

Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2012

Marking Scheme

ECONOMICS

Ordinary Level



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State Examinations Commission

LEAVING CERTIFICATE 2012
MARKING SCHEME

ECONOMICS
ORDINARY LEVEL

ECONOMICS ORDINARY LEVEL

Marking Scheme and Support Notes

- There is no suggestion that the enclosed notes are exhaustive or complete.
- Further relevant information presented by candidates will be marked and rewarded on its 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.

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SECTION A

1.(a) Which of the following **economists** developed the **Canons of Taxation**? (*Circle the correct answer.*)

John Maynard Keynes

Adam Smith

David Ricardo

2 marks

(b) In relation to the following **canons of taxation**, match the canons with the correct explanation.

Canons	Explanation
A. Equity	1. The tax revenue collected should be greater than the costs of collection.
B. Certainty	2. The tax should be collected in a way and at a time which accommodates the taxpayer.
C. Convenience	3. Takes a higher proportion of an individual's income in tax as income increases.
D. Economy	4. An individual's tax bill should be clear.

CANON	A	B	C	D
EXPLANATION	3	4	2	1

1st two correct responses at 4 marks each. 2nd two correct responses at 3 marks each.

2. The Irish Government has introduced a **cycle-to-work scheme**, which encourages people to cycle to work. Outline **two economic advantages** of this scheme:

1. Possible reduction in traffic congestion.
2. Reduced fuel emissions / less environmental damage.
3. Scarce resources saved: reduction in demand for oil.
4. Possible healthier population: reduced public health costs.
5. Reduced carbon emissions: reducing fines paid to EU.
6. Increased demand for bicycles: increased employment in sales / repairs of bicycles.
7. Less congested towns: easier to shop; speedier delivery; reduced business costs.
8. Workers have more disposable income as less is spent on fuel / car maintenance.
9. It allows people to buy bicycles at a reduced price.
10. It allows consumers buy the bicycle now and pay later.

1st correct response: 12 marks. 2nd correct response 4 marks.

3. Complete the following statement: (16 marks)

Labour, as a factor of production, is defined as the **human** effort involved in the production of **goods** and services. The payment for labour is called **wages / salary**.

1st correct response: 8 marks. 2nd and 3rd correct responses: 4 marks each.

4. 'Austerity' is a consequence of the policy of reducing Government Budget Deficits. Outline **any two** effects which government 'austerity' measures may have on Irish citizens. (16 marks)

1. **Higher taxes** / introduction of new taxes: higher VAT rates; household tax etc.
2. **Reduced standard of living**: due to reduced incomes / reduced social welfare payments.
3. **Increased unemployment**: with reduction in consumer demand people have lost jobs, resulting in increased social welfare.
4. **Increased emigration**: some people have opted to leave Ireland to find a better standard of living.
5. **Increased charges for services** such as refuse collection; introduction of water charges.
6. **Loss of services**: deterioration in health services; loss of SNA's in schools etc.
7. **Lack of confidence in economy**: potential entrepreneurs unwilling to take risks.

1st correct response: 12 marks. 2nd correct response: 4 marks.

5. The Irish Government is considering privatisation. The EU / IMF want a significant part of the revenues received to be used to reduce Ireland's National Debt. Explain the underlined term **and** state what the initials EU and IMF stand for. (16 marks)

This is the sale of a state / government company to private owners.

6 marks

EU: European Union

IMF: International Monetary Fund.

5 at 2 marks each.

6. The formula for measuring Price Elasticity of Demand is as follows:

$$\frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2}$$

Complete the following table to indicate what each of the above symbols stands for: **(17 marks)**

ΔQ	Change in the quantity demanded of the good.
ΔP	Change in price.
P_1	Original price.
P_2	New / Current Price.
Q_1	Original quantity of the good demanded.
Q_2	New / current quantity of the good.

1st correct response: 8 marks. 2nd, 3rd & 4th correct responses: 3 marks each.

7. The Minister of State in the Department of Health is concerned with the low price of alcohol in supermarkets in Ireland. Outline **one economic action** the Minister could take to encourage a decrease in alcohol consumption and **one advantage** of a reduction in alcohol consumption for society. **(17 marks)**

One economic action:

1. **Taxes:** increase taxes (excise duty/VAT) on alcohol.
2. **Opening hours:** restrict opening hours in supermarkets.
3. **Introduce limits on the amount that can be purchased** similar to purchases of paracetamol.
4. **Age restrictions:** raise the legal age for the consumption of alcohol.
5. **Sales points:** restrict the number of places selling alcohol.
6. **Sponsorship:** ban the Drinks' Industry advertising / sponsoring of events.
7. **Café licences:** revisit the idea of allowing licences for café style bars.
8. **Awareness:** use advertising campaigns to raise awareness of the dangers of excessive alcohol consumption.
9. **Price:** introduce a minimum price per gram at which alcohol can be sold.

One Advantage:

1. **Reduction in absenteeism levels:** workers may be absent less frequently.
2. **Reduced pressure on hospitals:** fewer people being admitted to A&E departments.
3. **Increased productivity:** reduced absenteeism may lead to greater productivity.
4. **Reduction in alcohol related deaths / reduction in crime levels.**
5. **Health /well being: population healthier.**

1st correct response: 12 marks. 2nd correct response: 5 marks.

8. *'The largest manufacturer of sportswear in Ireland reported a boom in the sale of GAA jerseys in Australia' – The Irish Times, 5 November 2011.*

This is one of the effects of the current emigration of Irish citizens to Australia. Explain the underlined term and state **one** other economic effect of emigration on the Irish economy. **(17 marks)**

Explanation:

Movement of Irish nationals to reside elsewhere / to other countries.

One economic Effect

1. Loss of skills to the Irish economy e.g. skilled tradesmen.
2. Reduction in domestic demand in the Irish economy.
3. Reduction in unemployment levels, resulting in reduced social welfare expenditure.
4. Loss of confidence in the economy may deter investment/entrepreneurs.
5. Reduced pressure on state services.
6. Loss of revenue to state (VAT, PAYE etc) if emigrants had been employed.
7. No return on the state's investment in emigrant's education.
8. Dependency ratio: will probably increase requiring increased tax levels.

1st correct response: 11 marks.

2nd correct response: 6 marks.

9. Outline the possible economic effect which the increase in the rate of VAT from 21% to 23% may have for **each** of the following: **(17 marks)**

Cross-border shopping:

May encourage people to go to Northern Ireland and shop resulting in a reduction in VAT revenue collected by government.

Irish employment levels:

If consumer demand falls it will result in a reduction in employment levels.

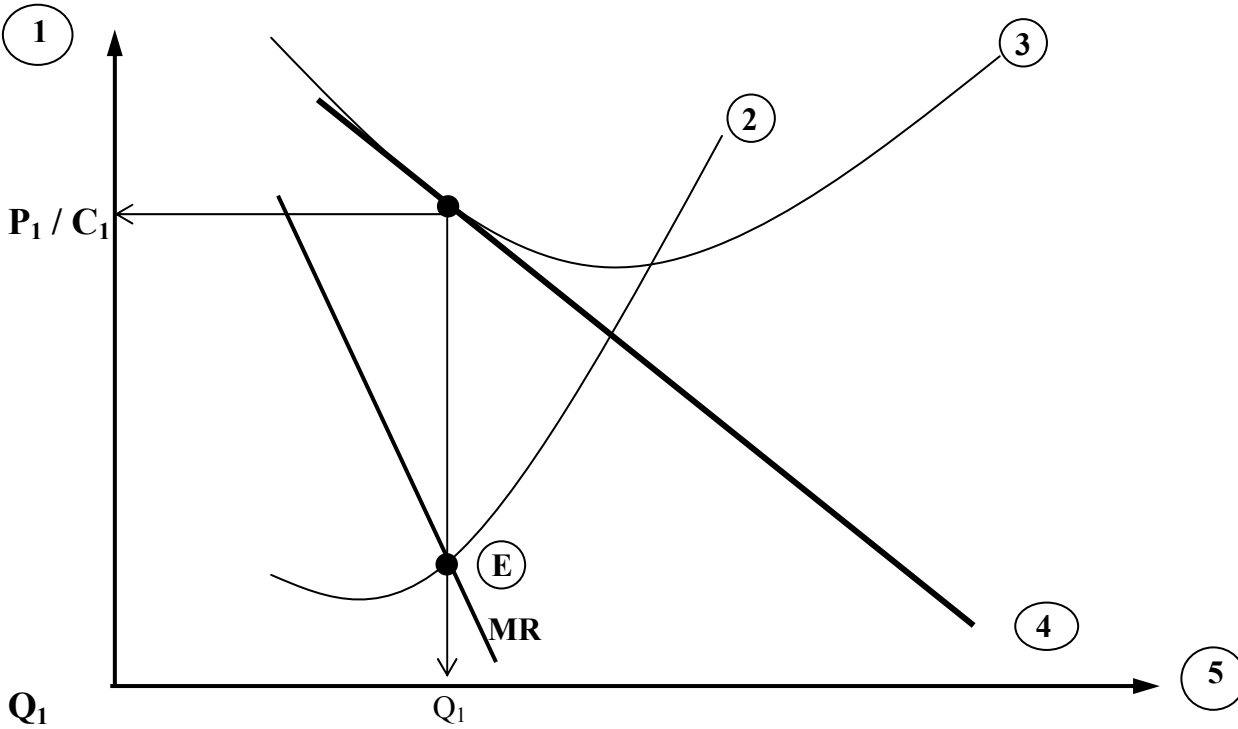
Government Budget Deficit:

Spending falls resulting in a reduction in VAT revenues collected so the budget deficit will increase. Increased unemployment may lead to increased social welfare, so the budget deficit will increase.

1st correct response: 9 marks. 2nd and 3rd correct responses: 4 marks each.

Q1 IMPERFECT COMPETITION

The diagram below represents the Long Run Equilibrium of a firm in **Imperfect Competition**.



(30 marks)

- (a) Copy the diagram into your answer book.
- (i) Clearly label each of the lines numbered 1 to 5.

No	Full Title	
1	Price	4 marks
2	Marginal Cost	4 marks (2 + 2)
3	Average Cost	4 marks (2 + 2)
4	Average Revenue / Demand	4 marks (2 + 2)
5	Quantity	4 marks

- (ii) Equilibrium occurs at point E on the diagram. Show on your diagram
- The quantity the firm will produce in equilibrium (use label Q_1)
 - The price the firm will charge for Q_1 . (use label P_1)
 - The average cost of producing this output. (use label C_1)

Q_1	the quantity the firm will produce
P_1	the price charged for this output
C_1	the average cost of producing this output

1st and 2nd correct responses: 2 at 4 marks. 3rd correct response: 2 marks.

(b) Firms in imperfect competition produce goods that are close substitutes.

- (i) Explain the underlined term
- (ii) State **two** other characteristics of imperfect competition.
- (iii) Write brief notes on **each** of these.

(21marks)

(i) Close substitutes:

7 marks

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

(ii) Characteristics of imperfect competition:

There are many buyers.

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

There are a large number of sellers.

- Each seller acts independently.
- An individual seller can influence the quantity sold by the price it charges for its output.

No barriers to entry.

- Firms already in the industry cannot prevent new firms from entering the industry.
- It's possible for firms to enter or leave the industry as they wish.

Almost Perfect knowledge

In the market every firm has almost full knowledge as to profits earned by other firms in the industry.

Each firm tries to maximise profits.

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

Elastic supply of factors of production

- Firms can acquire the scarce factors of production at existing prices.

2 points at 7 marks each. State: 4 marks. Explain: 3 marks.

(c) BordGáis increased its electricity prices by 12% in August 2011.

- (i) Name **one** competitor to Bord Gáis which supplies electricity in Ireland
- (ii) State and explain **one** economic effect of this increase in electricity prices for **each** of the following:
 - Consumers of Bord Gáis;
 - Other suppliers of electricity in the market;
 - The Irish economy.

(24 marks)

(i) One competitor to Bord Gáis:

Electric Ireland / Air Tricity:

8 marks

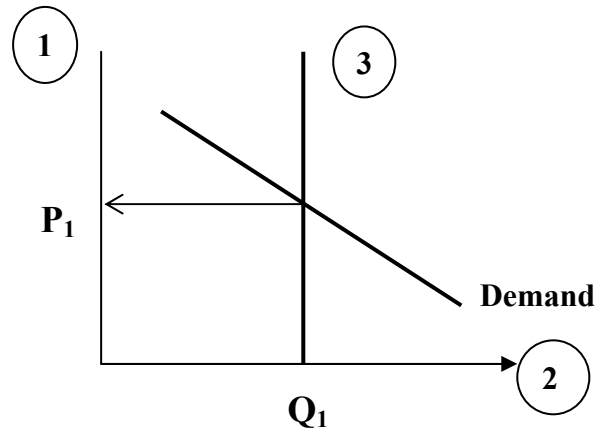
(ii) One economic effect of this increase in electricity prices for the following:

Group	Statement	Explanation
Consumers of Bord Gáis	<ul style="list-style-type: none">• Decreased standard of living due to higher prices• Economies in usage• Switching by consumers	<ul style="list-style-type: none">• Resulting from lower disposable income.• Higher prices may result in economy in usage of electricity.• Consumers may choose a cheaper/low cost competitor.
Other suppliers of electricity	<ul style="list-style-type: none">• Price advantage• Employment• Potential price increase	<ul style="list-style-type: none">• Other suppliers may use their price advantage to increase their share of market.• If market share increased they may create additional employment.• Other suppliers may increase their prices and so their profits may increase.
Irish economy	<ul style="list-style-type: none">• Inflation• Higher business costs• Export prices increased.• Renewable energies	<ul style="list-style-type: none">• Due to higher energy prices.• Leading to job losses / reduction in spending may lead to job losses in economy.• Leading to a reduction in demand.• Move away from oil generated electricity towards alternatives so less reliance on imported oil.

1st correct response: 8 marks. State: 4 marks. Explain: 4 marks.
2nd & 3rd correct responses: 4 marks. State: 2 marks. Explain: 2 marks.

Q2 Demand, Supply, Markets and Tolls charges

- (a) The diagram below shows the demand for match tickets by Irish soccer supporters and the supply of tickets in the venues (i.e. Poznan and Gdansk) for the Irish matches in the Euro 2012 European Football Championships.



- (i) Copy the diagram into your answer book. Label each of the lines 1 and 3.
- (ii) Show on your diagram:
- equilibrium price (use label P_1)
 - equilibrium quantity (use label Q_1)
- (iii) Explain the relationship between the price of tickets and the supply of tickets shown on your diagram. **(21 marks)**

(i)

Line	Label	Mark
1	Price	3 marks
2	Quantity	3 marks
3	Supply	3 marks

(ii)

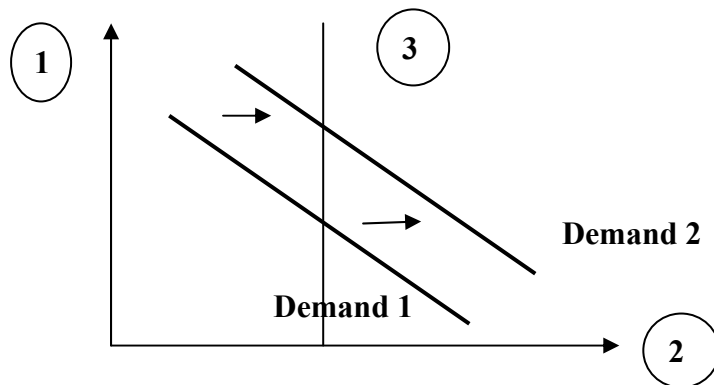
Item	Correctly labelled	Mark
Equilibrium price	P_1	3 marks
Equilibrium quantity	Q_1	3 marks

- (iii) Relationship between price and supply:

As the price of tickets changes the supply of seats remains unchanged / fixed.

6 marks

(b) Assume the demand for these match tickets shifts to the right, as shown below.



- (i) State and explain **two** possible reasons why the demand curve for these tickets may shift to the right as illustrated above.
- (ii) Explain the effect this shift in the demand curve has on the equilibrium price.
- (iii) State **one** complementary good for these match tickets **and** explain the effect on the demand for **this complementary good** if the demand for these match tickets continues to increase. **(30 marks)**

(i) Two possible reasons why the demand curve for tickets may shift to right: **14 marks**

Factor	How this factor affects the demand curve – The demand curve shifts to the right
Income levels	If income rises then the demand for tickets will increase.
Tastes / Preference	If an extensive advertising campaign convinces consumers to purchase Euro 2010 tickets then the demand for tickets will increase.
Expectations concerning the future	If consumers expect ticket prices to rise in the near future they may buy the tickets now and demand will increase / If fans believe the championship is going to be successful then they may want to be part of it.
Unplanned events	If the Irish team wins its opening match and therefore have the potential to progress further in the tournament.
Change in price of substitute good	If the price of tickets to an alternative event increased, such as the Olympics London 2012, then demand for these match tickets may increase.
Change in price of complementary gd.	If the price of hotel accommodation near the venues / air fares decreased then demand for the match tickets may increase.
2 at 4 marks each	2 at 3 marks each

(ii) Explain the effect this shift in the demand curve has on the equilibrium price. **8 marks**

The equilibrium price will increase.

(iii) State one complementary good for these match tickets and explain the effect on the demand for this complementary good if the demand for these match tickets continues to increase. **8 marks**

Complementary good	Effect on the demand for complementary good	Reason
Accommodation / Travel Fares / Jerseys	Will increase	If demand for tickets continues to increase there will be an increased demand for any goods which complement them, so demand for accommodation / transport will increase.
4 marks	2 marks	2 marks

- (c) The government is considering introducing toll charges for more motorways in Ireland.
- (i) Outline **one** possible economic advantage and **one** possible economic disadvantage of introducing new toll charges.
- (ii) Explain briefly how this development would affect **each** of the following:
- Irish Trucking / Haulage Companies;
 - Government's Current Budget Deficit.
- (24 marks)**

Introducing toll charges for more motorways in Ireland

Economic advantages	Economic disadvantages
Revenue / Profits Operator will earn increased revenues with a possible increase in profits.	Reduced standard of living With higher charges users will have lower disposable incomes.
Possible reduced use of motorways leading to reduced emissions.	Use of alternative routes Road users may divert to routes which do not incur charges.
Targeted use of charge As road users are targeted it may mean that there is less need for other taxation increases and /or a reduction in state services and / or an improvement in infrastructure.	Increased transport costs Haulage companies may pass the increased costs to the consumer resulting in higher prices.
Jobs created If toll booths are required then jobs will be created.	
1 at 6 marks. State: 3 marks. Explain: 3 marks	1 at 6 marks. State: 3 marks. Explain: 3 marks

Effects on each of the following

Irish Trucking / Haulage Companies	Government's Current Budget Deficit
Increased costs resulting in a loss of business or a decrease in profits.	If revenue accrues to Government Then the Current Budget Deficit will fall.
Job losses To help offset the increase in costs haulage companies may decrease the numbers employed.	If revenue accrues to Operator Their profits may increase resulting in increased CPT revenue and the current budget deficit will fall.
Use of alternative routes In an effort to avoid the new tolls companies may use non-tolled alternative routes.	If employment increases Then income tax revenue will increase and social welfare spending will fall so the current budget deficit will fall.
1 at 6 marks. State: 3 marks. Explain: 3 marks	1 at 6 marks. State: 3 marks. Explain: 3 marks

Q3 Costs, Enterprise, Shopping local

- (a) A business must control both its fixed costs and variable costs so that it can earn normal profit.
- (i) Explain the underlined term.
 - (ii) Define fixed cost and variable cost and state **one** example of each.
 - (iii) State and explain **two** reasons why it is important for a business to continue to earn profit.

(25 marks)

(i) Normal Profit:

- **The minimum profit needed to continue in existence.**
- **The profit the entrepreneur needs to earn to stay in business.**
- **The profit earned when $AR = AC$.**

3 marks

(ii) Define fixed cost and variable cost and state **one** example of each.

Fixed Costs	Marks	Variable Costs	Marks
costs which do not change as output changes <i>or</i> costs which have to be paid even if nothing is produced	3 marks 1 marks	costs which do change as output changes	3 marks 1 marks
One correct example:	2 marks	One correct example:	2 marks
	6 marks		6 marks

(iii) State and explain **two** reasons why it is important for a business to continue to earn profit.

1. **Encourages risk taking:** profits are necessary for an entrepreneur to undertake risks.
2. **Continue production:** if normal profit is not earned production ceases.
3. **Fund expansion:** a business can use the profits to expand its existing business *or* to diversify production.
4. **Reward innovation:** a business which earns SNPs may encourage those who are most efficient / *or* those who are minimising costs.

2 points at 5 marks each. State: 2 marks. Explain: 3 marks.

- (b) The factor of production 'Enterprise' combines the other factors of production into a production unit, in the expectation of making a profit.
- (i) Name the other factors of production referred to above.
 - (ii) Outline **two** reasons why entrepreneurs are important to the development of the Irish economy.
 - (iii) Outline **one** action each of the following could take to encourage enterprise:
 - The Irish Government;
 - Schools / Colleges.

(30 marks)

- (i) Name the other factors of production referred to above.

Land, Labour and Capital

4 + 4 + 4 marks each.

- (ii) Outline **two** reasons why entrepreneurs are important to the development of the Irish economy

1. Organise production.

Entrepreneurs organise the other factors of production into production units.

2. Create Jobs.

If successful the entrepreneur will help create employment for labour.

3. What commodities will be produced.

Entrepreneurs decide which goods and services are going to be produced and in what quantities by anticipating consumer demand.

4. Encourage further investment.

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

5. Place for savers funds.

Entrepreneurs provide an investment outlet for savers funds, generating a return on savings.

6. Revenue for the government.

Entrepreneurs when successful, help generate revenue for the government through taxation revenues.

7. Improve the Balance of Payments.

If the goods produced are exported, this will help improve the Balance of Payments position.

8. Innovation.

Successful entrepreneurs may invest part of their profits into developing new products which benefit society and improve the standard of living.

9. Creates wealth.

Successful entrepreneurs create wealth thereby leading to economic growth / increase in GNP.

**2 reasons at 5 marks each.
State: 2 marks. Explain: 3 marks.**

(iii) Outline **one** action each of the following could take to encourage enterprise:

- The Irish government;
- Schools / Colleges.

The Irish government

1. Enterprise education.

If the government encouraged greater emphasis on enterprise education in schools and colleges then more individuals may be willing to undertake the risks involved.

2. Taxation policies.

If government maintains corporation profits tax then individuals may see the possibility of greater profitability. Similarly a reduction in VAT rates may increase demand for products and provide greater investment opportunities.

3. Government policies / regulation.

If the government reduced the regulations involved in setting up a business or removed administrative obstacles then more people might become entrepreneurs. Also, if they offer grants and other incentives for establishing a business then more people might do so / creating a favourable business environment.

4. Labour market policies.

The availability of an educated / skilled workforce acts an incentive to individuals to establish a business.

5. Improved economic outlook / confidence in the economy.

If the government, through its economic and social policies presents a positive outlook about the economy then individuals may take more risk.

6. Development of the state's infrastructure.

Investment in communications technology through the provision of broadband access will encourage people to start up business.

7. Improve competitiveness.

Currently the competitiveness of Irish industry is improving. If measures can be taken to improve competitiveness further then individuals may be encouraged to start a business e.g. more competitive quotes for communications; insurance, energy etc.

8. Availability of bank credit.

By stabilising the banks the government may make it possible for the banks to provide credit and so encourage people to borrow and establish a business.

9. Government initiatives.

Examples include: 'Action Plan for Jobs 2012' providing support for businesses struggling to access credit with €100m Micro Finance Loan Scheme, €150m Development Capital Scheme and a Loan Guarantee Scheme.

1 point at 4 (2+2) marks.

Schools / Colleges

1. Offer courses / competitions

Suitable courses could be offered at competitive prices to potential entrepreneurs e.g. how to set up a business, management etc.

2. Provide R & D assistance

For those willing to set up a business provide research facilities on markets / products etc. opportunities to develop prototypes etc.

3. Operation space

Provide space for incubation units.

4. Co-ordinate local business

Hold Open days / meetings so that ideas / advice can be shared.

1 point at 4 (2+2) marks.

(c) Businesses throughout Ireland are encouraging consumers to shop local (i.e. shop in their local areas).

(i) State and explain **two** methods a Local Authority could use to encourage more consumers to shop local.

(ii) Discuss **two** benefits to the local economy if more consumers shop locally. **(20 marks)**

(i) **Two** methods a Local Authority could use to encourage more consumers to shop local.

1. Parking facilities / charges

Increase spaces available and / or reduce parking charges to encourage more people to shop local.

2. Reduce local authority rates

This will reduce costs for a business making it easier to survive / prices for consumers can be reduced.

3. Improve physical environment

This may make people happier to shop local.

4. Co-ordinate promotions to shop local

Provide services to local business which may help them attract shoppers e.g. advertising space etc.

**2 methods at 3 marks each.
State: 2 marks. Explain: 1 mark.**

(ii) Discuss **two** benefits to the local economy if more consumers shop locally.

1. Jobs

May be protected / created in the local community.

2. Increased economic activity

With increased spending the level of economic activity will increase which may encourage still further economic activity.

3. Revenue to local authority

With an increase in people shopping local it may lead to increased revenue for Local Authorities through increased parking revenues.

4. Better prospects for local business

Local business may be created because of increased business opportunities.

5. Optimism / confidence improved

With increased volume of shoppers, confidence may increase resulting in increased spending within the local economy, boosting business confidence.

6. Essential services continued

As the volume of business activity increases it may ensure that those services under threat may be continued e.g. local post offices; banks etc.

7. Community spirit

This may improve as the shop becomes a meeting place and the social aspect of shopping improves.

**2 benefits at 7 marks each.
State: 4 marks. Explain: 3 marks.**

Q4 Money, Barter, Interest rates and Inflation

- (a) 'Barter' and 'money' are used as mediums of exchange. Money has a number of characteristics including the following: relatively scarce; portable and durable.
- Explain **any two** of the underlined terms.
 - Outline the difficulty of using 'barter' as a medium of exchange.
 - Explain **two** functions of money other than 'medium of exchange'. **(25 marks)**

- (i) Explain **any two** of the underlined terms.

Relatively scarce

- It should be limited in supply (in relation to the demand).

Portable

- It should be easy to carry around.

Durable

- It should be capable of withstanding a lot of handling.

ANY 2 explanations at 5 marks each.

- (ii) Outline the difficulty of using 'barter' as a medium of exchange.

Establishing Value

- It can be difficult to put a precise value on items.

Time consuming / Double coincidence of wants

- It takes time to find who has what you want and wants what you have.

1 explanation at 5 marks. State: 2 marks. Explain: 3 marks.

- (iii) Explain **two** functions of money other than 'medium of exchange'.

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 functions at 5 marks each.
State: 2 marks. Explain: 3 marks.**

- (b) The ECB decreased interest rates in 2011 with the aim of increasing economic growth.
- (i) Explain the underlined term.
 - (ii) What do the initials ECB stand for?
 - (iii) State and explain **two** possible economic effects which an increase in economic growth may have on the Irish Economy. **(25 marks)**

- (i) Explain the underlined term.

Economic Growth: an increase in GNP per head.

6 marks

- (ii) What do the initials ECB stand for?

European Central Bank

7 marks

- (iii) State and explain **two** possible economic effects which an increase in economic growth may have on the Irish Economy.

Increased employment

A rise in GNP will lead to increased demand for goods and services with more labour being demanded to produce these.

Increased exports

If the extra GNP results from increased output and if some of this output is exported then our Balance of Payments position improves.

Increased imports

With rising disposable incomes part of this additional income may be used to buy imports.

Improved standard of living

Higher GNP results in increased wealth in the economy allowing us to buy more goods and services / a reduction in poverty.

Inflation

Rising income levels will mean that demand for goods and services will increase and this could lead to rising prices.

Effects on Emigration

If job opportunities exist then people who had planned to emigrate may remain and more immigrants may be attracted to the economy, thereby increasing the demand for new goods and services.

Investment opportunities

Rising GNP indicates a growing economy and this may attract more investment.

Government Finances

With rising employment, incomes and spending the government may collect increased tax revenues and spending on social welfare may decline, helping to improve the government's financial position.

2 points at 6 marks each. State: 3 marks. Explain: 3 marks.

- (c) One measure of price inflation is the CPI.
- (i) Explain the underlined term.
 - (ii) What do the initials CPI stand for?
 - (iii) Explain how **a fall in the rate of price inflation** may affect **each** of the following:
 - Employees;
 - People in receipt of social welfare;
 - Business.
- (25 marks)**

(i) Explain the underlined term

An increase in prices of goods / services over a period of time. **4 marks**
 A decrease in the value of money / people buy less with their money.

(ii) What do the initials CPI stand for?

Consumer Price Index **6 marks**

(iii) Explain how a fall in the rate of price inflation may affect each of the following:
 Employees / People in receipt of social welfare / Business.

Group	Statement	Explanation
Employees	<p>Increased disposable income/ higher standard of living</p> <p>Reduced wage demands</p> <p>Discourage spending</p>	<ul style="list-style-type: none"> • Employees may increase spending and this may lead to increased demand and increased employment. • With more disposable income the employees' standard of living may rise. • Employees may now moderate their demands for wage increases / reduce industrial action. • Deflation may discourage spending which reduces demand and may result in job losses
People in Receipt of Social Welfare	<p>Lower cost of living</p> <p>Improved standard of living</p>	<ul style="list-style-type: none"> • The cost of living would decrease with lower prices. • Purchasing power would increase so the standard of living will rise. • Government may reduce rates of social welfare in an effort to save money.
Business	<p>Lower costs of production</p> <p>Continuity of production</p> <p>Expand / Innovate</p> <p>Increase employment/pay</p>	<ul style="list-style-type: none"> • Business may be able to increase its profits. • A business may be able to continue production and continue supply and not close down. • With lower costs the business can expand its production and/or innovate with new products / methods of production. • The business can employ more workers / increase existing workers level of pay.

1st correct response: 7 marks. State: 4 marks. Explain: 3 marks.
2nd & 3rd correct response: 4 marks. State: 2 marks. Explain: 2 marks.

Q5 National Income and the black economy

- (a) Social welfare payments and student grants are examples of transfer payments.
- Explain the underlined term.
 - Explain why transfer payments are not included in National Income.
 - State and explain **two** possible uses of National Income Statistics. **(25 marks)**

- (i) Explain the underlined term. **6 marks**

Income received by a factor of production when no factor had been supplied.

- (ii) Explain why transfer payments are not included in National Income.
- Including this figure would lead to double counting.
 - This amount was already included in the calculation of national income when the income received by the original factor was counted.
 - To include them would mean that national income was over estimated.

5 marks.

- (iii) State and explain **two** possible uses of National Income Statistics.

Changes in the level of economic growth

The national income statistics will inform us about the rate of economic growth within the country from one year to the next.

Changes in standard of living

If national income is rising then we may deduce that the standard of living within the country is rising.

Changes to employment levels

An increase in GNP results in an increase in demand which should translate into more jobs.

International comparisons

Ireland's national income statistics allow comparisons to be made with other countries as to the rate of economic growth.

Distribution of income

An examination of the statistics will give a general indication of the distribution of incomes between different sectors in the country e.g. agricultural sector etc.

Contribution of government

The statistics will tell us the overall contribution made by the government to the national income within the country.

2 points at 7 marks each. State: 4 marks. Explain: 3 marks.

(b) The Multiplier formula for an open economy is: $\frac{1}{MPS + MPM}$

Assume that MPM is 0.2 and MPS is 0.3.

(20 marks)

(i) Explain each of the above underlined terms

The **multiplier** tells us by how much national income increases for any given injection into the economy.

6 marks.

An **open economy** is one which engages in trade / imports and exports.

6 marks.

(ii) Calculate, using the above formula, the size of the Multiplier.
(Show all your workings)

$$\frac{1}{0.3 + 0.2}$$
$$= 2$$

8 marks.

(c) The Irish government is concerned about the size of the 'black economy'.

(i) Explain the underlined term.

(ii) State **two** examples of activities considered part of the black economy.

(iii) State and explain **two** actions the Irish government could take to discourage activities in the black economy.

(30 mark)

(i) Black economy:

6 marks

Economic activity which takes place which is not recorded and therefore not included in national income accounts.

(ii) Two examples of activities considered part of the black economy:

2 at 6 marks

- A teacher giving grinds without declaring the income for tax purposes.
- A plumber working for cash payment and not declaring the income for tax purposes.

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

1. **Reduce direct taxation.**

This may encourage people to declare their income for tax purposes.

2. **Reduce indirect taxation.**

By doing this prices may fall and encourage people to buy legitimately.

3. **Better enforcement by revenue commissioners / close all tax loopholes.**

If revenue commissioners close all loopholes and check all tax receipts this may discourage tax evasion.

4. **Educate the public about the important uses to which the tax revenue is put.**

The need / uses of tax revenue may put moral pressure on people to contribute their share to the economy.

5. **Increase penalties for offenders.**

To deter people from engaging in such activities.

2 at 6 marks. State: 3 marks. Explain: 3 marks.

Q6 Unemployment, Infrastructure and Energy efficiency

- (a) One of the main economic aims of the Irish government is to reduce the number on the 'Live Register'.
- (i) Explain the underlined term.
 - (ii) Outline **two** economic advantages to the economy if the number on the 'Live Register' decreased.
 - (iii) State and explain **three** other economic aims of the Irish government. (30 marks)

- (i) **Live Register:** **5 marks**

Those people who sign stating they are unemployed and receive social welfare payments.

- (ii) Outline **two** economic advantages to the economy if the number on the 'Live Register' decreased.

1. Increased standard of living:

For those who become employed they have a higher disposable income.

2. Government Finances:

Reduced social welfare spending.

3. Emigration decreases:

With improved employment opportunities less people may be forced to emigrate.

4. Investment climate improves:

As employment increases spending rises and this may lead to a growth in business confidence.

5. Economic growth:

With economic activity increasing economic growth and employment may be stimulated.

**2 points at 5 marks each.
State: 2 marks. Explain: 3 marks.**

(iii) State and explain **three** other economic aims of the Irish government.

1. Price inflation.

The government must try to reduce the pressure on rising prices within the economy. It can try to limit wage increases, encourage market competition and encourage price competitiveness in services.

2. Economic growth.

The government must try to manage economic activity and ensure that economic growth takes place. It aims to do this through its taxation policies.

3. Encourage exports.

The government must try to improve competitiveness of Irish exporting industries.

4. Control government finances.

The government must reduce expenditure, cut the cost of providing public services and increase tax revenues.

5. Achieve taxation equity / broaden the tax base.

The government has introduced new taxes e.g. household tax and plans to introduce a septic tank tax, property tax etc. so as to increase its tax revenue.

6. Regional development.

The National Development Plan aims to do this. Develop broadband, promote educational opportunities in regions, better transport links etc.

7. Improve state services.

Increasing emphasis is being placed on the improvement in health services, the provision of further places in primary schools, improvement in school buildings and the development of third level education.

8. Equitable distribution of income.

Manage the future pensions bills, maintain social welfare payments and help people who are finding it increasingly difficult to 'make ends meet'.

9. Improve infrastructure.

By investing in the infrastructure e.g. schools, public transport etc the government aims to boost demand, employment and economic growth.

10. Reduce the national debt.

The national debt is growing and the government must take steps to try to reduce it. The sale of state assets could help reduce the national debt.

11. Bank stability.

By nationalising the main banks the government aims to restore stability to this sector, generate confidence, encourage bank lending and stimulate economic growth.

12. Restore consumer confidence.

By stabilising the economy the government aims to encourage consumers to spend to boost demand and hence employment.

3 at 5 marks each. State: 2 marks. Explain: 3 marks.

- (b) The Irish government reduced capital expenditure on infrastructure by approximately €750m in its 2012 budget.
- (i) Explain the underlined term.
 - (ii) Outline **three** economic effects which this reduction in capital expenditure may have on the Irish economy. (20 marks)

(i) Infrastructure: **5 marks**

- Goods /services which are essential for the smooth running of an economy.
- Goods /services which industry requires to function properly.
- Capital equipment used to supply publicly available services.

- (ii) Outline **three** economic effects which this reduction in capital expenditure may have on the Irish economy.

1. Reduced government borrowing

This will help in managing our national debt by reducing interest repayments.

2. Postponement of infrastructural development

The reduction has resulted in the postponement of some Capital projects e.g. Metro North.

3. Employment depressed

People who lost jobs in the construction sector will not be able to find jobs.

4. Deterioration in existing infrastructure

With a decrease in expenditure the existing infrastructure may deteriorate leading to poorer services e.g. poorer roads; rail network etc.

3 at 5 marks each.

State: 2 marks. Explain: 3 marks.

- (c) The Irish government provided grants towards energy improvements in an effort to encourage people to improve the energy performance of their homes. However, these grants involved an opportunity cost.

- (i) Explain the underlined term.
- (ii) Discuss **one** economic effect these grants have for each of the following:
 - Individual households;
 - Businesses;
 - The Irish economy.

(25 marks)

(i) Explain the underlined term.

Opportunity cost:

7 marks

- The cost of foregone alternatives.
- The cost of passing up the next best alternative when making a decision.

(ii) Discuss **one** economic effect these grants have for each of the following:

Individual households / Businesses / The Irish economy.

18 marks

Group	Statement	Explanation
Individual households	<ul style="list-style-type: none"> • Reduced spending on energy • Improved standard of living • Higher BER rating • Cheaper to improve home 	<ul style="list-style-type: none"> • Better insulation will reduce energy consumption / result in higher disposable income. • Warmer homes will improve the quality of lives. • Value of property may increase. • As it is more affordable more people may avail of the facility.
Businesses	<ul style="list-style-type: none"> • Increased demand for products • Employment opportunities • Opportunities for innovation 	<ul style="list-style-type: none"> • Increased sales / profits – better future prospects. • If sales increase more workers will be required. • Firms may develop new/better ways of improving energy performance in homes.
The Irish economy	<ul style="list-style-type: none"> • Increased economic growth • Government finances • Improved energy efficiency 	<ul style="list-style-type: none"> • Spending increases with demand / national income increasing. • Government will pay out more. • Opportunity cost: government have less money to spend on other projects. • Increased spending will lead to increased VAT revenues. • Increased employment will increase income tax revenue and reduce social welfare spending. • Will result in reduced carbon emissions and less damage to the environment.
3 at 6 marks	State: 3 at 3 marks each.	Explain: 3 at 3 marks each.

Q7 Trade and MNCs

(a) The table below illustrates the Law of Comparative Advantage.

Country	Output Production per worker per week	
	Wine	Cars
Germany	1600 litres	1200 units
France	800 litres	400 units
Total Output	2400 litres	1600 units

Although Germany is more efficient in the production of both goods, according to the Law of Comparative Advantage, each country will specialise in the production of one good.

- Which good will Germany produce? Explain briefly.
- Which good will France produce? Explain briefly.
- If each country specialises in the good you have selected, calculate the resulting total output. (Show your workings). (20 marks)

Germany

- It should produce **Cars**. **4 marks**
- It is three times more efficient than France in the production of cars. **3 marks**

France

- It should produce **Wine**. **4 marks**
- It is least inefficient in the production of wine than in car production. **1 marks**

Calculate the resulting total output if specialisation takes place. Show your workings.

Country	Output		Marks
	Wine	Cars	
Germany	0	$1200^* \times 2^* = 2400^*$	<i>3 figures x 1 mark each</i>
France	$800^* \times 2^* = 1600^*$	0	<i>3 figures x 1 mark each</i>
Total Output	1600*	2400*	<i>2 figures x 1 marks each</i>

8 marks: 8 workings at 1 mark each.

(b) Irish people attending the Olympic Games in London 2012 is an example of an invisible import for Ireland. (25 marks)

(i) Explain the underlined term **and** state **one** other example of an invisible import.

The purchase of foreign services by Irish consumers / money leaves Ireland.

6 marks

State **one** other example of invisible imports.

- (i) **Irish people using foreign financial services.**
- (ii) **Foreign rock groups performing in Ireland.**
- (iii) **Ryanair using maintenance crews in countries outside Ireland.**

4 marks.

(i) Discuss **three** benefits to the Irish economy of increasing exports.

1. Employment 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 onto a foreign market / economies of scale.

4. Earn foreign currencies.

The receipt of foreign currencies can boost our country's reserves / provide the finance to help pay for imports.

5. Attract investment.

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

6. Government finances.

Increased economic activity will generate increased tax revenues for the government e.g. VAT / PAYE / CPT.

15 marks: 3 points at 5 marks each. State: 2 marks. Explain: 3 marks.

- (c) IDA Ireland has been successful in attracting investment in the form of multinational companies (MNCs) to Ireland.
- (i) Name **two** MNCs in Ireland.
 - (ii) State and explain **two** reasons why MNCs are attracted to Ireland.
 - (iii) Discuss **two** economic advantages to the Irish economy of MNCs locating here.

(30 marks)

- (i) Two MNCs in Ireland:

Any 2 companies at 5 marks each.

Google / Facebook / Pfizer / Coca Cola / Intel / Apple /
Kerry Group / Dell / IBM / Microsoft / CRH

- (ii) Two reasons why MNCs are attracted to Ireland

1. Availability of educated workforce.

Firms have available a large, highly educated and multi-skilled workforce. This helps reduce the training costs for these firms.

2. Low rates of taxation.

The rate of corporation profits tax in Ireland is one of the lowest within the EU.

3. Access to EU market / Member of the euro currency.

Firms which locate in Ireland have access to the free movement of their goods within the EU. Ireland is a member of the euro and this makes payment for international transactions within the euro zone much easier and hence more attractive.

4. Availability of state incentives.

Firms can avail of attractive grants and other incentives provided by the state. Examples include: advance factories; serviced industrial estates; contribution towards training costs; grants towards research and development etc.

5. Good industrial relations.

Social partnerships have resulted in relative industrial peace offering firms uninterrupted production.

6. Attractive rates of return on investments.

Firms locate here because the rate of return on their investment is sufficiently more attractive than available elsewhere.

**2 reasons at 5 marks each
State: 2 marks. Explain: 3 marks.**

(iii) Discuss **two** economic advantages to the Irish economy of MNCs locating here.

Statement	Explanation
Employment should increase	When foreign firms locate in Ireland they help create jobs directly in their firms and so employment rises. They also require ancillary services and this should lead to more jobs in those firms supplying these.
Exports will increase	Many of the firms which locate here produce their goods for the larger international markets as Ireland is a small domestic market which has full access to the EU market.
Taxation revenue will increase	With the increase in the level of employment, revenue from income tax should increase. With the increase in spending by the firms and their employees indirect tax revenue should rise. The state will also collect a greater amount of revenue from corporation profits tax.
Economic activity will increase	With increased exports circular flow of income will rise and this will help boost economic growth.
Attract investment	If the MNCs are profitable this may help establish a strong base for further FDI to be attracted to Ireland.
Benefits to local economy	Servicing firms in the local economy will benefit e.g. increased benefits to catering firms, taxis, cleaners, restaurants, pubs etc. MNCs may also source some raw materials from local firms.

2 advantages at 5 marks each
State: 2 marks. Explain: 3 marks.

Q8 Terms, Taxation and National Debt

(a) Explain **any three** of the following:

- Current Budget Deficit;
- Progressive Tax;
- Nationalisation;
- Economic recession.

(21 marks)

Current Budget Deficit:

Government current spending exceeds government current income.

Progressive Tax:

A tax which takes a higher proportion of income in tax as income rises.

Nationalisation:

Taking a privately owned business into government ownership.

Economic recession:

A decline in GDP for two or more consecutive quarters.

Any 3 correct answers at 7 marks each.

(b) An increased rate of VAT; increased carbon taxes and a new €100 household charge were introduced in the 2012 Current Budget.

(i) Explain **each** of the underlined taxes.

(ii) Discuss **one** economic effect which the above tax increases will have for **each** of the following:

- Households;
- Retailers in Ireland;
- Government's Current Budget Deficit.

(30 marks)

(i) Explanation of taxes:

VAT: tax placed on goods and services / on spending.

Carbon taxes: an environmental tax levied on the carbon content of fuels.

Household charge: an annual charge which is payable by owners of residential property.

3 explanations at 5 marks each.

(ii) Economic effects which the above tax increases will have for **each** of the following:

Group	Economic effects	
	Statement	Explanation
Households	<ul style="list-style-type: none"> • Standard of living • Reduced incentive to work • Incentive to become energy efficient • Black economy • Reduced productivity • Financial difficulties 	<ul style="list-style-type: none"> • Decreases due to lower disposable income. • Taxpayers may choose not to work. • Consumers may become more energy efficient and insulate; change to more energy efficient cars. • To avoid higher VAT charges people may buy commodities on the black market. • Deterioration in health due to financial difficulties may reduce productivity. • Some may struggle to meet their financial commitments and may be forced to rely on state aid.
Retailers in Ireland	<ul style="list-style-type: none"> • Reduced sales • Job losses • Possible closure • Need to compete 	<ul style="list-style-type: none"> • Resulting in reduced profits. • With reduced sales workers may be let go. • If sales fall to unacceptable levels businesses may be forced to close e.g. GAME stores. • Retailers may reduce prices / improve services to attract customers.
Government's Current Budget Deficit	<ul style="list-style-type: none"> • Increased indirect tax revenue • Spending falls • Business activity declines 	<ul style="list-style-type: none"> • So Current Budget Deficit (CBD) should fall. • If the VAT increase leads to reduced spending then VAT revenue will fall and CBD will rise. • Employment will fall and hence direct tax revenue will fall and CBD will rise.
3 at 5 marks	State: 3 at 2 marks.	Explanation: 3 at 3 marks

(c) One of the functions of the NTMA is to manage Ireland's national debt on behalf of the government.

- (i) What do the initials NTMA stand for?
- (ii) Explain the underlined term.
- (iii) State and explain **two** economic disadvantages of Ireland's national debt. **(24 marks)**

(i) National Treasury Management Agency: **8 marks**

(ii) National Debt:

The total amount / cumulative of government /borrowing which is outstanding/ due /owed.

6 marks

(iii) State and explain **two** economic disadvantages of Ireland's national debt:

1. Opportunity costs involved.

With funds being used to meet the annual interest repayments the government has less funds available for other purposes.

2. Increased burden on taxpayers.

The government will have to consider increasing future taxes, introduce new household charges etc. resulting in a lower standard of living for citizens.

3. Annual interest repayments.

Our national debt means that the country must meet the annual cost of repaying our national debt.

4. Risk to provision of public services / cuts in government spending.

Due to the national debt the government has cut spending on public services resulting in deterioration in provision of some services e.g. the health service, education service etc.

5. Reduced public confidence.

Citizens' confidence in the economy may decline resulting in reduced spending. This may further reduce economic growth.

6. Diminished international credit-rating.

The fact that Ireland is seen to have an increasing national debt means that our credit-rating has deteriorated.

7. EU / IMF: conditions applied to Ireland.

The EU/IMF has attached conditions to our borrowings and so corrective action is required to be taken in economic policy matters and agreed by the EU / IMF.

**2 points at 5 marks each.
State: 2 marks. Explain: 3 marks.**

