <u>Effect:</u> the budget result would disimprove/a surplus would decrease/ a deficit would increase.   <u>Explanation:</u> there is less tax revenue receivable on each unit of the good or service in question.</li> <li>• <u>The Price Level In The Economy</u>   <u>Effect:</u> the fall in indirect taxes will have a deflationary effect on the economy   <u>Explanation:</u> the drop in indirect taxes will be reflected in a fall in the price paid by consumers for the goods or services in question</li> <li>• <u>Employment In The Sectors Concerned</u>   <u>Effect :</u> employment will increase in these sectors   <u>Explanation:</u> the reduction in price will lead to an increase in demand for the goods or services concerned, and consequently an increase in demand for labour to produce these additional units</li> </ul>		
	<p>TWO answers required at 15m each (in each case: effect 5m, explanation 10m)</p>		<p>Total (d) 30 m</p>
			<p><b>75 Marks</b></p>

**Q6 TRADE AND COMPARATIVE ADVANTAGE**

The table below illustrates the Law of Comparative Advantage.

COUNTRY	OUTPUT	
	(Production per worker per week)	
	MACHINES	CARS
GERMANY	25	5
JAPAN	50	25
TOTAL OUTPUT	75	30

Although Japan is more efficient in the production of both goods, each country will specialize in the production of one good.

Which good will Japan produce? Explain briefly.

(i) **Answer:** CARS  
**Reason:** Japan is relatively more efficient at producing cars than producing machines

Or

The opportunity cost associated with the production of one car is lower in Japan (2 machines) than in Germany (5 machines) our table illustrating this.

Or

Japan can produce five times as many cars as Germany, but only twice as many machines.

2m  
4m 6m

(ii) Which good will Germany produce? Explain briefly.

**Answer:** MACHINES  
**Reason:** Germany is relatively less inefficient at producing machines than producing cars.

Or

The opportunity cost associated with the production of one machine is lower in Germany (.2 of a car) than in Japan (.5 of a car)/ table illustrating this.

Or

Germany can produce machines at half the rate, which applies in Japan, but car production is only at 1/5 of Japanese rate.

2m  
4m 6m

(iii) Which country benefits? Explain briefly.

	<p><u>Answer:</u> Both countries benefit.  <u>Explanation:</u> Total output will be greater after specialization.</p>	2m 6m	8m
			Total (a) 20 m

(b)	(i)	<p>State and explain <u>TWO</u> reasons why one country might be better than another in the production of a particular good.</p> <ul style="list-style-type: none"> <li>• availability of good quality <u>land</u> which is fertile and properly managed.</li> <li>• an abundant supply of <u>labour</u> which is well educated and equipped with the necessary skills.</li> <li>• a country, which has at its disposal technologically advanced capital equipment, has a distinct advantage over countries without such resources.</li> <li>• adequate <u>risk capital</u> available/confidence amongst potential investors in the future of the economy.</li> <li>• <u>infrastructure</u> in place which can cope with the present level of economic activity.</li> <li>• <u>a social and cultural environment</u>, which encourages a positive work ethic/which, provides reasonable rewards for effort and risk-taking.</li> <li>• a stable corruption-free <u>political regime</u> will inspire confidence amongst all sectors of the economy.</li> <li>• <u>climate</u> can provide a natural advantage for some economies in certain sectors e.g. agriculture and tourism.</li> <li>• <u>geographical location</u>: transportation economies will apply if a country is located close to its trading partners, if it has a 'dry link' with such partners.</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• TWO reasons at 7m and 6m</li> <li>• (1<sup>st</sup>: state 4m, explain 3m; 2<sup>nd</sup>: state 3m, explain 3m)</li> </ul> <hr/>		13m
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	<p>(ii) State and explain TWO possible disadvantages of Free Trade between countries.</p> <ul style="list-style-type: none"> <li>• small indigenous firms (or infant industries) deprived of state protection may find it <u>difficult to compete</u> with larger producers abroad who have advantages from economies of scale.</li> <li>• <u>dumping</u> by foreign producers of their surplus output.</li> <li>• unless domestic producers are competitive, <u>job</u> losses may occur in certain exposed sectors.</li> <li>• the 'cheap labour' argument: because of differences in international wage-rates, free trade would impose strains on producers in the high-wage regions/ a loss of investment to such countries.</li> <li>• <u>a fall in government</u> revenue: customs duties will no longer apply, a possible reduction in economic activity generally if domestic firms suffer competitive disadvantages.</li> <li>• free trade and specialization often occur together. Such specialization can lead to a loss of self-sufficiency in the provision of certain strategically important goods e.g. capital equipment, arms for defence, sources of power.</li> <li>• <u>an industry, which is declining</u>, tends to do so at an accelerated rate if it is exposed to open competition from competitors based abroad.</li> <li>• if free trade applies globally, there may be <u>a reluctance to apply sanctions</u> on countries in which human rights abuses or other atrocities are known to exist.</li> </ul> <p>TWO disadvantages at 6m each. (state 3m, explain 3m.)</p>	<p>12 m</p> <hr/> <p>Total (b) 25 marks</p>
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(c)	<p>Methods which governments may use to restrict trade include:</p> <p><b>TARIFFS, QUOTAS, EMBARGOES and ADMINISTRATIVE BARRIERS.</b></p> <hr/> <p>(i) Explain <u>ANY TWO</u> of the methods underlined above.</p> <p><b><u>TARIFFS:</u></b> These are taxes applied to imports.</p> <p><b><u>QUOTAS:</u></b> A physical limit on the quantity of a good, which can be imported from another country.</p> <p><b><u>EMBARGOES:</u></b> A complete prohibition/ban on the entry of certain goods into a country.</p> <p><b><u>ADMINISTRATIVE BARRIERS:</u></b> These exist when one country refuses to admit the produce of another unless they are accompanied by very technical documentation / meet strict conditions / satisfy very definite specifications.</p> <hr/> <p>TWO explanations at 5m each.</p>		10m
	<p>(ii) Identify ONE advantage and ONE disadvantage to the Irish economy of each of the two methods selected.</p> <p>The following advantages and disadvantages are <u>common</u> to <u>ALL FOUR</u> of the restrictions mentioned in the question:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• improvement in Balance of Trade as imports are restricted.</li> <li>• domestic producers gain from increased sales and /or higher prices and profits, as competition from imports is restricted/eliminated.</li> <li>• they can be used as a political sanction against regimes with a poor record in relation to human rights/civil liberties.</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• danger of retaliation by other countries.</li> <li>• costs involved in administering/policing the system, or the possibility of 'black market' activities developing.</li> <li>• inflationary effect of such actions: the domestically produced goods and/or the imported goods may increase in price.</li> </ul> <hr/>		



In addition, the following advantages and disadvantages apply specifically to the restriction mentioned:

**TARIFFS:**

**Advantage:**

- government revenue increases

**Disadvantage:**

- relatively ineffective when applied to goods with a low price elasticity of demand.

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**QUOTAS:**

**Advantages:**

- more effective than tariffs in restricting imports.
- can be used to target more beneficial goods.
- flexibility: they can be changed to reflect consumer preferences/emergence of new sources of supply.

**Disadvantages:**

- they are not directly productive of revenue for the government.
- consumer choice is restricted.
- domestic producers are more likely to increase price when a quota is in operation (compared with tariffs)
- importers may be tempted to use up their annual quota quickly, resulting in supply imbalances.

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**EMBARGO:**

**Advantage:**

- frequently used to protect citizens from harmful or dangerous products.

**Disadvantages:**

- choice is restricted to goods supplied domestically.
  - government revenue may fall if previously permitted imports had attracted customs duties.
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	<p><b><u>ADMINISTRATIVE BARRIERS:</u></b></p> <p><u>Advantages:</u></p> <ul style="list-style-type: none"> <li>• these may be seen as more justifiable to other countries that alternate trade restrictions.</li> <li>• they may be used to ensure that imported goods meet our health and safety regulations.</li> </ul> <p><u>Disadvantages:</u></p> <ul style="list-style-type: none"> <li>• delays in the delivery of goods due to port inspections etc.</li> <li>• any reduction in supply will limit consumer choice.</li> </ul> <p>TWO trade restrictions at 10m. (In each case: ONE advantage at 5m, ONE disadvantage at 5m.)</p>		<p>20m</p> <p>Total (c <u>30</u></p> <p>[75 marks]</p>
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**Q.7. LABOUR & DEMOGRAPHY**

<b>(a)</b>	<p>State and explain <u>TWO</u> factors which influence each of the following in an economy:</p> <p style="margin-left: 40px;">(i) the demand for labour (ii) the supply of labour</p> <hr/> <p>(i) The demand for labour:</p> <ul style="list-style-type: none"> <li>• Productivity/ the M.R.P. curve/ factors influencing M.R.P. The more productive the labour-force, the greater the demand for workers.</li> <li>• Wage-levels in the economy. (union activity). There exists an inverse relationship between these and the demand for labour.</li> <li>• derived demand.</li> <li>• if the level of demand for consumer goods increases, employers will need extra workers to produce these additional units.</li> <li>• the cost of alternative factors of production which may be substituted for labour.</li> <li>• if such factors become more expensive, there will be a greater incentive to employ more labour.</li> <li>• technological advances/increased availability or use of alternative factors of production.</li> <li>• such developments will result in a fall in demand for labour.</li> <li>• the level of skill associated with entrepreneurs.</li> <li>• an economy in which entrepreneurial flair is prevalent will experience more rapid economic growth, and hence increased levels of job creation.</li> <li>• government influence.</li> <li>• any actions such as the provision of grants to labour-intensive industries, the introduction of enticements for investment, the use of direct wage subsidies will increase the demand for labour.</li> </ul> <hr/> <p>TWO factors at 7m and 6m (1<sup>st</sup> : state 4m, explain 3m. 2<sup>nd</sup>: state 3m, explain 3m)</p>		<b>13m</b>
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	<p>(ii) <u>The supply of labour:</u></p> <ul style="list-style-type: none"> <li>• wage levels on offer in the economy.</li> <li>• high wages are an incentive to the supply of labour.</li>   <li>• the size of population/ the age-structure</li> <li>• the greater the population, the more citizens in the working age bracket, the greater the supply of labour.</li>   <li>• the average length of the working week.</li> <li>• the longer this is, the more labour supplied by each worker.</li>   <li>• the participation rate.</li> <li>• definition of the participation rate <u>or</u> reference to any factor influencing this rate <ul style="list-style-type: none"> <li>e.g. the normal school-leaving age.</li> <li>the usual age of retirement.</li> <li>the propensity to part-take in 3<sup>rd</sup> level education.</li> <li>equality of opportunity in the economy.</li> <li>the level of demand for labour.</li> </ul> </li>   <li>• the levels of income tax in the economy.</li> <li>• if these are relatively high, they will act as a disincentive to the supply of labour.</li>   <li>• the comparative size of social welfare entitlements.</li> <li>• if these are perceived as being generous, fewer people may be encouraged to seek employment.</li>   <li>• labour mobility</li> <li>• if the work force is geographically/occupationally mobile, the supply of labour in the economy will increase.</li>   <li>• trade union activities</li> <li>• actions such as restrictive practices, negotiation of minimum wages and industrial action all have a negative effect on the supply of labour.</li>   <li>• government action.</li> <li>• providing information on job availability and easing restrictions on the entry of immigrants are two examples of policies, which would have a positive effect on the supply of labour.</li> </ul> <hr/> <p>TWO factors at 6m each. (In each case, state 3m, explain 3m)</p>		<p>12 m</p> <hr/> <p>Total (a) 25 M</p>
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(b)	<p>Distinguish between <u>Geographical Mobility of Labour</u> and <u>Occupational Mobility of Labour</u>.</p> <p><u>Geographical Mobility</u>: refers to the ability of workers to move from one physical location to another (in a national or International sense)</p> <p><u>Occupational Mobility</u>: this occurs when a worker changes from one type of work/job to another.</p>		<p>10m</p> <p>10m</p> <p>Total (b)</p> <p><u>20m</u></p>
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(c)	<p>A noticeable trend in Ireland recently is that the high levels of <u>emigration</u> experienced in the past have fallen dramatically, and are now being replaced by <u>immigration</u>.</p> <p>(i) Define the <u>TWO</u> underlined terms above.</p> <p><u>Emigration</u>: occurs when citizens of a particular country leave that country in order to live abroad.</p> <p><u>Immigration</u>: occurs when foreign nationals enter a particular country with a view to living in that country.</p> <p>(ii) State and explain <u>TWO</u> reasons why the trend has changed from emigration to immigration in Ireland.</p> <ul style="list-style-type: none"> <li>• the <u>boom in the Irish economy/improved wage-rates</u> encourages immigrant workers and reduces emigration of Irish people.</li> <li>• active recruitment abroad by firms and recruitment agencies due to <u>labour shortages</u> in Ireland.</li> <li>• <u>Ireland's improving record in relation to human rights and civil liberties</u> is a strong attraction to those experiencing persecution and deprivation, as well as an enticement to Irish people to remain here.</li> <li>• the relative prosperity and liberalization prevalent in the <u>E.U. in general</u> is an attraction for many people presently living outside this zone.</li> <li>• the <u>Irish welfare system</u> coupled with the efforts of many <u>charitable organizations</u> combine to make this country an attractive destination for immigrants.</li> <li>• <u>Immigration controls have been tightened</u> in some of the 'traditional' destinations e.g. the U.S. / economic downturn in such economies.</li> <li>• recent reductions in Irish taxation rates.</li> <li>• better quality of life in Ireland / increased awareness of this. This is evidences by the high standards which apply to our health and education services / our clean environment / a good social life. Improved communications systems (e.g. internet) means that more people are aware of these benefits</li> </ul>	<p>5m</p> <p>5m</p>	<p>10m</p>
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	TWO reasons at 5m each (In each case: state 3m, explain 2m.)		10m
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(iii)	<p>State and explain <u>TWO</u> economic benefits for a country experiencing increased immigration.</p> <ul style="list-style-type: none"> <li>• it can act as a 'safety-valve' for <u>labour shortages</u>/ eases pressure on wage-rates.</li> <li>• the level of <u>demand</u> for consumer goods and services will increase.</li> <li>• the economy may benefit from <u>new skills</u> and traditions / society becomes more multi cultural.</li> <li>• the <u>dependency ratio</u> will improve if immigrants are mainly in the working age-bracket. (or the tax-base will expand)</li> <li>• <u>infrastructural development</u> will be justified as the population expands.</li> </ul> <p>TWO benefits at 5m each. (In each case: state 3m, explain 2m)</p>		10m <hr/> Total (c) 30m <hr/> [75 Marks]
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**Q.8. MONEY & INFLATION**

(a) (i) Define ANY TWO of the following terms:

- Legal Tender: anything which must by law be accepted in settlement of a debt / in payment for goods and services.
- Standard for Deferred Payment: enabling contracts and agreements to be drawn up which involve payment at a later date.
- Exchange Rate: the value of one currency in terms of another currency.

TWO definitions at 6m each.

12m

(ii) Briefly explain how an increase in the money supply in an economy in excess of an increase in the supply of goods and services might affect the following:

- The price of goods and services in the economy:
  - they will increase.
  - consumers have purchasing power in excess of the supply of goods and services / aggregate demand will exceed aggregate supply / demand-pull pressures.

OR

- The Balance of Trade
  - this will disimprove.
  - imports will increase, as some of the extra demand in evidence in the economy will be satisfied with increased expenditure on goods produced abroad.

Analysis of ONE of the above.  
(effect on variable 5m, explain 8m.)

13m

Total (a)  
25m

(b)	(i)	<p>Explain clearly what is meant by <u>INFLATION</u>.</p> <p>Inflation is a general increase in the price of goods and services.</p>		10m
	(ii)	<p>Explain <u>TWO</u> courses of action, which a government could undertake to control inflationary pressures.</p> <ul style="list-style-type: none"> <li>• restraint in reducing <u>direct taxes</u> as such actions fuel demand and thus inflation.</li> <li>• refrain from increasing <u>indirect taxes</u>, as these increases are directly inflationary.</li> <li>• reduce <u>government borrowing</u> / levels of government expenditure.</li> <li>• introduce stricter controls on <u>bank lending</u>.</li> <li>• restrict the expansion in the <u>money supply</u> generally, thus curbing demand.</li> <li>• introduce programmes, which encourage moderation in the level of <u>pay demands</u>, e.g. the P.P.F. in Ireland.</li> <li>• introduce <u>direct price controls</u> e.g. maximum price orders on certain essential goods.</li> <li>• encourage <u>free and fair competition</u> in the economy.</li> <li>• increase <u>interest rates</u> to 'dampen down' demand.</li> <li>• <u>avoid devaluations</u> of the currency, which have an inflationary effect on imports.</li> <li>• ensure essential services such as power and telecommunications are available at reasonable prices, thus lowering costs of production and therefore prices.</li> </ul> <p>TWO actions, explained at 10m each graded</p>		20m
				<p>Total (b) <u>30m</u></p>



(c)	<p>Briefly explain the effect of <u>ANY TWO</u> of the following on inflation.</p> <ul style="list-style-type: none"> <li>• <u>Strong demand in the economy:</u>  <u>Effect:</u> inflation will increase  <u>Explain:</u> if demand exceeds supply, producers are aware that there is scope to increase prices  <u>or</u>  consumers are willing to pay higher prices for the (limited) supply available</li> <li>• <u>Increases in wage costs:</u>  <u>Effect:</u> inflation will increase.  <u>Explain:</u> if producers have to pay higher wage costs, such <u>increases in costs of production</u> are invariably passed on in the form of higher prices for goods and services in the economy.</li> </ul> <p style="text-align: center;">OR</p> <p>higher wages <u>increase the purchasing power of workers</u>, thus adding to demand-pull inflationary pressures.</p> <ul style="list-style-type: none"> <li>• <u>Fall in the Value of the Currency:</u>  <u>Effect:</u> inflation will increase.  <u>Explain:</u> devaluation of the currency results in all <u>imported goods increasing in price/</u> imported goods costs more</li> <li>• <u>Fall in Oil prices</u>  <u>Effect:</u> inflation will decrease.  <u>Explain:</u> oil is an essential input for industry both from the point of view of transport and power. Any easing in its price will <u>reduce costs of production</u> and thus prices generally.  <u>or</u>  Oil is a product on which many consumers spend a significant portion of their income / has a relatively high weight in the CPI  Thus, <u>any reduction in its price</u> will ease inflationary pressures.</li> </ul> <p><u>TWO</u> changes to be analysed at 10m each.  (In each case: effect 4m, explanation 6m)</p>		<p>Total (c) 20m</p> <p>[75 marks]</p>
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**ECONOMICS (ORDINARY LEVEL) 2001 SUMMARY OF SCHEME**

**SECTION A**

1.	4 countries identified at 4m. each	= 16 Marks
2.	difference between 4m; visible exports 6m. visible imports 6m.	= 16 Marks
3.	"utility" 8m.; "decline" 8m.	= 16 Marks
4.	Any TWO: Smith 8m; Malthus 8m; Keynes 8m.	= 16 Marks
5.	TWO examples of invisible exports at 8m. each	= 16 Marks
6.	Freedom of entry 4m; freedom of exit 4m: ONE example: 9m.	= 17 Marks
7.	Government revenue 4m; regular basis 8m; ONE example: 5m.	= 17 Marks
8.	Define 'capital goods': 12m; ONE example 5m.	= 17 Marks
9.	Supply curve for land: supply fixed 9m; regardless of payment 8m.	= 17 marks

**SECTION B**

		<b>Q.1 MONOPOLY</b>		
(a)	(i)	6 cost/revenue curves written in full at 2m. each.	12m	
	(ii)	Mark Qe: 6m; cost per unit: 6m; P.e: 6m	18m	30 Marks
(b)	(i)	Why monopolist's demand curve slope downwards	9m	
	(ii)	Explain TWO barriers to entry at 8m. each.	16m	25 Marks
(c)	(i)	ONE advantage to employees of a monopoly.	10m	20Marks
	(ii)	ONE disadvantage to consumers of a monopoly.	10m	
				<b>75 Marks</b>
		<b>Q.2 SUPPLY &amp; DEMAND</b>		
(a)		8 lines at 1m.= 8m.; 4 prices at 2m. = 8m; 4 Q's at 1m. = 4m.	15m	20 Marks
(b)		Diagram 1: production techniques 5m; explain 10m.	15m	30 Marks
(c)	(i)	Diagram 2: real income levels fall 5m; explain 10m.	15m	25 Marks
	(ii)	Explain: scarcity 5m; utility 5m; transferability 5m.	10m	75 Marks
		Identify one exception to economic goods 5m; explain it: 5m.		
		<b>Q.3 FACTORS OF PRODUCTION &amp; COSTS</b>		
(a)		State: Land, Labour and Enterprise: 4m; 3m; 3m.	10m	
		Explain: Land, Labour and Enterprise: 3 x 5m. each.	15m	25 marks
(b)	(i)	Explain: Fixed cost (4, 2) = 6m; Variable cost (4, 2) = 6m.	12m	
	(ii)	ONE example of each: fixed cost: 4m.; variable cost 4m.	8m	20 Marks
(c)	(i)	Explain "specialization": 10m; effect on costs 5m.	15m	
	(ii)	Explain "diminishing returns" 10m; effect on costs 5m.	15m	30 Marks
				<b>75 Marks</b>
		<b>Q.4 NATIONAL INCOME &amp; ECONOMIC GROWTH</b>		
(a)		TWO factors affecting N.Y. at 10m. (relationship 5m; explain 5m.)		20 Marks
(b)	(i)	TWO problems re: economic growth: 1 <sup>st</sup> problem (5m, 4m) 9m + 2 <sup>nd</sup> problem (4m, 4m) 8m.	17m	

	(ii)	Analysis of these problems re: Irish economy: TWO at 4m.	8m	25 Marks
(c)		How average living standards are affected by: Inflation (5m, 10m) = 15m. Population decrease (5m, 10m) = 15m		30Marks
				<b>75 Marks</b>

		<b>Q.5 FISCAL POLICY</b>		
(a)		Irish budget: in surplus 5m; explain 10m.		15 Mark
(b)	(i)	Direct taxes are: 5m; Indirect taxes are: 5m.	10m	
	(ii)	Direct taxes: 2 examples (3,2); Indirect taxes: 2 examples (3,2):5m.	10m	20Mark
(c)		TWO reasons for increases in tax revenue at 5m. (3, 2)		10 Mark
(d)		How a reduction in indirect tax affects ANY TWO of these: BUDGET (5, 10); PRICE-LEVEL (5, 10); EMPLOYMENT (5, 10).		30 Mark
				<b>75Marks</b>
		<b>Q.6 TRADE AND COMPARATIVE ADVANTAGE.</b>		
(a)	(i)	Japan produces CARS: 2m; reason: 4m.	6m	
	(ii)	Germany produces MACHINES: 2m; reason; 4m.	6m	
	(iii)	BOTH countries benefit: 2m; reason; 6m.	8m	20 Mark
(b)	(i)	TWO sources of comparative advantage: 7m. (4, 3) + 6m. (3, 3)	13m	
	(ii)	TWO disadvantages of free trade at 6m. each (3, 3)	12m	25Mark
(c)	(i)	Explain TWO chosen barriers to free trade at 5m. each.	10m	
	(ii)	Analyse above TWO barriers: TWO x 10m. (adv. 5m, disadv. 5m)	20m	30 Mark
				<b>75Marks</b>
		<b>Q.7. LABOUR &amp; DEMOGRAPHY</b>		
(a)	(i)	TWO factors affecting demand for labour: 7m. (4, 3); 6m. (3, 3)	13m	
	(ii)	TWO factors affecting supply of labour at 6m. each (3, 3)	12m	25 Mark
(b)		Mobility: Geographical 10m; Occupational 10m.		20 Mark
(c)	(i)	Define: Emigration: 5m; Immigration 5m.	10m	
	(ii)	Change to Immigration: TWO reasons at 5m. (3, 2)	10m	
	(iii)	TWO benefits of immigration at 5m. (3, 2)	10m	30 Mark
				<b>75marks</b>
		<b>Q. 8. MONEY &amp; INFLATION</b>		
(a)	(i)	Legal Tender; Deferred Payment; R / X; Define TWO at 6m. each	12m	
	(ii)	How an increase in the supply of money affects: prices 13m (5, 8) OR Balance of Trade: 13m (5, 8)	13m	25 Mark
(b)	(i)	Explain the term INFLATION:		
	(ii)	TWO ways by which the government can control inflation: TWO x 10m. (variable 3m; correct change 3m; explain 4m.)	10m	
(c)		How TWO changes affect inflation:	20m	30 Mark
				20 Mark

