



Coimisiún na Scrúduithe Stáit  
State Examinations Commission

**LEAVING CERTIFICATE 2009**

**MARKING SCHEME**

**ECONOMICS**

**ORDINARY LEVEL**





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# MARKING SCHEME & SUPPORT NOTES

(for use with the Marking Scheme)

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- 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.
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.



4. Improving the country's infrastructure is one of the economic aims of the Irish Government. State **two** other economic aims of the Government.
1. Achieve full employment / reduce job losses.
  2. Reduce price inflation/ limit price increases.
  3. Achieve moderate economic growth / limit the decline in GNP.
  4. Achieve Balance of Payments equilibrium /encourage exports / reduce imports.
  5. Control government expenditure/ improve government finances.
  6. Reduce borrowing / control the national debt as a percentage of GDP.
  7. Achieve an equitable taxation system.
  8. Promote balanced regional development.
  9. Improve/ maintain state services e.g. health/education services.
  10. Achieve an equitable distribution of income.

1<sup>st</sup> correct response: **8 marks** / 2<sup>nd</sup> correct response: **8 marks**

5. In the case of each of the following items state, in the blank spaces below, which factor of production it represents.

	Electrician	Machinery	Business Owner	Oil
Factor	LAND	LABOUR	CAPITAL	ENTERPRISE
Represented by	<b>Oil</b>	<b>Electrician</b>	<b>Machinery</b>	<b>Business Owner</b>

Each correct response @ **4 marks each**

6. State **two** reasons why the Irish economy needs entrepreneurs.

(17 marks)

**1. Create employment**

Entrepreneurs need workers to produce goods/services.

**2. Organise production**

Entrepreneurs organise the other factors of production into production units.

**3. Decide what commodities will be produced and what prices are charged**

Entrepreneurs decide which goods and services to produce, in what quantities and what prices to charge.

**4. Encourages further investment**

Entrepreneurs put both their money and skills into a business in the hope of making a profit and this may encourage further investment in the economy, if successful.

**5. Provide an outlet for savers funds**

Entrepreneurs provide an investment outlet for savers funds.

**6. Generate revenue for the government**

Entrepreneurs generate revenue for the government through taxation revenues.

**7. May increase exports**

If the goods produced are exported this will help improve the balance of payments position.

1<sup>st</sup> correct response: **9 marks** / 2<sup>nd</sup> correct response: **8 marks**

7. The formula for measuring Income Elasticity of Demand is as follows:

$$\frac{\Delta Q}{\Delta Y} \times \frac{Y_1 + Y_2}{Q_1 + Q_2}$$

Complete the following table to indicate what each of the above symbols stands for:

$\Delta Q$	Change in quantity demanded
$\Delta Y$	
$Y_1$	Original income of the consumer
$Y_2$	New Income of the consumer
$Q_1$	
$Q_2$	New quantity demanded of the good

1<sup>st</sup> correct response: **5 marks** / Other 3 correct responses: **3 @4 marks**

8. State **two** economic benefits to this country if citizens reduced the level of litter on Irish streets.
1. Reduced costs of litter collection.
  2. Cleaner / healthier environment / improved quality of life.
  3. Retail sales may increase, boosting employment and tax revenue for the government.
  4. Encourage tourism.

1<sup>st</sup> correct response: **9 marks** / 2<sup>nd</sup> correct response: **8 marks**

9. In relation to the economic ideas listed below, match the idea with the associated economist.

<u>Economic Idea</u>	<u>Economist</u>
A. Law of Comparative Advantage	1. Adam Smith
B. Laissez Faire	2. John Maynard Keynes
C. Theory of Population and Food Supply	3. David Ricardo
D. Liquidity Preference Theory	4. Thomas Malthus

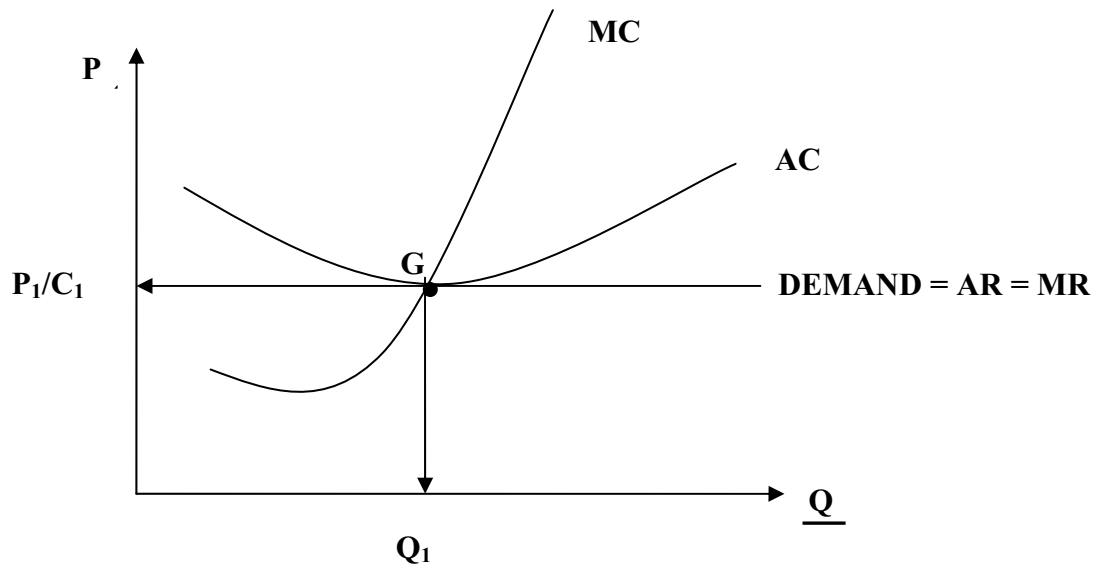
Economic Idea	A	B	C	D
Economist	<b>3</b>	<b>1</b>	<b>4</b>	<b>2</b>

**1<sup>st</sup> correct response: 5 marks**  
**2<sup>nd</sup>, 3<sup>rd</sup> & 4<sup>th</sup> correct responses: 4 marks each**



## Q1 Perfect Competition

The diagram below represents the long run equilibrium of a firm in **Perfect Competition**.



(a) (i) Copy the diagram into your answer book.

Complete / write each of the **six** underlined labels in full.

**20 marks**

Label	Full Title	
<u>P</u>	Price	<b>4 marks</b>
<u>Q</u>	Quantity	<b>4 marks</b>
<u>AC</u>	Average Cost	<b>3 marks</b>
<u>MC</u>	Marginal Cost	<b>3 marks</b>
<u>AR</u>	Average Revenue	<b>3 marks</b>
<u>MR</u>	Marginal Revenue	<b>3 marks</b>

(ii) Equilibrium occurs at **point G** on the diagram.

**10 marks**

Show on your diagram:

- the output the firm will produce in equilibrium ( use label  $Q_1$ )
- the price charged for this output ( use label  $P_1$ )
- the average cost of producing this output ( use label  $C_1$ )

(30 marks)

<u><math>Q_1</math></u>	<b>the output the firm will produce</b>
<u><math>P_1</math></u>	<b>the price charged for this output</b>
<u><math>C_1</math></u>	<b>the average cost of producing this output</b>

1<sup>st</sup> correct response: **6 marks** / 2<sup>nd</sup> & 3<sup>rd</sup> correct responses: **2 @ 2 marks each**

- (b) (i) State **three** characteristics of Perfect Competition.  
(ii) Write brief notes on each of these.

(24 marks)

**There are many buyers in the industry**

- No individual buyer can influence by his/her own actions the market price of the goods.

**There are many sellers in the industry**

- No individual seller can influence by his/her own actions the market price of the goods.

**Firms produce homogeneous goods**

- The goods, which are supplied by the producers, are identical goods.
- Firms do not advertise or use brand names in attempting to convince consumers that their product is different.

**Free entry and exit**

- Firms already in the industry cannot prevent new firms from entering the industry.
- No barriers to entry/exist within the industry.
- It's possible for firms to enter or leave the industry as they wish.

**Perfect knowledge**

- In the market every firm has full knowledge as to profits made by the other firms in the industry.
- Consumers are fully aware of the prices being charged for different products.

**Firms try to maximise profits**

- The aim of each firm is to produce that quantity where  $MC = MR$ .
- Each firm will try to minimise costs.

**Elastic supply of factors of production**

- Firms can acquire the scarce factors of production at existing prices.
- Scarcity of factors of production will not force their prices upwards.

**3 @ 8 marks each graded**

(c) Perfect Competition is a market structure with few real world examples. In practice firms produce and sell close substitutes.

- (i) Explain the underlined term.
- (ii) Give examples of substitute goods for the following items:
  - butter
  - bus transport
  - compact discs (CDs)
- (iii) State and explain **one economic advantage** of the availability of close substitutes to:
  - consumers;
  - producers;

(21 marks)  
[75marks]

(i) Close substitutes: **5 marks**

- a good that can be consumed *or* used in place of another
- a good that can be used to satisfy the same needs as another good

(ii) Examples of substitute goods for: **7 marks graded**

Commodity	Substitute goods
Butter	Margarine
Bus Transport	Car transport
Compact discs	iTunes

(iii) State and explain **one** economic advantage of the availability of close substitutes to:

- consumers;
- producers;

Group	Advantage
Consumers	<p><b>Choice:</b> consumers have a greater choice of commodities / increased standard of living</p> <p><b>Competitive prices:</b> producers may compete on price to gain consumers</p>
Producers	<p><b>Increased profits:</b> they may sell more and gain a larger share of the market, thereby increasing profits. May help the producer stay in business.</p> <p><b>Reduced unit costs:</b> with increased production, producers may benefit from economies of scale, thereby reducing the unit cost of production.</p>

**9 marks graded**

## Q2 Demand and Supply

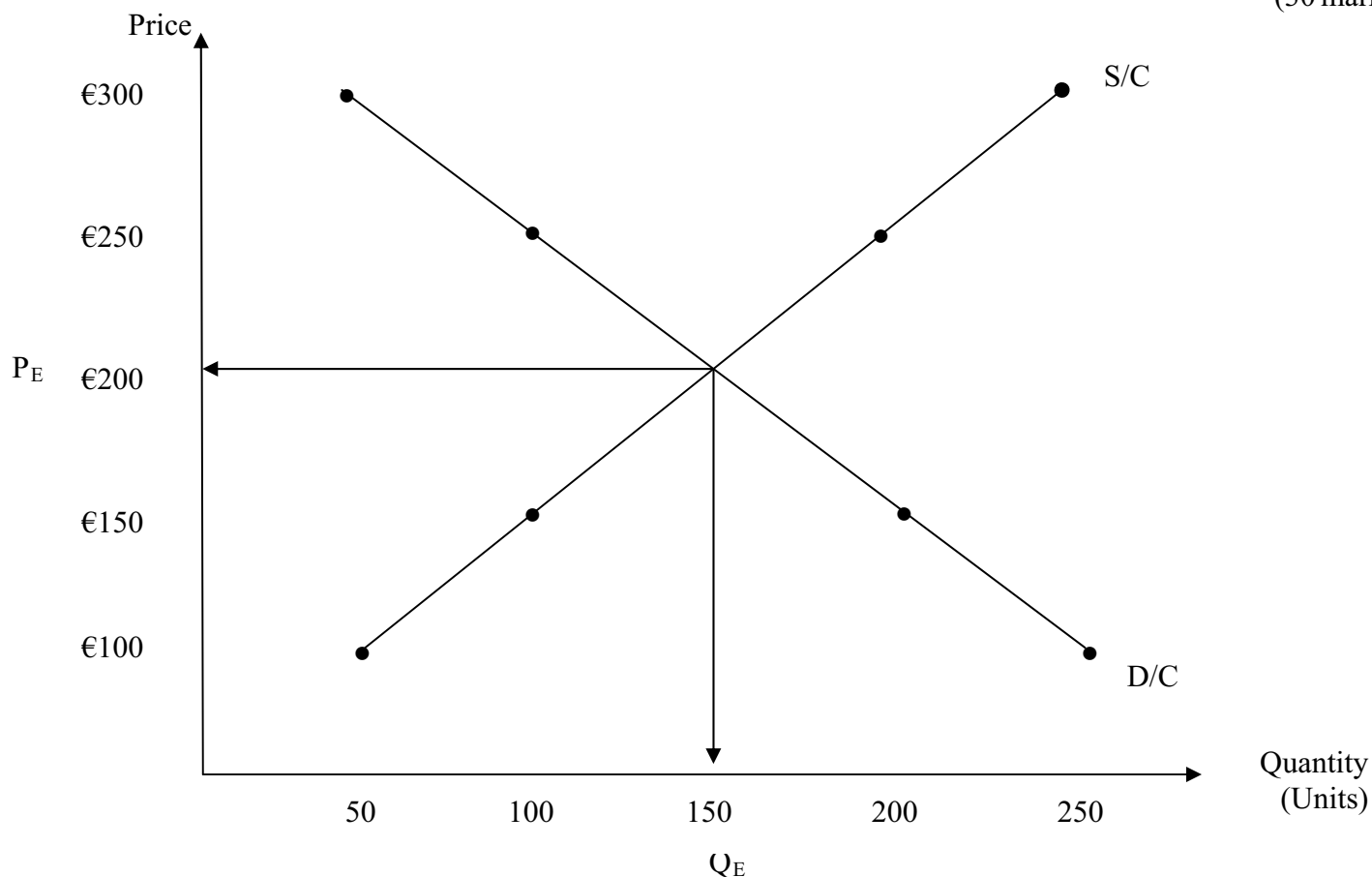
The information below represents the expected market demand and market supply schedules for iPods.

Price €	Quantity Demanded (units)	Quantity Supplied (units)
100	250	50
150	200	100
200	150	150
250	100	200
300	50	250

Using the above information and **one** diagram:

- (a) (i) Draw the market demand curve for iPods;  
(ii) Draw the market supply curve for iPods;  
(iii) Show on your diagram:
- The market equilibrium price for iPods;
  - The market equilibrium quantity for iPods.

(30 marks)



**Demand curve: 10 marks graded**

**Supply curve: 10 marks graded**

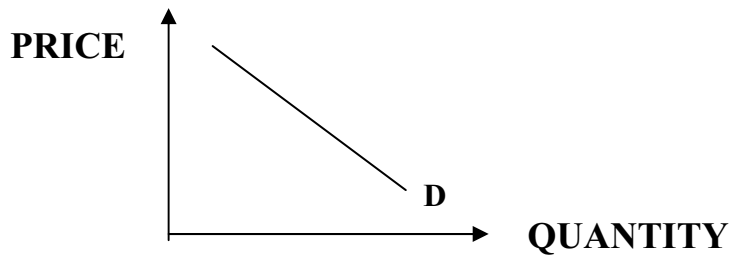
**Correct market equilibrium price indicated (€200)**

**5 marks**

**Correct market equilibrium quantity indicated (150 units)**

**5 marks**

(b) The diagram below represents the demand curve for foreign holidays by Irish citizens:



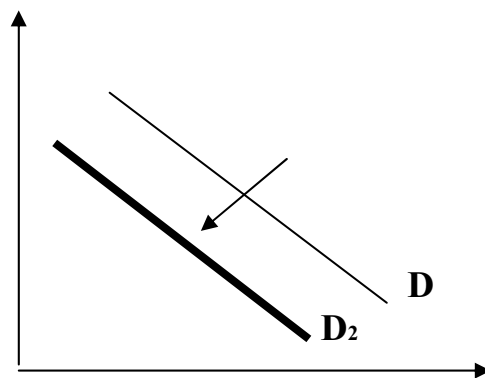
Copy the diagram into your answer book

- (i) Label each of the lines 1 and 2.
- (ii) The following factors cause the above demand curve to shift:
  - Government introduces a €10 per ticket travel tax;
  - Bad weather during the summer months in Ireland.

Show how **each** of the above developments may shift the demand curve and explain your answer in each case. Note: a **separate** diagram is necessary in **each** case. (25 marks)

(i) Price & Quantity: **1<sup>st</sup> correct response: 3 marks. 2<sup>nd</sup> correct response: 2 marks**

**Government introduces a €10 per ticket travel tax**



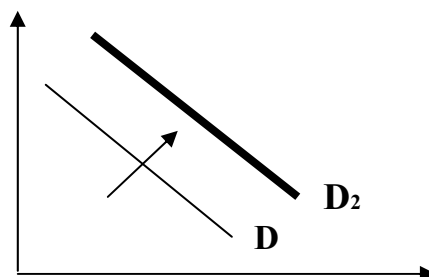
**5 marks for new D/C**

Demand curve will shift to the left because:

It is now more expensive to holiday abroad and demand for foreign holidays will fall.

**5 marks for explanation**

**Bad weather during the summer months in Ireland**



**5 marks for new D/C**

Demand curve will shift to the right because:

Holidays in Ireland are less attractive and people will want to holiday abroad to get some sunshine.

**5 marks for explanation**

- (c) The demand for new cars in Ireland decreased in 2009.
- (i) State and explain **two** economic reasons for this development.
  - (ii) Explain briefly how this development has affected **each** of the following:
    - The Irish Motor Industry;
    - The Government's Current Budget.
- (20 marks) [75marks]

(i) State and explain two economic reasons for this development **10 marks**

Statement	Explanation
Drop in incomes	Consumers are now unable to afford to change their cars and so demand for cars has fallen.
Uncertainty	People are fearful for the future: they may lose their jobs and are unwilling to invest money in purchasing a new car (i.e. luxury item).
Buying cars in Northern Ireland	Some consumers are buying cars in NI due to the price differences in sterling.
Availability of credit	Some banks are unwilling to give credit and with less borrowings available demand for cars has fallen.
<b>2 points @ 5 marks each. State: 2 marks each Explain: 3 marks each</b>	

(ii) Explain briefly how this development has affected each of the following **10 marks**

Group	How they are affected
The Irish Motor Industry	<p><b>Loss of profits:</b> with declining sales, profits have fallen for existing dealerships.</p> <p><b>Closures:</b> some firms unable to cover costs have closed.</p> <p><b>Unemployment:</b> lost sales means fewer workers are required leading to job losses.</p> <p><b>Lower prices:</b> firms offering lower prices to attract consumers.</p>
The Government Current Budget	<p><b>Tax revenue:</b> big decline in VRT and VAT revenues. Decline in CPT from dealerships, due to lower profits.</p> <p><b>Increased social welfare:</b> loss of jobs, leading to social welfare payments.</p>
<b>2 points @ 5 marks each. State: 2 marks each. Explain: 3 marks each</b>	

### Q3 Costs, The Minimum Wage

The Table below shows the costs of production for a firm producing customised (made-to-order furniture).

Number of units of output	Fixed Costs	Variable Costs	Total Cost	Marginal Cost
	€	€	€	€
1	300	700	1,000	1,000
2	300	1,400	1,700	700
3	300	2,100		
4	300	3,200		
5	300	4,600		

(a) (i) Using the partially completed table above calculate: **Show all your workings**

- the total cost of producing unit 3, unit 4 and unit 5.

	Total Cost - €	Workings - €	
3	2,400	300 + 2,100	<b>3 marks</b>
4	3,500	300 + 3,200	<b>3 marks</b>
5	4,900	300 + 4,600	<b>3 marks</b>

- the marginal cost of producing unit 3, unit 4 and unit 5.

	Marginal Cost - €	Workings - €	
3	700	2,400 - 1,700	<b>3 marks</b>
4	1,100	3,500 - 2,400	<b>3 marks</b>
5	1,400	4,900 - 3,500	<b>3 marks</b>

(ii) State **two** examples of fixed costs and **two** examples of variable costs for a furniture firm.

two examples of fixed costs	two examples of variable costs
1. Rent of premises 2. Rates on business 3. Depreciation on equipment / premises	1. Wages. 2. Raw materials. 3. Other utilities
<b>1<sup>st</sup> correct response: 2 marks</b> <b>2<sup>nd</sup> 3<sup>rd</sup> &amp; 4<sup>th</sup> correct responses: 1 mark each</b>	

(iii) Define what is meant by the term **marginal cost**.

Is the extra cost of producing one extra unit of output.

**2 marks**

- (b) Some costs of production for businesses operating in Ireland are beginning to fall. Consumer demand for output is falling.
- (i) Outline **two** economic advantages of falling costs of production for the Irish economy.
  - (ii) Suggest **two** ways the government could try to increase consumer demand.
  - (iii) Outline **one** possible economic advantage and **one** possible economic disadvantage of falling consumer demand for the Irish economy. (30 marks)

- (i) Outline **two** economic advantages of falling costs of production for the Irish economy.

**1. Increased competitiveness**

With lower costs prices may fall for Irish goods and exports may become cheaper.

**2. Lower prices**

With lower prices inflation is lower and consumers may purchase more goods.

**3. Increased demand**

Businesses may have increased demand resulting in increased sales, profits and a more secure future.

**4. Increased employment**

With rising demand businesses may increase their demand for labour / maintain existing labour.

**5. Easier to attract investment**

Lower costs for businesses will encourage expansion and attract foreign firms to Ireland.

**2 @ 5 marks each graded**

- (ii) Suggest **two** ways the government could try to increase consumer demand.

**1. Decrease VAT**

This will help reduce prices and so encourage consumers to spend.

**2. Provide incentives to consumers to spend**

Examples:

Car Scrappage scheme: This could encourage consumers to change their cars leading to increased demand for cars.

Home insulation grants: May encourage house owners to spend on insulation.

**3. Decrease income taxes / levies**

This would increase consumers' disposable incomes and so encourage spending.

**4. Boost confidence in the economy**

The government, by pursuing appropriate economic policies, may give consumers and producers confidence in the economy and so encourage both to increase demand.

**5. Facilitate lending by the financial institutions**

By assisting the financial institutions the government may encourage them to provide credit which may lead to an increase in demand by borrowers.

**2 @ 5 marks each graded**



- (iii) Outline **one** possible economic advantage and **one** possible economic disadvantage of falling consumer demand for the Irish economy.

<b>one possible economic advantage</b>	<b>one possible economic disadvantage</b>
<p><b>More competitive prices / lower inflation</b> Firms must compete for business and so may lower prices to attract consumers.</p>	<p><b>Unemployment</b> Falling demand means reduced demand for labour and rising unemployment.</p>
<p><b>Increased competition in market</b> Firms may offer better service and give other offers so as to attract customers.</p>	<p><b>Decreased standard of living</b> Falling demand means reduced purchasing of goods &amp; services.</p>
<p><b>More realistic house prices</b> Currently falling demand in Ireland is resulting in lower property prices.</p>	<p><b>Effect on Government Finances</b> Falling demand means reduced revenue from taxation and increased social welfare spending.</p>
<p><b>Improved use of scarce resources</b> Firms and households may use scarce resources more efficiently.</p>	<p><b>Difficult to attract investment</b> Falling economic growth means less opportunities in the market place and so investment by new business is less likely.</p>
<p><b>Increased savings</b> With reduced demand people may now save more. This may lead to increased revenue for the government through DIRT.</p>	<p><b>Pressure to increase direct tax revenue</b> With falling demand indirect tax revenue falls and so pressure mounts on the government to make up this shortfall by increasing direct taxes.</p>
<p><b>1 @ 5 marks graded</b></p>	<p><b>1 @ 5 marks graded</b></p>

(c) In 2008 the national minimum wage was €8.65 per hour.

- (i) Explain the underlined term.
  - (ii) Outline **two** benefits to workers of the existence of the minimum wage.
  - (iii) Outline **two** reasons why businesses may have concerns about an increase in the minimum wage.
- (20 marks) **[75 marks]**

(i) The minimum wage:

The lowest wage that employers must, by law, pay their employees.

**4 marks**

(ii) Outline **two** benefits to workers of the existence of the minimum wage.

1. **Protection under the law** to a fair wage paid by an employer.
2. **Exploitation** by an employer is reduced as the wage is set by law.
3. **A fair standard of living** is achieved by the existence of the minimum wage.
4. **Less need to join a trade union** to safeguard a minimum wage.
5. **Increased participation** in the Labour force.

**2 @ 4 marks each graded**

(iii) Outline **two** reasons why businesses may have concerns about an increase in the minimum wage.

1. Costs would increase which could lead to increased prices, reduced demand for output / lower profits due to the higher costs.
2. The business may have to reduce the workforce in order to pay the increased wages/ no incentive to employ more workers.
3. Quality of service may be reduced in order to reduce costs.
4. Risk of closure / greater uncertainty- due to rising costs and falling demand

**2@ 4 marks each graded**

## Q4 Budgeting, Taxation, the Black Economy

(a) A Minister for Finance prepares the following draft Current Budget for 2009:

Current Budget - 2009			
Government Current Income	€5,600m	Government Current Spending	€7,600m

- (i) State **two** examples of government current income and **two** examples of government current expenditure.
- (ii) Calculate the Current Budget Deficit for the above budget. **Show your workings.**
- (iii) If you were Minister for Finance and this Current Budget Deficit was predicted:
- State and explain **two** measures you would take to help reduce this deficit;
  - Explain how **each** measure you have stated could affect the standard of living within the country.

(30 marks)

(i) State **two** examples of government current income and government current expenditure.

<u>Government Current Income</u>	<u>Government Current Expenditure</u>
<ol style="list-style-type: none"> <li>1. Direct tax revenue (or example)</li> <li>2. Indirect tax revenue (or example)</li> <li>3. National lottery receipts.</li> <li>4. Interest on loans given to semi-states / local authorities</li> <li>5. Surpluses of semi-state bodies.</li> <li>6. Departmental balances.</li> <li>7. Prize Bond scheme.</li> <li>8. Fees charged for state services</li> </ol>	<ol style="list-style-type: none"> <li>1. Salaries of all state employees</li> <li>2. Cost of running government departments</li> <li>3. Costs of running state institutions. (schools, hospitals, prisons, CSO, Ombudsman)</li> <li>4. Social welfare payments</li> <li>5. National debt service.</li> <li>6. Grants to local authorities.</li> <li>7. Ireland's contribution to the EU budget.</li> </ol>
<b>2 @ 3 marks each</b>	<b>2 @ 3 marks each</b>

(ii) Calculate the Current Budget Deficit for the above budget. **Show your workings.**

**Government Current Income €5,600m – Government Current Spending €7,600m = €2,000m**

**6 marks graded**

- (iii) If you were Minister for Finance and this Current Budget Deficit was predicted:
- State and explain **two** measures you would take to help reduce this deficit;
  - Explain how **each** measure you have stated could affect the standard of living within the country.

<b>State</b>	<b>Explanation</b>	<b>Effect on standard of living</b>
<b>Increase income tax</b>	This will raise additional revenue and help reduce the deficit	This will result in lower disposable incomes and a fall in living standards.
<b>Increase in VAT / Excise duties</b>	As Above	This will increase prices / inflation result in a drop in disposable income and a fall in living standards.
<b>Increase / introduce charges for state services</b>	As above	This will increase prices / inflation result in a drop in disposable income and a fall in living standards.
<b>Cut social welfare spending</b>	This will reduce spending and help reduce the deficit	This will result in lower incomes for social welfare recipients and a drop in standard of living.
<b>Cut pay for public sector workers</b>	As Above	This will lower disposable incomes for these workers and result in a drop in standard of living.
<b>2 @ 6 marks each graded</b>		

- (b) Income from taxation has been decreasing in Ireland in recent times.  
 (i) State and explain **two** reasons for this development.

	<b>Statement</b>	<b>Explanation</b>
1	<b>Increased unemployment</b>	With rising unemployment in Ireland the government is collecting less revenue from income tax.
2	<b>Reduced spending</b>	Consumers are spending less and so less VAT revenue is collected by the state.
3	<b>Fall in property prices / Reduction in property sales</b>	With property sales reduced /decrease in prices the state is collecting less stamp duties and other taxes related to property sales.
4	<b>Cross border / on-line shopping</b>	Results in reduced indirect tax revenue being collected by the government.
<b>2 points @ 5 marks each graded</b>		

- (ii) The Government increased the VAT rate from 21 % to 21.5 % in the 2008 Budget.  
 State and explain the economic effects which this increase in VAT rate may have on each of the following:
- . Consumer purchases;
  - . Government Current Budget.

<b>Category</b>	<b>Statement</b>	<b>Explanation / Economic effect</b>
Consumer purchases	Decreased purchases	<ul style="list-style-type: none"> <li>● Consumer purchases have fallen within the Republic, due to higher prices.</li> <li>● Consumers who are able have switched to buying goods in Northern Ireland.</li> <li>● Consumers are becoming more price conscious and are looking for better value for money /lower prices.</li> <li>● Increased unemployment</li> </ul>
Government Current Budget	Revenue reduced or Expenditure increased	With falling demand the revenue from VAT declines. Because demand has fallen, unemployment increases resulting in increased social welfare payments by the state.
<b>2 points @ 5 marks each graded</b>		

(c) The **Black Economy** is defined as economic activity which takes place which is not recorded and therefore not included in national income accounts.

- (i) State **one** example of an activity within the black economy;
- (ii) Suggest **two** measures the government could take to discourage such activities;
- (iii) If these measures were successful state and explain how they may affect the Government's Current Budget. (25 marks)

**[75marks]**

(i) State **one** example of an activity within the black economy **5 Marks**

- A teacher giving grinds, without declaring the income for tax purposes.
- A plumber fixing a washing machine for cash payment and not declaring the income for tax purposes.

(ii) Suggest **two** measures the government could take to discourage such activities

1. Reduce direct taxation.
2. Reduce indirect taxation.
3. Better enforcement by revenue commissioners / close all tax loopholes.
4. Educate the public about the important uses to which the tax revenue is put.

**2 @ 5 marks each**

(iii) If these measures were successful state and explain how they may affect the Government's Current Budget

	<b>Statement</b>	<b>Effect on Govt. Current Budget</b>
Reduce direct taxation	Size of black economy may decline Extent of tax evasion may decline	<ul style="list-style-type: none"> <li>• Citizens may be more inclined to declare their full income and so the level of tax collected may increase.</li> <li>• The overall tax revenue collected could fall due to the reduced rate of tax.</li> </ul>
Reduce indirect taxation	As Above	<ul style="list-style-type: none"> <li>• More income may be declared and so more indirect tax revenue collected.</li> <li>• The overall tax revenue collected could fall due to the reduced rate of tax</li> </ul>
Better enforcement by Revenue Commissioners	As Above	Level of tax evasion may be reduced, resulting in an increase in tax revenue within the state.
Educate public about uses of tax revenue	As Above	If citizens believe that tax revenue is being put to good use then it may result in greater honesty with tax returns and a reduction in tax evasion.
<b>2 @ 5 marks each graded</b>		

## Q5 Taxation

- (a) The CSO calculates the National Income for Ireland. National Income is the total of the incomes received by each of the four factors of production in Ireland in a given year.
- What do the letters CSO represent?
  - Name the **three** methods used to estimate National Income.
  - State **one** benefit of using three methods instead of one method for estimating National Income.
- (25 marks)

- Central Statistics Office
- Three methods to calculate National Income:

### Income method / Output Method / Expenditure Method

- One benefit why all three methods are used instead of one:

- Accuracy:** using three methods gives a more accurate result.
- Cross-check:** estimates under one method can be cross-checked under the other two methods.

**25 marks graded**

- (b) Given: National Income as  $Y = C + I + G + X - M$   
 $C = €1,500\text{ m}$   $I = €600\text{ m}$   $G = €700\text{ m}$   $X = €150\text{ m}$   $M = €250\text{ m}$

- State what each of the letters / symbols in the formula above represents.
  - Calculate, using the figures provided, the level of National Income. **Show your workings.**
- (20 marks)

- State what each of the letters / symbols in the formula above stand for **10 marks graded**

	What this symbol stands for	Marks
C	<b>Consumption</b>	<b>2</b>
I	<b>Investment</b>	<b>2</b>
G	<b>Government</b>	<b>2</b>
X	<b>Exports</b>	<b>2</b>
M	<b>Imports</b>	<b>2</b>

- Calculate the level of National Income. **Show your workings.** **10 marks graded**

<b>WORKINGS</b> $Y = C + I + G + X - M$ $€1,500\text{m} + €600\text{m} + €700\text{m} + €150\text{m} - €250\text{m}$	<b>ANSWER</b>  $€2,700\text{m}$
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- (c) The Irish economy is currently experiencing a decrease in GNP per person.
- (i) What do the initials GNP stand for?
  - (ii) Discuss **three** economic effects which this decrease in GNP per person may have on citizens in Ireland.
  - (iii) Suggest **two** measures which the government could take to encourage economic activity within Ireland.
- (30 marks) [75marks]

(i) **GNP: Gross National Product: 7 marks**

(ii) **Three** economic effects which this decline in GNP per person may have on citizens in Ireland:

**Lower standard of living**

A lower GNP per person will mean that a person will be able to buy less goods and services resulting in a reduced standard of living.

**Reduced savings**

More disposable income is needed for goods and services so a person will not be able to save as much.

**Increased unemployment**

With reduced spending, demand falls and so less labour will be needed to produce this lower output resulting in an increase in unemployment.

**Government Finances**

With lower incomes, income tax revenue will decline, as will revenue from Corporation Profits Tax and from DIRT. With lower spending, VAT revenue will decline. Social welfare spending will increase resulting in a deterioration in the states' finances.

**Loss of state services / charges introduced for these services**

With the loss of revenue to the government, charges for some state services may be introduced or the requirements for availing of these services may change. Service may be discontinued.

**More difficult to encourage businesses to expand / attract foreign investment**

With lower demand businesses are less likely to expand / invest as there are less opportunities available. Foreign investment may fall because of the reduced investment opportunities.

(iii) Suggest **two** measures which the government could take to encourage economic activity in Ireland.

**Increase government spending** with the aim of increasing demand, boosting employment and improving state finances.

**Reduce direct / indirect taxation** may increase spending, boost demand, encourage employment and help improve the state finances.

**Provide subsidies to encourage employment / / grants for enterprise:** if PRSI was reduced on the hiring of additional employees then employment would increase resulting in a boost in economic activity. Grants may encourage entrepreneurs to set up business and increase economic activity.

**Stabilisation of the banking system** may help the banks give credit to businesses which may increase demand and lead to increased economic activity.

**Stabilisation of the states' finances** may increase confidence in the country, attract foreign investment, boost employment and spending and help stimulate economic activity.

**23 marks graded**



## Q6 Population, Unemployment, Economic Development

- (a) Many economists have commented on Ireland's 'greying population' i.e. the structure of Ireland's population is getting older.

State and explain how this development affects each of the following:

- Demand for goods and services;
- Government finances.

(20 marks)

	Statement	Explanation
Demand for goods and services	Changes in the nature of goods and services required	Demand for services like healthcare; nursing homes; medicines etc will increase.
Government finances	Government expenditure may increase	State may spend more on the provision of pensions; healthcare provision, subsidies towards the elderly etc.

**2 @10 marks each. State: 4 marks each. Explain: 6 marks each.**

- (b) The number of people unemployed in Ireland is increasing.
- State and explain **two** possible economic reasons for this.
  - State and explain **two** economic effects which this development may have on the economy.
  - Suggest **one** way each of the following could help to reduce unemployment:

- Irish consumers;
- The Irish Government.

(30 marks)

- (i) State and explain two possible economic reasons for this.

Statement	Explanation
Worldwide economic recession	With falling demand for goods and services less workers are required to meet demand.
Relocation of industry outside of Ireland	Some companies are moving to cheaper cost locations e.g. Dell to Poland.
Inability of businesses to get credit	Due to the banking crisis some businesses are unable to get credit and so are unable to continue in business, resulting in job losses
Irish consumers not spending	With the loss of consumer confidence and the introduction of the various levies consumers are not spending resulting in job losses in many sectors e.g. retail; motor; entertainment etc.
Construction sector	Our over reliance on this sector meant that with reduced demand, job losses in this sector mounted with consequent losses in other trades.
Irish companies exporting to UK and US	With the rise in the value of the euro relative to sterling and the dollar exports fell resulting in job losses in these industries e.g. Waterford Glass.

**2 @ 5 marks each graded**

(ii) State and explain **two** economic effects which this development may have on the economy.

Statement	Explanation
Falling standard of living	People who become unemployed have lower incomes.
Increased government (current) expenditure	The government will have to fund a higher social welfare bill.
Reduced government (current) revenue	With fewer people working the government will collect less in both direct and indirect tax revenue.
Reduced investment	With declining demand the opportunities for businesses to expand or commence trading will contract.
Emigration	With less job opportunities available some people who are able may consider emigrating if job opportunities exist elsewhere.
Reduced inflation	With reduced spending, aggregate demand falls resulting in reduced demand-pull inflation.
<b>2 @ 5 marks each graded</b>	

(iii) Suggest **one** way each of the following could help to reduce unemployment:

- Irish consumers;
- The Irish Government.

Category	Suggestion
Irish Consumers	<ol style="list-style-type: none"> <li>1. Spend: by increasing demand for goods &amp; services, more labour will be required.</li> <li>2. Buy Irish: by buying goods produced in Ireland, the demand for these goods will increase, resulting in job opportunities.</li> </ol>
The Irish Government	<ol style="list-style-type: none"> <li>1. Reduce VAT rates: this would help lower prices, boost demand and hence employment.</li> <li>2. Reduce direct taxes: this would boost incomes helping to increase spending and thus employment should increase.</li> <li>3. Give subsidies to employers for the hiring of additional new workers/ reduce employers PRSI for new employees / reduce CPT to encourage entrepreneurship.</li> <li>4. Training opportunities: up-skill the workforce so that they can avail of potential job opportunities.</li> </ol>
<b>2 @ 5 marks each graded</b>	

(c) High rates of population growth and unemployment are currently being experienced by less developed countries (LDCs).

(i) State **two** other economic problems which these countries are experiencing.

(ii) Write brief notes on each of these.

(iii) Discuss **three** measures which Irish citizens could take to help reduce the problems experienced in LDCs.

(25 marks)

**[75marks]**

### **Famine**

Too frequently famine occurs resulting in disease, deaths at an early age and high medical costs.

### **Foreign Debts**

These are very high. Their repayment uses up government revenue and can cripple the economy.

### **Uneven distribution of wealth**

In some LDCs a minority may control a large part of the country's wealth, resulting in widespread poverty.

### **Dependence on one crop**

Some LDCs are over-dependent on one crop. The country may be subject to crop failure and/or a wide variation in export prices.

### **Percentage of the population engaged in extractive/primary industries**

Generally high resulting in poor standard of living.

### **Terms of trade / Restrictions to free Trade**

Countries may face low export prices and high import prices. LDCs may be prevented from exporting to other countries e.g. EU has established quotas for certain goods.

### **Poor living conditions**

A large percentage of the population live in shanty towns with no water and poor sanitation.

### **Lack of capital**

LDCs lack the capital which is essential for economic development, resulting in an inadequate infrastructure.

### **Per capita income for the majority of the population**

Generally low resulting in a poor standard of living and a consequent low demand for goods and services.

### **Levels of education/literacy**

Generally very low which acts as an impediment to economic development.

### **Exploitation by multinationals (MNCs) of LDCs**

This may take the form of low wage rates for workers and lack of care for the environment, resulting in damage to the environment.

**10 marks: 2 @ 5 marks each graded**

(iii) Discuss **three** measures which Irish citizens could take to help reduce the problems experienced in LDCs.

**1. Buy more goods produced in LDCs (trade not aid)**

This could result in more money flowing into LDCs increasing their wealth.

**2. Give aid to LDCs in urgent need**

By continuing to give aid, the agencies involved can continue to provide essential services, knowledge and help to the citizens of these countries.

**3. Put pressure on governments in developed countries**

By exerting pressure on governments in the developed world trade policies could change ensuring a fairer treatment of LDCs.

**4. Campaign for debt reduction**

Through campaigning, highlight the importance of debt reduction in LDCs and thereby change public opinion/govt. policy.

**5. Encourage multinationals to adopt fair trade and employment practices**

Citizens can, through various measures (e.g. boycotts of products), ensure that MNCs do not exploit the people or the resources of LDCs.

**6. Volunteer to work in a LDC**

Citizens could work in an LDC and provide a necessary service e.g. teach or build or provide healthcare etc.

**1<sup>st</sup> correct response 7 marks graded**  
**2<sup>nd</sup> & 3<sup>rd</sup> correct responses: 4 marks each graded**

## Q7 Money and Interest Rates

(a) Four of the functions of money in an economy are:

Medium of exchange / Measure of value / Store of wealth / Standard for deferred payment.

Explain **any two** of the above functions.

(20 marks)

### Medium of exchange

- Money allows people to get goods and services.
- Allows the buying and selling of goods/services to be broken into two distinct activities.

### Measure of Value

- Money enables a value/price to be put on goods & services.

### Store of Wealth

- Allows people to save for the future.

### Standard for Deferred Payment

- Money is capable of measuring value for a future date.
- Money makes credit trading (i.e. buying & selling) possible.

### 2 explanations @ 10 marks each

(b) During 2008, the ECB reduced interest rates within the Euro zone.

(i) Explain the term 'interest rate'.

(ii) State and explain how a decrease in interest rates may affect **each** of the following:

Households / Businesses / The Irish Economy.

(25 marks)

(i) **Interest rate:** the price of money / the cost of borrowing / the return on savings: **7 marks**

Group	Statement	Explanation
Households	<b>Lower cost of borrowing</b> <b>Reduced return on savings</b>	As the cost of borrowing falls less money is needed to meet repayments. Disposable income rises so the standard of living will rise. More people may be encouraged to borrow, resulting in a higher standard of living. With a lower rate of return on savings households may save less.
Businesses	<b>Increased profits</b> <b>Lower cost of borrowing</b> <b>Lower costs of production</b>	With lower costs of borrowing capital they may be encouraged to expand / increase employment. With lower costs their profits may increase.
Irish Economy	<b>National Debt.</b> <b>Economic growth.</b> <b>Demand for wage increases.</b>	Less monies flowing out of Ireland to repay the National debt / easier to repay the debt. Increased spending by businesses & households may increase economic growth in Ireland. Increased revenues available to the government to improve services, infrastructure etc. Workers may experience a lower cost of living and may moderate their demands for wage increases.
<b>3 @ 6 marks each graded</b>		

- (c) Interest rates on savers' deposits is one of the factors which influence the level of savings in the economy.
- (i) Explain the underlined term.
  - (ii) State and explain **two** factors, other than the rate of interest, which may influence a person's decision to save.
  - (iii) State and explain **two** economic effects which an increase in the level of savings may have on the Irish economy. (30 marks)
- [75marks]**

(i) Explain the meaning of the term **savings**.

- Savings means not spending part of your income: **6 marks**

(ii) State and explain **two** factors, other than the rate of interest, which may influence a person's decision to save

### **Level of income**

The greater a person's level of income the greater the ability to save.

### **Level of Inflation**

Inflation results in a reduction in the real rate of return on savings.

Inflation means that you must spend more to buy goods and services and so your ability to save is diminished.

### **Levels of Social Welfare Benefits**

If the levels of social welfare benefits provided by the state are very good this may discourage people from saving as they know the state will provide adequately for them.

On the other hand it may facilitate increased savings.

### **Tax rates on savings / income**

If the level of DIRT were to increase then this may discourage the level of savings.

If rates of income tax increase then (disposable) incomes fall and this may result in reduced savings.

### **Future Expectations**

If people are concerned about the future of the economy this may result in a loss of consumer confidence and people may then save more.

### **Demands on disposable income**

Younger members of the population may face more demands on their income e.g. repaying mortgages and therefore have less income for saving. Older members may have repaid their mortgages and therefore may have more disposable income for saving.

**2 @ 6 marks each graded**

(iii) State and explain **two** economic effects which an increase in the level of savings may have on the Irish economy.

**Reduced spending within the economy**

People who save more spend less and so the demand for goods and services may fall.

**Increase in unemployment**

Falling demand for goods and services will result in a reduction in demand for labour, resulting in increased unemployment.

**More funds available for investment**

Increased savings will mean that more funds are available in financial institutions for borrowing by individuals and businesses. This may help economic growth.

**Reduced inflation**

With less spending and falling demand there will be reduced pressure on prices, resulting in lower inflation and possibly increased competitiveness.

**Reduced demand for imports**

Less spending may lead to reduced demand for imports thereby improving the Balance of Payments position.

**2@ 6 marks each graded**

## Q8 Trade

(a) The table below shows Ireland's exports and imports with other countries / regions.

	Countries / Regions	Visible Exports € million	Visible Imports € million	Balance of Trade € million	Surplus or Deficit
A	United Kingdom	14,500	17,000		
B	Other EU countries	45,000	20,000		
C	USA	17,000	9,000	<b>8,000</b>	<b>Surplus</b>
D	Rest of World	18,000	16,000		

- (i) Using the partially completed table above calculate Ireland's Balance of Trade with each country / region (A, B, D above) and state whether it is a surplus or deficit in each case.
- (ii) Distinguish between **visible exports** and **visible imports** and state **one** example in each case. (30 marks)

(i)

Countries / Regions		Visible Exports €million	Visible Imports €million	Balance of Trade € million	Surplus or Deficit	Marks
A	United Kingdom	14,500	17,000	<b>- 2,500</b>	<b>Deficit</b>	<b>4</b>
B	Other EU countries	45,000	20,000	<b>25,000</b>	<b>Surplus</b>	<b>4</b>
D	Rest of World	18,000	16,000	<b>2,000</b>	<b>Surplus</b>	<b>4</b>

(ii) Distinguish between **visible exports** and **visible imports** and state **one** example in each case.

	Visible exports	Visible imports
Explanation	The <u>sale of Irish goods to consumers outside Ireland</u>	The <u>purchase of foreign goods by Irish consumers</u>
	<b>6 marks</b>	<b>6 marks</b>
Example	<ul style="list-style-type: none"> <li>• Sale of Irish beef abroad.</li> <li>• Sale of computer parts abroad.</li> <li>• Sale of Guinness / Bailey's in foreign markets.</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase of foreign cars.</li> <li>• Purchase of foreign foods.</li> <li>• Purchase of clothes from China.</li> </ul>
	<b>Example: 1 @ 3 marks</b>	<b>Example: 1 @ 3 marks</b>



(b) Ireland, as a small open economy, depends on international trade.

- (i) State and explain **two** reasons why exports are important for the Irish economy.
- (ii) State and explain **two** reasons why imports are important for the Irish economy. (20 marks)

(i) State and explain two reasons why exports are important for the Irish economy.

**1. Job creation**

Exports mean increased demand for goods produced in Ireland leading to increased employment.

**2. Increased GNP / Economic growth**

The monies received from exports will lead to increased incomes within the country.

**3. Increased sales / profits**

Domestic firms can increase their sales/profits by exporting their excess output on a foreign market.

**4. Earn foreign currencies**

The receipt of foreign currencies can boost reserves / provide the finance to pay for imports.

**5. Attract investment**

Strong exports will enhance confidence in the country and may help attract investment into Ireland.

**10 marks: 2 points @ 5 marks each graded**

(ii) State and explain two reasons why imports are important for the Irish economy

**1. More choice for consumers / Higher standard of living**

Consumers have a much larger selection of goods and services available to them e.g. exotic fruits; foreign holidays etc.

**2. Raw materials unavailable in Ireland**

Certain raw materials are not available in Ireland and must be imported e.g. oil.  
Our climate is unsuitable for the production of certain crops e.g. oranges.

**3. Employment in the distribution sector**

The importation of goods requires people to help in their importation and distribution,  
This helps create jobs in those sectors.

**4. Tax revenue for the state**

Should the government place tariffs on some imports then this will help create revenue for the state.

**5. Small domestic market**

Due to the small Irish market, certain products cannot be produced economically in Ireland and therefore must be imported e.g. cars.

**10 marks: 2 reasons @ 5 marks each graded**

(c) You are given the following information about the euro (€) to UK sterling (£) exchange rate.

Year 1: €1 = £0.75

Year 2: €1 = £0.95

The euro has increased in value relative to the pound sterling from Year 1.

State and explain the possible economic effect which the above change may have on each of **any three** of the following:

- Ireland's exports to the UK;
- Ireland's imports from the UK;
- Employment in Ireland;
- Citizens in the Republic shopping in Northern Ireland.

(25 marks)  
[75marks]

	Statement	Explanation
Ireland's exports to the UK	<ul style="list-style-type: none"> <li>• Reduced demand</li> <li>• Exports dearer</li> <li>• Reduced sales revenue</li> </ul>	The prices of Irish exports in pound sterling have increased resulting in a reduced demand for Irish exports.
Ireland's imports from the UK	<ul style="list-style-type: none"> <li>• Increased imports</li> <li>• Imports cheaper</li> </ul>	The prices of UK imports in euro have decreased resulting in increased demand for UK imports.
Employment in Ireland	<ul style="list-style-type: none"> <li>• Decreases</li> </ul>	With fewer exports to the UK, firms in this exporting sector will decline resulting in unemployment.
Citizens in the Republic shopping in Northern Ireland	<ul style="list-style-type: none"> <li>• More shopping in Northern Ireland</li> </ul>	Shoppers will now be able to get more value for their euro in NI and therefore more citizens may shop in Northern Ireland.

**1<sup>st</sup> correct answer: 13 marks. State: 7 marks. Explain: 6 marks.**

**2<sup>nd</sup> & 3<sup>rd</sup> correct answers: 2 @ 6 marks each. State: 3 marks. Explain: 3 marks.**



## Coimisiún na Scrúduithe Stáit

### *Marcanna Breise as ucht freagairt trí Ghaeilge*

Léiríonn an tábla thíos an méid marcanna breise ba chóir a bhronnadh ar iarrthóirí a ghnóthaíonn níos mó ná 75% d'iomlán na marcanna.

N.B. Ba chóir marcanna de réir an ghnáthráta a bhronnadh ar iarrthóirí nach ghnóthaíonn níos mó ná 75% d'iomlán na marcanna don scrúdú. Ba chóir freisin an marc bónais sin a **shlánú síos**.

### *Tábla 400 @ 10%*

Bain úsáid as an tábla seo i gcás na n-ábhar a bhfuil 400 marc san iomlán ag gabháil leo agus inarb é 10% gnáthráta an bhónais.

Bain úsáid as an ngnáthráta i gcás 300 marc agus faoina bhun sin. Os cionn an mharc sin, féach an tábla thíos.

Bunmharc	Marc Bónais
301 - 303	29
304 - 306	28
307 - 310	27
311 - 313	26
314 - 316	25
317 - 320	24
321 - 323	23
324 - 326	22
327 - 330	21
331 - 333	20
334 - 336	19
337 - 340	18
341 - 343	17
344 - 346	16
347 - 350	15

Bunmharc	Marc Bónais
351 - 353	14
354 - 356	13
357 - 360	12
361 - 363	11
364 - 366	10
367 - 370	9
371 - 373	8
374 - 376	7
377 - 380	6
381 - 383	5
384 - 386	4
387 - 390	3
391 - 393	2
394 - 396	1
397 - 400	0

