



Coimisiún na Scrúduithe Stáit State Examinations Commission

Scéimeanna Marcála

Scrúduithe Ardteistiméireachta, 2003

Eacnamaíocht

Gnáthleibhéal

Marking Scheme

Leaving Certificate Examination, 2003

Economics

Ordinary Level

Leaving Certificate Examination, 2003

Ordinary Level Economics

MARKING SCHEME

and

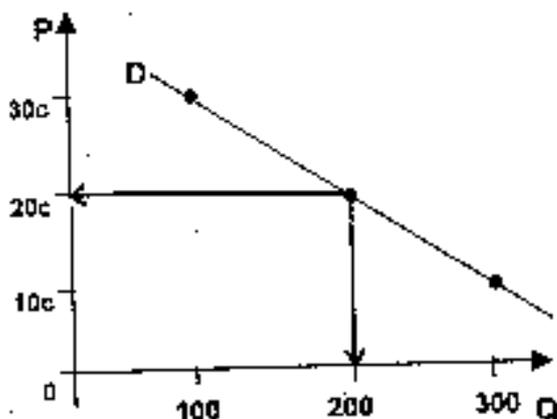
NOTES

for use with the Marking Scheme

- There is no suggestion that the enclosed notes are exhaustive or definitively complete. They are not model or suggested answers.
- Further relevant 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.

SECTION A (100 marks)

1.



Consider the demand curve shown for good “x” :

- (i) Good “x” obeys the law of demand. Explain this statement briefly.

As price increases, quantity demanded decreases (or visa versa) .P.e.d. for good “x” is negative.

OR

the demand curve slopes downwards (from left to right)

OR

P.e.d. for good “x” is normal:

- (ii) What quantity will be demanded at 20 cent?

Answer: 200 units

16m

2.

Circle the correct word on **each** of the choices underlined below:

“an internal economy of scale in any factor which causes cost per unit to rise / fall as the firm / industry increases/reduces its scale or size of operations”

1st correct answer:

Two subsequent answers at 4m each

8m
8m

16m

3.	(i)	<p>Fill in the missing symbols in the National Income equation below:</p> $Y = \boxed{C} + I + G + X - \boxed{M}$ <p>I : Investment G : Government Spending</p>		
	(ii)	<p>First TWO correct answers at 6m. each. Next TWO correct answers at 2m. each</p>		<p>12m 4m 16m</p>
4.	(i)	<p>A good with many close substitutes will experience a significant decrease in demand if its price increases.</p> <p>Is the demand for such a good ‘elastic’ or ‘inelastic’? <u>Answer: elastic</u></p>		10m
	(ii)	<p>Briefly explain why demand will fall significantly in this case.</p> <ul style="list-style-type: none"> • Because of the availability of substitutes, consumers have more scope to switch to alternatives, which are relatively cheaper. <p><u>OR</u></p> <ul style="list-style-type: none"> • Consumers have a wider choice in these circumstances 		6m
				16m

5.	<p>Explain the term ‘complementary good’ (or complement) in relation to cars.</p> <p><u>General notion of a complementary good:</u></p> <ul style="list-style-type: none"> • Goods which are used jointly or • The use of one necessarily involves the use of another or • Goods used together in order to obtain utility <p><u>Specific reference to cars:</u> e.g. petrol, oil, tyres, servicing etc.</p>	16m																								
6.	<p>In relation to barriers to free trade, match the method with the correct explanation. (The first answer is shown for illustration purposes)</p> <table style="width: 100%; border: none;"> <tr> <td style="text-align: center;"><u>NAME</u></td> <td style="text-align: center;"><u>EXPLANATION</u></td> </tr> <tr> <td>A: Administrative Barriers</td> <td>1. A payment to exporters</td> </tr> <tr> <td>B: Embargo</td> <td>2. A limit to quantity imported</td> </tr> <tr> <td>C: Quota</td> <td>3. Regulations applying to imports</td> </tr> <tr> <td>D: Tariff</td> <td>4. A complete ban on a product</td> </tr> <tr> <td>E: Subsidy</td> <td>5. A tax on imports</td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="width: 33%;">NAME</td> <td style="width: 11%;">A</td> <td style="width: 11%;">B</td> <td style="width: 11%;">C</td> <td style="width: 11%;">D</td> <td style="width: 11%;">E</td> </tr> <tr> <td>EXPLANATION</td> <td>3</td> <td>4</td> <td>2</td> <td>5</td> <td>1</td> </tr> </table> <p>1ST correct answer: (from B,C,D or E) 3 subsequent answers at 4m each</p>	<u>NAME</u>	<u>EXPLANATION</u>	A: Administrative Barriers	1. A payment to exporters	B: Embargo	2. A limit to quantity imported	C: Quota	3. Regulations applying to imports	D: Tariff	4. A complete ban on a product	E: Subsidy	5. A tax on imports	NAME	A	B	C	D	E	EXPLANATION	3	4	2	5	1	<p>5m 12m</p> <p>17m</p>
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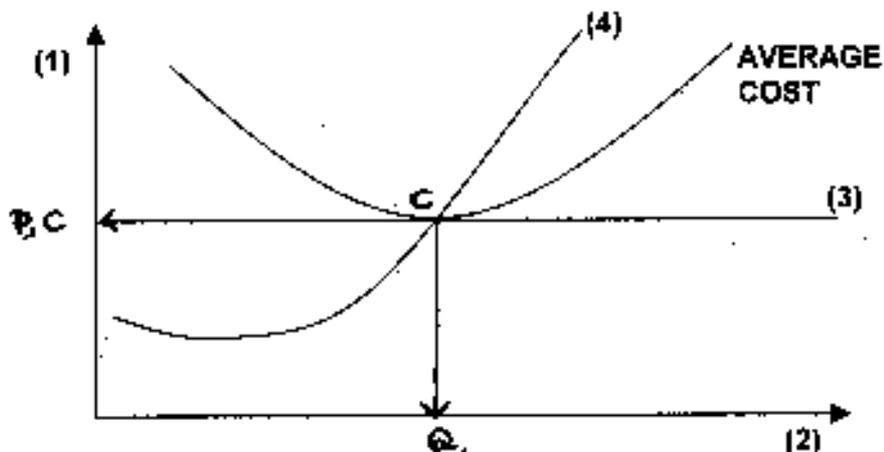
7.		<p>Name the economist associated with the economic ideas listed below:</p> <p>(i) Theory on population and food supply <u>MALTHUS</u></p> <p>(ii) The canons of taxation <u>ADAM SMITH</u></p> <p>(iii) The multiplier effect <u>JOHN M. KEYNES</u></p> <p>First correct answer: TWO subsequent answer at 4m. each.</p>		<p>9m 8m</p> <p>17m</p>
8.		<p>If the government's overall budget outcome is a deficit, will this increase or decrease the National Debt?</p> <p><u>ANSWER:</u> Increase</p> <p>Explain your answer briefly.</p> <p>A budget deficit means that projected income is less than projected spending. The only way of financing this shortfall is through borrowing / increasing the National Debt.</p> <p>Consequent impact on borrowing/debt:</p>		<p>7m</p> <p>10m</p> <p>17m</p>

9.		<p>Explain <u>ONE</u> economic benefit of EU enlargement for the Irish economy.</p> <ul style="list-style-type: none">• Irish exporters will have unrestricted access to a much <u>larger market</u>.• EU enlargement should ease constraints on the <u>supply of labour</u> in the Irish economy / any expansion in the labour force should have a controlling influence on <u>wage rates</u> (or costs of production).• Irish citizens will have more <u>freedom of movement</u> to the new member states.• As the number of EU members increases, consumers benefit from an increase in the number of producers and service-providers supplying the market, <u>greater competition</u> and a wider choice of goods and services.• As most of the prospective members are smaller countries an <u>informal alliance</u> of such states (including Ireland) could pressurise the more powerful members to accommodate the needs of their less influential partners.• The EU as it is presently constituted will experience greater exposure to a <u>diversity of skills</u>, traditions and cultural attributes which will evolve on the admission of new member states.• The formulation of a common foreign policy amongst the 25 member states will increase the negotiation strength of the EU at meetings of international organisations such the W.T.O. <p>ONE benefit to be analysed:</p>		17m
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SECTION B (300 MARKS)

Q1. PERFECT COMPETITION

Perfect Competition: Long Run Equilibrium of a firm



(a) (i) Copy the diagram into your answer book. Clearly label **each** of the lines numbered (1) to (4).

1. Price (or P)
2. Quantity (or Q)
3. Average Revenue / A.R. / Marginal Revenue / M.R.
4. Marginal Cost / M.C.

Show on your diagram

- the output the firm will produce (use label Q)
Answer: Q on the above graph.
- the average cost of producing this output (use label C)
Answer: C on the above graph (either position).
- the price it will charge for this output (use label P)
Answer: P on the above graph.

10m

5m

5m

5m

15m

**(a):
25m**

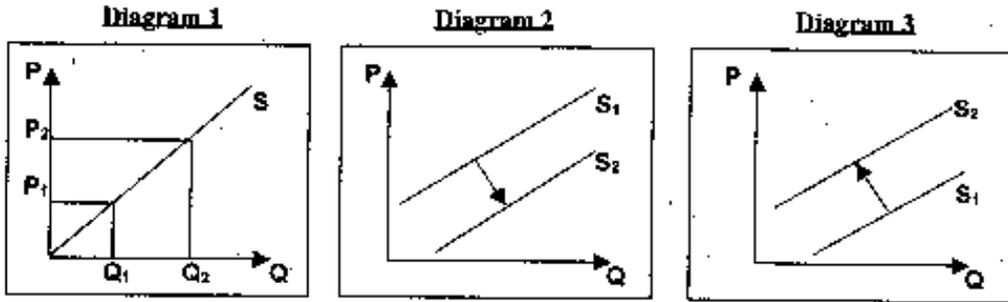
(b)	(i)	<p>The firm's average cost is "U" shaped in the diagram.</p> <p>Explain ONE reason why the curve slopes downward initially.</p> <ul style="list-style-type: none"> • <u>Influence of Economies of Scale</u> Economies of Scale are factors, which cause cost per unit to fall in the firm or industry as that firm or industry expands in size. Examples: <ul style="list-style-type: none"> • Availability of better machines • Savings in building costs • Specialisation of labour • Lower rate of interest on loans • Bulk discounts • Distribution / advertising economies • Sub-contracting of work becomes possible • Specialist training courses set up <p>Explain ONE reason why it eventually slopes upwards.</p>		10m
		(ii)		
(b):				20m

(c)		<p>In perfect competition, super normal profits attract new firms into the industry in the long run.</p> <p>(i) Briefly explain the term ‘super-normal profits’.</p> <ul style="list-style-type: none"> • Any profit in excess of normal profit or • Any profit over and above the minimum level required by the entrepreneur or • A form of economic rent earned by the entrepreneur or • In a graphical sense, the amount by which average revenue exceeds average costs (i.e. $AR > AC$) <p>(ii) State ONE benefit of high profit levels in an industry to each of the following:</p> <ul style="list-style-type: none"> • <u>the government</u> <ul style="list-style-type: none"> ➤ Increased revenue from C.P.T. ➤ More secure employment leading to a reduction in the social welfare payments / better revenue as regards P.A.Y.E. receipts. ➤ High profit levels attract new investment into the economy / attract new firms into the industry. • <u>the employees of the industry concerned</u> <ul style="list-style-type: none"> ➤ Enhanced job security. ➤ A stronger negotiating position in relation to pay, especially if a profit sharing scheme exists. ➤ Some of the higher profit levels may be used to improve conditions or issues concerning health and safety in the workplace. ➤ Opportunities for overtime are more likely to be on offer in firms earning high levels of profit. 	4m	
		13m	<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding: 5px;">(c): 30m</td> </tr> <tr> <td style="padding: 5px;">Q1: 75MARKS</td> </tr> </table>	(c): 30m
(c): 30m				
Q1: 75MARKS				

Q2: SUPPLY & COSTS OF PRODUCTION

(a)

The three diagrams below represent changes of supply of wheat:



Each of the following developments cause one of the changes shown above:

- (i) The cost of wheat seed falls substantially
- (ii) Some workers involved in harvesting wheat go on strike
- (iii) The selling price of wheat increases

State which diagram represents each of the three developments listed above, and in **each** case explain why the supply reacts as illustrated on your chosen diagram.

ANSWERS:

the cost of wheat seed falls substantially

(i)

Diagram:	Number 2.
Impact on supply:	Total output (supply) increases / the supply curve shifts to the right.
Explain:	Costs of production are lower / profit levels are higher as a result of lower seed prices.

Some workers involved in harvesting wheat go on strike

(ii)

Diagram	Number 3
Impact on supply:	Total output (supply) is reduced / the supply curve shifts to the left.
Explain:	This represents an <u>unplanned change</u> which militates <u>against</u> supply / the non-availability of an essential factor of production at harvest time will result in supply being less than anticipated

The selling price of wheat increases

(iii)

Diagram:	Number 1
<u>Impact on supply:</u>	Supply will increase, a movement along the supply curve occurs.
<u>Explain:</u>	An increase in the price of wheat results in higher profit margins in this sector, assuming other factors remain unchanged.

MARKING:	1st Correct Answer	2nd Correct Answer	3rd Correct Answer
Diagram	3m	2m	2m
Impact on Supply	4m	4m	4m
Explain	2m	2m	2m
TOTAL	9m	8m	8m

**(a)
25m**

(b)	<p>A cereal producer pays <u>rent</u> to acquire the use of a field. The cereal producer also pays <u>wages</u> each week to the workers. Other expenses include the <u>bill for seed</u> and a monthly <u>loan repayment</u> on finance used to purchase machinery.</p>												
	<p>(i) Define fixed costs <u>and</u> variable costs</p> <p>Fixed costs are those which do not change as the level of output changes</p> <p>Variable costs are those which do change as the level output changes</p>	<p>9m</p> <p>9m</p>	<p>18m</p>										
	<p>(ii) State whether each of the four payments underlined above are examples of fixed costs or variable costs.</p> <table border="0" data-bbox="272 835 1070 1043"> <thead> <tr> <th data-bbox="272 835 421 869">Payment</th> <th data-bbox="874 835 1070 869">Type of cost</th> </tr> </thead> <tbody> <tr> <td data-bbox="272 875 347 909">Rent</td> <td data-bbox="874 875 954 909">fixed</td> </tr> <tr> <td data-bbox="272 920 379 954">Wages</td> <td data-bbox="874 920 991 954">variable</td> </tr> <tr> <td data-bbox="272 965 459 999">Bill for seed</td> <td data-bbox="874 965 991 999">variable</td> </tr> <tr> <td data-bbox="272 1010 523 1043">Loan repayment</td> <td data-bbox="874 1010 954 1043">fixed</td> </tr> </tbody> </table>	Payment	Type of cost	Rent	fixed	Wages	variable	Bill for seed	variable	Loan repayment	fixed	<p>3m</p> <p>3m</p> <p>3m</p> <p>3m</p>	<p>12m</p>
	Payment	Type of cost											
	Rent	fixed											
Wages	variable												
Bill for seed	variable												
Loan repayment	fixed												
		<p>(b): 30m</p>											

(c)	<p>Bad weather has reduced the supply of many agricultural goods in Ireland in recent years.</p> <p>State and explain how this development might affect each of the following:</p> <p>(i) <u>the selling price of these goods</u></p> <p>selling price will <u>increase</u></p> <p><u>Reason:</u> bad weather will result in a reduction in the yield from these goods/ make harvesting difficult if not impossible/ result in a general shortage of these products on the market.</p>	4m	
	<p>(ii) <u>Ireland's Balance Of Trade</u></p> <p>Our Balance of Trade will <u>disimprove</u></p> <p><u>Reason:</u> The reduced yields will mean that the volume of exports from this sector will be below expectations.</p> <p style="text-align: center;"><u>OR</u></p> <p>Imports may increase due to the fact that there may not be sufficient output from indigenous producers to satisfy the level of demand in the domestic market.</p>	4m	10m
			(c): 20m
			Q2: 75m

		<u>Q3 LABOUR</u>		
(a)	(i)	<p>Define the term ‘labour force’.</p> <p>The total number of people at work and those looking for work or The employed and registered unemployed</p>	9m	
	(ii)	<p>State and explain <u>TWO</u> reasons why different wage rates are paid for different jobs</p> <p><u>Skills:</u> Employees with higher skill levels contribute proportionately more to productivity and are rewarded with higher remuneration / skill shortages in certain sectors can put upward pressure on wage rates.</p> <p><u>Training:</u> Training enhances the productivity of workers and their contribution to the production process.</p> <p><u>Education:</u> Workers who spend a relatively long time in formal education are capable of undertaking more complex tasks / they are entitled to compensation for the opportunity cost of lost earnings while completing their education.</p> <p><u>The nature of conditions of the job :</u> Jobs with adverse working conditions may be compensated with higher rates of pay e.g. temporary work, dangerous conditions and shift work.</p> <p><u>Trade union activity:</u> A strong trade union may be able to negotiate a better wage package for its members</p> <p><u>Discrimination:</u> In some sectors gender bias still exists in the determination of wage rates / discrimination against immigrant workers.</p> <p><u>TWO</u> reasons required at 8m each graded:</p>	16m	(a): 25m

(b)

State and explain **TWO** developments which might result in a firm **reducing** the number of workers, which it employs at present.

Claims for pay increases

If workers are successful with such claims, costs of production increase and profitability falls, resulting in a possible scaling down in the level of production/ the entrepreneur attempting to source alternative factors of production.

The productivity of workers deteriorates

If deterioration in productivity occurs e.g. due to low morale or managerial problems, the employer may react to this by reducing his/her workforce.

A fall in demand for the good or service

This development could be due to any of the following:

- the selling price of the good or service increases.
- any factor, which shifts the demand, curve for a product to the left e.g. a fall in income levels in the economy.
- an economic downturn, either in the domestic economy or on a more global scale.

Government action

If the government increases the rates of income tax or PRSI/ reduces or removes an employment subsidy, the resulting increase in the total cost of labour will act as a disincentive to employers in relation to maintaining their present workforce.

Competitive forces

Deregulation / the entry of new competitors results in a loss of market share for existing firms and the consequent reduction in their workforce.

Reduction in supply by the firm

Any factor which shifts a firm's supply curve to the left will result in a reduction in output and thus a decrease in employment e.g. Any increase in costs of production, adverse unplanned changes or a disimprovement in technology.

TWO developments at 10m each graded.

20m
(b):

20 m

(c)	<p>In the case of <u>each</u> of the statements listed below, state whether the geographical mobility of labour or the occupational mobility of labour is affected and why.</p>		10m
	<ul style="list-style-type: none"> • <u>The price of housing increases in industrial regions</u> 		
	Mobility affected:	Geographical.	
	Change:	Restricted.	
	Reason:	Workers will find it more difficult to move to these regions due to higher property prices.	
	<ul style="list-style-type: none"> • <u>Many of the available jobs require a high standard of formal education</u> 		
	Mobility affected	Occupational.	
	Change	Restricted.	
	Reason	Some people who aspire to these positions may be precluded from taking them up as they lack the necessary educational qualifications.	
	<ul style="list-style-type: none"> • <u>The government removes restrictions on immigration into the country</u> 		
Mobility affected	Geographical.		
Change	Improved.		
Reason	There is more freedom for non-nationals to enter the country and to avail of job opportunities therein.		
		10m	
		(c): 30m	
		Q3 75m	

<u>Q4 INTERNATIONAL TRADE</u>			
(a)	<p>(i) Explain the term ‘Balance Of Trade Deficit’</p> <p>Exports of physical / visible items / goods are less than imports of physical / visible items / goods</p>	9m	
	<p>(ii) State and explain <u>TWO</u> courses of action which a government could take to reduce a deficit on its Balance Of Trade.</p> <p>(A) <u>Re: exports</u></p> <ul style="list-style-type: none"> • Subsidise exports This involves making a (per unit) payment to exporters with a view to increasing the competitiveness of exports on foreign markets. • Promoting exports Amongst the measures which a government can take to achieve this objective are sending trade delegations to other countries, setting up state companies with a specific function of promoting exports and highlighting the country’s goods and services at international trade fairs. • Introduce measures to cut costs Examples of such measures include the provision of export credit insurance, low interest, finance a state funded advertising service, tax concessions. <p>(B) <u>Re: imports</u></p> <ul style="list-style-type: none"> • Direct restrictions on imports Such restrictions can take the form of tariffs, quotas, embargos or administrative barriers. 		

		<ul style="list-style-type: none"> • Encourage consumers to buy indigenous goods This objective can be achieved through the use of advertising and other promotional techniques, or by pursuing a policy of import substitution. • The pursuit of deflationary policies The government could decrease its own level of expenditure or increase direct taxation, resulting in a drop in aggregate demand generally and in demand for imports in particular. Two measures at 8m each graded 	16m	(a): 25m
(b)		<p>Explain what is meant by <u>ANY TWO</u> of the following arguments in favour of the existence of barriers to free trade.</p> <p>(i) <u>Jobs in the domestic economy need protection</u> Any measures aimed at <u>curbing imports or boosting exports</u> have the effect of increasing demand for home-produced goods and thus the level of employment in the domestic economy.</p> <p>(ii) <u>Goods from low wage economies have an unfair advantage</u> If such goods have free access to high-wage economies, their <u>cost/price advantage</u> would have negative implications for the sale of domestically produced substitutes, and thus employment levels in such economies.</p> <p>(iii) <u>Without restrictions ‘dumping’ by other countries is possible</u> In the absence of restrictions on imports, countries which over-produce certain products may try to <u>off-load their surplus production on to other countries at a cheap price</u>, with a consequent reduction in the level of sales and employment in the indigenous firms.</p> <p><u>TWO</u> arguments, clearly explained at 10m each graded:</p>		20m (b): 20m

(c)		<p>State and explain how exports from euro zone countries would be affected by <u>each</u> of the following developments</p>		
	(i)	<p><u>The American dollar falls in value against the euro</u> State: Exports from euro zone countries would <u>decrease</u> Explain: The fall in value of the dollar makes such exports more expensive for US buyers. <u>OR</u> US buyers have to give more dollars to acquire the necessary funds in euro in order to buy goods and services from this zone.</p>		10m
	(ii)	<p><u>The average rate of inflation in euro zone countries falls below the rate of inflation in the USA</u> State: Exports from euro zone countries to the US would <u>increase.</u> Explain: Goods produced in euro zone countries are more competitively priced than those which originate from the US, leading to an increase in demand for European goods on American markets.</p>		10m
	(iii)	<p><u>An economic recovery begins in the USA</u> State: Exports from euro zone countries would <u>increase.</u> Explain: An economic recovery in the USA will result in an increase in income levels / aggregate demand in that region of the world, and consequently producers in the euro-zone will experience increased orders for their produce from US buyers.</p>		10m
				(c): 30m
				Q4: 75m

<u>Q5 FISCAL POLICY</u>			
(a)	<p>Define <u>ANY THREE</u> of the following:</p> <ul style="list-style-type: none"> • <u>Government Capital Spending</u> Expenditure on items which are <u>not consumed / used up during the year / within a short time frame.</u> <u>OR</u> Expenditure which results in the <u>wealth producing capacity of the economy</u> being <u>enhanced/increased.</u> • <u>Current Budget Surplus</u> Current income exceeds current expenditure • <u>National Debt</u> <ul style="list-style-type: none"> ➤ The total amount of money borrowed by the government which is still outstanding. <u>OR</u> ➤ The cumulative total of outstanding government borrowing. <u>OR</u> ➤ The total of all money borrowed by central and local government. 	7/6	
		7/6	
		7/6	

	<ul style="list-style-type: none"> • <u>Indirect Tax</u> These are taxes on <u>goods and services</u> or <u>taxes on spending</u> e.g. VAT customs duties etc. They are also referred to as <u>sales taxes</u>, and are <u>collected by intermediaries / (retailers/importers)</u> on behalf of the government <p>Overall marking part (a): 1st two correct answers at 7m each graded 3rd correct answer at 6m graded</p>	7/6 14m 6m	20m (a): 20m
(b)	<p>State and explain one way in which the government could use <u>fiscal policy</u> to achieve <u>each</u> of the objectives listed below</p> <ul style="list-style-type: none"> • <u>EMPLOYMENT CREATION</u> <p style="text-align: center;"><u>TAXATION</u></p> <ul style="list-style-type: none"> ➤ <u>Reduce income tax / PRSI rates</u> These actions reduce the cost of labour for employers / encourage wage moderation / increase aggregate demand generally in the economy. ➤ <u>Lower rates of indirect taxation</u> This measure increases consumption and thus employment levels in the sectors concerned. ➤ <u>Reduce rates of CPT</u> This will have the effect of encouraging investment and job creation in the economy. <p style="text-align: center;"><u>SPENDING</u></p> <ul style="list-style-type: none"> ➤ <u>Increase government spending</u> The resulting increase in aggregate demand will act as an incentive to employers to expand capacity and recruit more workers ➤ <u>Increase the level of borrowing</u> The additional funds could be used to ‘pump-prime’ the economy / increase levels of growth and employment generally. 		

- **Labour-intense projects**
specifically target funds at projects, which are biased in favour of the employment of significant quantities of labour e.g. infrastructural development or the provision of services.

- **CONTROLLING INFLATION**

TAXATION

- **Maintain / Increase income tax levels**
This will help to control demand-pull inflationary pressures in the economy.
- **Exercise restraint in relation to increases in indirect taxes**
This will have the effect of directly controlling the prices of goods or services concerned
- **Lower tax rates on inputs**
By setting low or even zero rates of tax on industrial inputs e.g. power, telecommunications and raw materials, the government would contribute to an easing of cost-push inflationary pressures.

SPENDING

- **Limit the level of government spending**
Such actions have a controlling effect on the level of aggregate demand, and as a result any demand-pull pressures in the economy are eased.
- **Place restrictions on government borrowing**
If the government exercises discipline in relation to borrowing, the overall level of spending in the economy is curtailed, easing pressure on prices.
- **Encouraging restraint in relation to wage demands / controlling the public sector pay bill**
Such a policy has the twin advantages of controlling costs of production and reducing demand-pull pressures on prices from excessive pay awards

➤ **ENCOURAGING MORE FOREIGN INVESTMENT INTO IRELAND**

TAXATION

- **Reduce rates of CPT**
Such reductions would enable firms to retain a greater proportion of the profits, which they generate, and as a result investment from all sources is encouraged.
- **Keep PAYE/PRSI rates at reasonable levels.**
Such actions would encourage moderation in relation to pay claims from employees, and hence keep costs of production under control.

OR

Due to low rates of PAYE/PRSI, the level of demand in the economy will be higher, encouraging investment from both domestic and foreign firms.

- **Moderation in relation to indirect taxes**
The consequences of such moderation could include lower prices, increased levels of sales and profits and stronger demand in the economy, all of which are attractions for foreign investment.

SPENDING

- **Direct payments to foreign investors**
Such payments, usually in the form of grants, help to defray set-up costs / increase overall profitability, thus encouraging foreign investment.
- **Promotion abroad.**
The use of promotional campaigns can be used to highlight to foreign investors the advantages of locating in the economy in question e.g. a well-educated workforce, good quality infrastructure, R&D facilities etc.
- **Expenditure aimed at improving facilities or services generally.**
Programs aimed at improving essential resources or services in an economy can act as an attraction to foreign investors e.g. availability of reasonably priced housing, adequate health care facilities, investment in education or infrastructure and effective industrial relations machinery.

1st correct answer 9m graded
Two subsequent answers at 8m each graded

9m	25m
16m	(b): 25m

(c)	<p>Government taxes include the following:</p> <p style="text-align: center;">PAYE VAT CORPORATION TAX</p>																					
	<p>(i) State the item on which each one is levied.</p> <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Tax</th> <th style="text-align: center;">:</th> <th style="text-align: left;">Levied on</th> <th style="text-align: right;">4m</th> <th style="text-align: right;">12m</th> </tr> </thead> <tbody> <tr> <td>PAYE</td> <td style="text-align: center;">:</td> <td>Income/wages</td> <td style="text-align: right;">4m</td> <td></td> </tr> <tr> <td>VAT</td> <td style="text-align: center;">:</td> <td>Goods and services/spending</td> <td style="text-align: right;">4m</td> <td></td> </tr> <tr> <td>Coporation Tax</td> <td style="text-align: center;">:</td> <td>(Company) profits Businesses</td> <td style="text-align: right;">4m</td> <td></td> </tr> </tbody> </table> <p>(ii) State and explain TWO economic effects of an increase in VAT rates in the Irish economy.</p> <ul style="list-style-type: none"> ➤ <u>Government budget outcome could improve.</u> Mores tax revenue receivable on each unit of good or service in question/the increase in revenue could lead to increases in government spending. ➤ <u>Inflationary impact on prices.</u> Any increases in VAT are normally passed on immediately (and in full) to consumers in the form of increased prices. ➤ <u>Job Losses.</u> The price increases following the imposition of higher VAT rates will result in a fall in demand for the goods and services in question, and consequently a drop in employment levels in the sectors concerned. ➤ <u>A fall in GNP/economic growth</u> Producers will reduce capacity or production levels in response to the fall in demand caused by the price increases. ➤ <u>Reduction in real income/living standards.</u> The rise in prices resulting from VAT increases will mean that consumers cannot buy the same quantity of goods and services as before / will be forced to reduce their level of saving. ➤ <u>A possible increase in black economy activities.</u> A rise in VAT rates may encourage illegal trading practices because the potential profitability of such activities is increased in proportion to the tax increase. <p>TWO answers required at 9m each graded.</p>	Tax	:	Levied on	4m	12m	PAYE	:	Income/wages	4m		VAT	:	Goods and services/spending	4m		Coporation Tax	:	(Company) profits Businesses	4m		
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<u>Q6 INFLATION</u>			
(a)		<p>‘When inflation occurs in an economy, consumers living standards fall’.</p> <p>Explain this statement briefly.</p> <p><u>Answer:</u></p> <p>If prices increase (and other factors remain unchanged), there will be a reduction in the quantity of goods and services which consumers can buy, with a corresponding deterioration in their quality of life/well being.</p>	<p>15m</p> <hr/> <p>(a): 15m</p>
(b)	(i)	<p>State and explain <u>TWO</u> causes of inflation in an economy.</p> <ul style="list-style-type: none"> • <u>Demand-pull pressures.</u> <ul style="list-style-type: none"> ➤ price increases resulting from aggregate demand exceeding aggregate supply/strong demand in the economy. <li style="text-align: center;">or ➤ too much money chasing too few goods. <li style="text-align: center;">or ➤ spending power increases faster than the production of goods and services. • <u>Cost-push factors/increase in costs of production.</u> <ul style="list-style-type: none"> ➤ any increase in costs of production is likely to be passed on in the form of price increases. • <u>Government action/government induced inflation</u> <ul style="list-style-type: none"> ➤ increases in indirect taxes are directly inflationary. <li style="text-align: center;">or ➤ reductions in direct taxes contribute to demand-pull pressures in the economy. <li style="text-align: center;">or ➤ increases in the levels of government spending or borrowing fuel demand, and thus exert pressure on the price level. 	

	<p style="text-align: center;">or</p> <ul style="list-style-type: none"> ➤ certain actions in relation to monetary policy may impact on inflation e.g. reductions in interest rates. • <u>Imported inflation</u> <ul style="list-style-type: none"> ➤ price increases in raw materials, capital goods or consumer goods sourced abroad will be reflected in a higher rate of inflation in the domestic economy. • <u>Devaluation of the currency.</u> <ul style="list-style-type: none"> ➤ importers will have to pay higher prices for all goods purchased abroad if the domestic currency falls in value against other currencies. • <u>Inflation psychology/unjustified price increases</u> <ul style="list-style-type: none"> ➤ when a society is conditioned to a certain level of inflation, producers or sellers may take advantage of this by increasing prices without any real economic justification/price adjustments made by some retailers following the introduction of the euro. <p><u>TWO</u> answers at 8m each graded.</p>		16m
	<p>(ii) <u>State and explain how inflation affects any TWO of the following:</u></p> <ul style="list-style-type: none"> • <u>The level of savings</u> State: The level of savings will decrease Explain: Real interest rates are reduced or may even become negative. or The future purchasing power of savings is eroded when prices are increasing. or Inflation shifts the balance in favour of spending now rather than postponing consumption • <u>The level of imports</u> State: The level of imports may increase. Explain: Domestically produced goods lose competitiveness to imports when inflation occurs. or State: The level of imports may fall. 		

	<p>Explain: Inflation reduces real income levels within an economy, and as a consequence demand for all goods decreases, including imports.</p> <p>• <u>The level of government spending</u></p> <p>State: This will increase</p> <p>Explain: The government is the single biggest consumer of goods and services in the economy, such that if inflation occurs it will have to increase its expenditure proportionally if the present level of supply is to be maintained.</p> <p style="text-align: center;"><u>or</u></p> <p>Inflation frequently sparks off claims for pay increases. Such claims are likely to be lodged by public sector employees, among others, which will put upward pressure on the level of government spending generally.</p> <p><u>TWO</u> answers at 7m each graded:</p>		<p style="text-align: center;">14m</p> <hr/> <p style="text-align: center;">(b):</p> <hr/> <p style="text-align: center;">30m</p>
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<p>(c)</p>	<p>The Minister For Health and children recently proposed removing cigarettes from the C.P.I.</p> <p>(i) What do the letters C.P.I represent?</p> <p>Consumer Price Index</p> <p>(ii) Briefly explain what affect the above proposal would have on Ireland’s rate of inflation.</p> <p>It would reduce our rate of inflation.</p> <p>Reason: The traditional (and significant) increase in cigarette prices in the annual budget would no longer be reflected in the official inflation figures for the Irish economy.</p> <p style="text-align: center;">OR</p> <p>Tobacco has relatively substantial weight in the figures produced by the CSO in household budget surveys/the relevant figure for this category of goods is just under 5%.</p> <p>(iii) State and explain TWO ways in which the minister could discourage the consumption of cigarettes in Ireland.</p> <ul style="list-style-type: none"> • Increase excise duty on cigarettes. This will result in an immediate price increase in the product and thus a drop in the level of demand. • Anti-smoking campaigns Increase expenditure on all forms of advertising or educational programmes, which highlight the dangers and the anti-social nature of smoking/target in particular primary and post-primary schools with relevant information • Legislation Continually increase the number of public places in which smoking is prohibited by law/ban the product entirely/introduce very severe penalties for the offence of selling or supplying tobacco products to minors. 	<p>6m</p>	<p>8m</p>
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	<ul style="list-style-type: none"> • Discourage sponsorship by cigarette companies Introduce measures, which act as a disincentive to organisations from accepting sponsorship from tobacco companies e.g. consider the withdrawal of all state funding and other forms of support from bodies, which accept such sponsorship. • Reduce black economy activities Allocate increased resources to state agencies whose functions include the eradication of illegal trading in tobacco products. <p>TWO answers required at 8m each graded:</p>		<p>16m</p> <hr/> <p>(c): 30m</p> <hr/> <p>Q6: 75m</p> <hr/>
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Q7 POPULATION

- (a) In 2002 the CSO conducted a count of Ireland's population.
- (i) What is the official term used for a count of population?
- a CENSUS of population
- (ii) Explain **ONE** possible use of information on population for **each** of the following:
- **The government**
 - the government obtains very valuable information on **demographic changes** in the country, both nationally and on a regional basis in the intervening five-year period.
 - it helps in planning for **infrastructural development**.
 - the figures indicate whether or not additional investment is required in certain **essential services** such as health-care and education, and jobs or labour requirements in those areas.
 - responses to questions concerning such topics as type of residence provide an insight into **wealth differences** within the economy, both on a household-by-household basis as well as across different geographical areas.
 - the government may be prompted to make changes in **regional policy** if the census reveals that some counties are experiencing depopulation.
 - accurate **comparisons** can be made with the population statistics provided by other countries, enabling conclusions to be drawn on the proximity of Ireland's demographic trends to international norms or averages.
 - **Producers of goods and services**
 - the availability of updated population statistics enables producers to more accurately predict **future levels of demand**.
 - the census provides producers with information on changes in the **profile of consumers** or possible shifts in their preferences, as indicated by results published under such

8m

	<ul style="list-style-type: none"> ➤ headings as age-structure, gender, country of birth and changes in the urban/rural mix. ➤ accurate information on demographic changes is a key element in decision making as regards <u>investment</u> ➤ producers can use the information to predict <u>future labour requirements</u> and thus make provision for recruitment and training of additional workers/avoid the problem of labour shortages in the future. ➤ potential new entrants to the market would be interested in information on trends in population movement when assessing the most suitable <u>location</u> for their business. <p>ONE use for the government, explained: ONE use for producers, explained:</p>	6m 6m	12m <hr/> (a): 20m
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<p>(b)</p>	<p>The CSO estimates the Ireland’s population has been rising in recent years.</p> <p>(i) State and explain <u>ONE</u> factor that has led to this development.</p> <ul style="list-style-type: none"> • <u>Net inward migration/immigration/fall in emigration</u> In recent years the numbers entering this country (both returning emigrants and immigrants) has exceeded the number emigrating by a significant amount, resulting in a net increase in population. • <u>Natural Increase</u> Births exceeded deaths (by about 20,000 p.a.) each year since the last census. • <u>Better Living Standards</u> Over the years Ireland has become a wealthier nation, with improving standards in relation to accommodation, nutrition and health-care. Such factors lower the rate of infant mortality and contribute to extended longevity, resulting in an increase in our population. • <u>Recent boom in the economy</u> During an economic boom, some couples may feel that they can afford to rear a larger family, and this attitude may have been a contributory factor to the recent increase in the Irish population. <p><u>ONE</u> factor to be analysed at 9 m graded</p> <p>(ii) State and explain <u>TWO</u> economic effects of increases in population for the Irish economy.</p> <ul style="list-style-type: none"> • <u>Increased demand for goods and services</u> Firms which supply the domestic market will benefit from increased sales as population expands/they may benefit from economies of scale/they may increase their levels of investment and job creation. 		<p>9m</p>
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	<ul style="list-style-type: none"> • <u>Change in the dependency ratio</u> This depends on the age profile and employment status of those who make up the population increase. If a significant proportion is in the under-16 age group or is elderly, then the dependency ratio increases. • <u>Increased pressures on resources and services</u> A rising population will place increased strains on certain utilities and services e.g. infrastructure, health care, education and government finances generally. • <u>The jobs market/unemployment levels</u> An increase in population may ease the problem of labour shortages in certain sectors where constraints on supply exist / less pressure on wages as the supply of labour increases. <p style="text-align: center;"><u>OR</u></p> <p>The rate of unemployment may increase if labour markets are incapable of absorbing the full increase in population.</p> <ul style="list-style-type: none"> • <u>A reversal of the ‘brain-drain’ problem.</u> Some of the increase in population may be composed of highly educated people who left the country in the past due to recession in the Irish economy and have now returned. • <u>Land and property prices</u> A rising population results in an increase in the level of demand for land and property, with a consequent increase in the price of such assets. <p>Two answers required at 8m each graded</p>		<p style="text-align: center;">16m</p> <hr/> <p style="text-align: center;">(b):</p> <hr/> <p style="text-align: center;">25m</p>
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(c)

The following figures relate to two countries for 2002:

COUNTRY	TOTAL GNP	POPULATION
A	€10,000M	2M
B	€24,000M	6M

(i) Calculate GNP per head for each country.

	Working	=	Answer
Country A	€10,000m/2m		€5000 per head
Country B	€24,000m/6m		€4000 per head

TWO answers required at 5m each:

10m

(ii) State and explain **TWO** reasons why GNP per head differs across countries

- **Land/farming**

There are huge diversities between countries as regards the quality of land and the effectiveness of farming practices, and these factors contribute substantial differences in GNP per head.

- **Education**

A country with a well-educated and skilled labour force will have higher a GNP per head than one which lacks such an essential resource.

- **Capital**

Differences in the availability of good quality capital goods or technologically advanced systems are often a significant contributory factor in explaining disparities between GNP per head in different countries.

- **Infrastructure**

The quality of infrastructure and level of investment therein vary greatly from one country to another.

- **Climate**

Climate has implications for countries in terms of productivity in the agricultural sector, as well as for the tourist industry.

	<ul style="list-style-type: none"> • <u>The political system</u> The political system is often a contributory factor in explaining differences in GNP per head. If this lacks stability and integrity, a country is restricted from reaching its full potential. <p>TWO reasons required at 10m each graded.</p>	20m	30m
			(c): 30m
			Q7: 75m

(b)

State and explain **TWO** functions of each of the following:

- **The Central Bank Of Ireland**

- **Implement Monetary Policy**

This function includes policy decisions in relation to the money supply or interest rates or credit creation/where appropriate implement monetary policy as set down by the ECB/as part of the ESCB, give priority to the achievement of price stability.

- **Supervision Of Financial Institutions**

The Central Bank of Ireland is charged with protecting the integrity of the financial services sector within the country/providing certain safeguards for depositors and investors who entrust funds to financial institutions.

- **Issue Of Currency**

The Central Bank is the only institution in Ireland licensed by the government to print euro notes and coins.

- **External Reserves**

It holds and manages the external reserves on behalf of the Irish government.

- **A Banker To The Government**

All government revenue and expenditure transactions are conducted through accounts held in the Central Bank of Ireland

- **A Banker's Bank**

Each commercial bank must keep an account with the Central Bank.

or

It acts as a clearing house for cheques.

or

It issues and can revoke licenses to banks

- **Commercial Banks**

- **Operate cheque system/current accounts**

They enable the business community and the general public to make payments by cheque/they provide an efficient clearing system for cheques.

- **Deposit Accounts**

Commercial banks offer security for depositors' funds and pay interest on their savings.

- **24 Hour Banking**

This function is operated through a variety of innovations, including ATM's, telephone banking and internet/ on-line banking.

- **Lending**

A wide range of loans, overdrafts and mortgages are provided by commercial banks.

- **Computerised Transfer Of Money/Automated Bill Payment**

Included in the range of automated fund transfer facilities offered by commercial banks are standing orders, direct debits, credit transfers and pay-path.

- **Foreign Exchange**

Commercial banks have a range of facilities which enable international traders and the public to make or receive payment in foreign currencies e.g. euro cheques, travellers cheques and foreign currency itself.

Marking

The Central Bank

TWO functions required at 8m and 7m graded

Commercial Banks: as for the Central Bank above:

15m

15m

**(b):
30m**

(c)	(i)	<p>Name ONE EU member state other than the UK, which does not use the euro as its currency.</p> <p>Answer: <u>Sweden Or Denmark</u></p> <p>ONE of the above countries:</p>		
	(ii)	<p>If the UK decided to introduce the euro, state and explain TWO economic effects, which this development would have for the Irish economy.</p> <p>➤ <u>Export prices stabilise.</u> Variations in the price of Irish exports to Britain due to currency fluctuations would no longer apply, as both countries would be using the same currency.</p> <p>➤ <u>Import prices more certain.</u> If both countries were using the same currency, the price of imports from the UK could not increase or decrease due to changes in rates of exchange.</p> <p>➤ <u>Debt repayment.</u> More certainty will apply to the repayment of debt which was formerly denominated in sterling, as variations in such payments cannot occur due to currency fluctuations</p> <p>➤ <u>Speculation</u> If both countries were using the euro, speculation between the Irish and British currencies, which can occur at present, would no longer be possible.</p> <p>➤ <u>Inflation</u> The rate of inflation in Ireland would be more predictable/less volatile, as the inflationary/deflationary effects of currency changes on the price of British goods bought in Ireland would be eliminated.</p> <p>➤ <u>Tourism</u> The Irish tourism industry would benefit from the fact that British holiday makers coming to Ireland would no longer be required to change their sterling into euro/a strong euro would no longer act as a disincentive to such holiday-makers coming to Ireland.</p>		

		<p style="text-align: center;"><u>OR</u></p> <p>More certainty as regards prices for Irish tourists planning to holiday in Britain.</p> <p>TWO answers required at 10m each graded.</p>		<p style="text-align: center;">20m</p>
				<p style="text-align: center;">(c): 25m</p>
				<p style="text-align: center;">Q8: 75m</p>

END