



Coimisiún na Scrúduithe Stáit State Examinations Commission

Scéimeanna Marcála

Scrúduithe Ardteistiméireachta, 2004

Eacnamaíocht

Gnáthleibhéal

Marking Scheme

Leaving Certificate Examination, 2004

Economics

Ordinary level

Leaving Certificate Examinations 2004

Ordinary Level Economics

**DRAFT MARKING SCHEME,
and
NOTES
for use with the Marking Scheme**

- There is no suggestion that the enclosed notes are exhaustive or definitively complete.
- Further points presented by candidates will be marked and rewarded on their merits.
- 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.

Leaving Certificate Examinations 2004

Ordinary Level Economics

INDEX TO QUESTIONS

Number	Topic	Page(s)
Section A		3 – 6
Section B		
1	Imperfect Competition	7 – 9
2	Demand, Utility & Price Elasticity	10 - 11
3	Land, Location of Business, Wages	12 - 14
4	Government Budgeting, Economic Aims and Savings	15 – 17
5	Less Developed Countries LDCs	18 - 20
6	Trade and the EU	21 – 23
7	National Income	24 - 26
8	Privatisation, Aer Lingus & the National Debt.	27 - 30

SECTION A

1.

(i)	Line 1: Price	<i>4 marks</i>
	Line 2: Quantity	<i>4 marks</i>
	Line 3: Supply	<i>2 marks</i>
(ii)	Equilibrium price:	<i>2 marks</i>
	Equilibrium quantity:	<i>2 marks</i>
(iii)	Demand curve shifts to right:	
	Effect on price: Increased/higher	<i>1 mark</i>
	Effect on quantity: Increased/greater	<i>1 mark</i>

2.

16 marks graded.

State **THREE** barriers to entry in monopolistic markets:

- (a) Legal restriction on competition/ Government confers sole right of supply to one firm
- (b) Ownership of a patent / copyright
- (c) Sole rights to raw materials
- (d) Economies of scale / an industry requires a large investment in capital
- (e) Firms may enter into trade agreements with other firms
- (f) Mergers / takeovers
- (g) Monopolies based on fear, force or threats - supply of illegal drugs
- (h) Limit pricing
- (i) Proliferation of brands on the market

3.

3 underlined words: 8 + 4 + 4.

Complete the following statements:

Labour, as a factor of production, is defined as the **human** effort involved in the production of a **good/service/commodity**.

The payment for labour is called **wages/salary**.

4.

3 answers: 8 marks + 4 marks + 4 marks

A firm produces 5 units each week. It receives €1,500 from the sale of three units.

The firm pays the following costs:

Raw Materials €400, Rent of Premises €500, Wages €300.

Calculate the following showing all your workings:

(i)	<u>the TOTAL COST of producing all 5 units:</u> Raw Materials €400 + Rent of Premises €500 + Wages €300	€1,200	8 marks graded				
(ii)	<u>the PROFIT made on sales:</u> Sales revenue: €1,500 – Total costs: €1,200 (or own figure)	€300.	4 marks graded				
(iii)	<u>the COST OF PRODUCING ONE UNIT:</u> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">Total Cost (own)</td> <td style="text-align: right;">€1,200</td> </tr> <tr> <td style="text-align: right;">No. of units produced</td> <td style="text-align: right;">5</td> </tr> </table>	Total Cost (own)	€1,200	No. of units produced	5	€240	4 marks graded
Total Cost (own)	€1,200						
No. of units produced	5						

5.

16 marks graded.

An indirect tax is a tax on goods and services / on spending.

PAYE VAT Excise Duty Corporation Tax

6.

17 marks graded.

Medium of Exchange

- Money allows people to get goods and services.
- It allows the buying and selling of goods / services.

Two other functions:

Function	Brief explanation
<i>Measure of Value</i> (Unit of Account)	common denominator used to put a value on items
<i>Store of Wealth</i>	allows people to save
<i>Standard for Deferred Payment</i>	allows people to buy goods on credit & pay later

7.

17 marks graded.

Answer: **Went up** (in value)

Explanation: Each €1 is now worth 20 cent more.

8.

17 marks graded.

Equity

- The ability of each person to pay the tax must be taken into account
- Takes a higher proportion of income in tax as income rises

Two other characteristics

Characteristic	Brief explanation
<i>Economy</i>	the revenue collected should exceed the costs of collection the costs of assessment and collection should be as low as possible.
<i>Certainty</i>	the taxpayer/collector should know when and how much tax he/she will pay.
<i>Convenience</i>	the tax should be collected in a way and at a time, which is convenient to the taxpayer.

9.

17 marks graded.

(i)	IMF	International	Monetary	Fund
(ii)	ECB	European	Central	Bank
(iii)	WTO	World	Trade	Organisation

END OF SECTION A

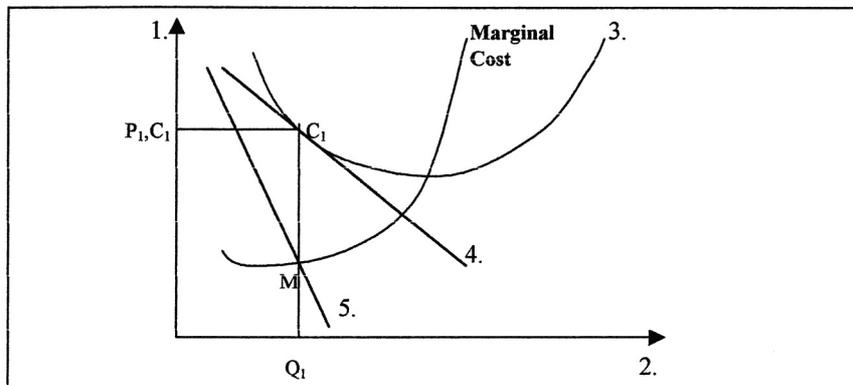
SECTION B

Question 1: Imperfect Competition

- (a) (i) 13m. : (P & Q : 2m. each; AC, AR, & MR : 3 m. each)
 (ii) 12m. : (Q1 = 4m., P1 = 4m., and C1 = 4m.)

(i)	Line 1	Price	2 marks
	Line 2	Quantity	2 marks
	Line 3	Average Cost	3 marks
	Line 4	Demand / Average Revenue	3 marks
	Line 5	Marginal Revenue	3 marks
(ii)	Equilibrium Q	Q1 – correctly labelled	4 marks
	Equilibrium P	P1 – correctly labelled	4 marks
	Average Cost	C1 – correctly labelled	4 marks

Diagram to accompany Q. 1, section B.



(iii)

5 marks graded.

State and explain why the firm is not producing at the lowest point of AC

Advertising.

A firm in imperfect competition produces close substitutes.

This firm by engaging in advertising can attempt to increase its level of sales.

This increases its level of costs – hence it does not produce at the lowest point of AC.

(b)

3 points: 9 + 8 + 8 graded.

State **THREE** characteristics of an Imperfectly Competitive market and brief notes on **each** of these.

There are many buyers in the industry.

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

There are a large number of sellers within the industry.

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

Product Differentiation exists / Firms produce close substitutes

- The goods, which are supplied by the producers, are not identical goods but are close substitutes.
- Firms try to establish in the minds of the public that the goods are not perfect substitutes by selling their goods under a brand name.

Entry into/ Exit from the industry

Firms already in the industry cannot prevent new firms from entering that industry. No barriers to entry exist. There are no restrictions on firms leaving the industry, if they wish to do so.

Reasonable knowledge as to profits made by other firms.

- In the market everyone concerned has reasonable knowledge as to profits made by other firms in the industry.
- Consumers may not be aware of the prices being charged for different products.

Each firm tries to maximise profits.

- The sole aim of each firm is to produce that quantity which will maximise its profits; hence the aim of a firm is to minimise costs.

Elastic supply of factors of production

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

(c)

4 points x 5 marks each graded.

Firms involved in the supermarket trade regularly advertise.

In the case of any **TWO** of the following, outline **one** advantage and **one** disadvantage of advertising.

	Advantages	Disadvantages
Supermarket	<p><u>1. Increased Sales / Profits</u> If more consumers can be attracted then sales may increase</p> <p><u>2. Bigger share of the market</u> If sales increase the supermarket may increase its share of the market.</p> <p><u>3. Bulk purchasing</u> If sales increase the firm may be able to buy in bigger quantities at more competitive rates.</p>	<p><u>1. Increased costs</u> Advertising will increase costs of the supermarket.</p> <p><u>2. Expectations of consumers.</u> The supermarket may not meet the expectations of their consumers and eventually its image/reputation may be affected.</p> <p><u>3. Legal action</u> If the advertising is misleading the firm could face legal action/adverse comments.</p>
Consumer	<p><u>1. Greater knowledge</u> Consumers become aware of lower prices, special offers, the availability of new products / services.</p> <p><u>2. More competitive prices.</u> Increased competition within the industry may lead to more competitive prices.</p> <p><u>3. Economies of scale / ↓ prices</u> If output increases the firm may experience economies of scale resulting in lower prices.</p>	<p><u>1. Increased prices</u> The firm may have to increase prices to pay for the increased costs.</p> <p><u>2. False / Misleading information</u> Consumers may be presented with inaccurate/incomplete information leading to confusion/mis-information.</p> <p><u>3. Impulse buying</u> The advertising may cause customers to buy on impulse.</p>
Economy	<p><u>1. Increased spending / GNP</u> Advertising may encourage consumers to increase spending, leading to economic growth.</p> <p><u>2. Increased tax revenues.</u> Increased spending will lead to increased indirect tax revenue, which can fund greater government expenditure.</p> <p><u>3. Jobs in the advertising industry.</u> Jobs will be created within the advertising industry thus benefiting the economy.</p> <p><u>4. Sponsorship of events</u> The firm may increase its sponsorship of community events.</p>	<p><u>1. Wasteful of scarce resources / Opportunity cost.</u> Advertising may be considered to be wasteful of scarce resources, which may have better alternative uses.</p> <p><u>2. Encourages consumption of harmful commodities.</u> Advertising may encourage people to consume commodities which can be harmful to them i.e. alcohol etc.</p> <p><u>3. Possible inflationary effect.</u> If costs increase then the firm may have to increase prices.</p>

Question 2: Demand, Utility and Elasticity

(a) ***3 points: 7 + 7 + 6 marks graded.***

State and explain **THREE** factors which affect the demand for a good / service.

(i) The price of the good itself

Generally as the price of a good falls consumers will buy more of that good.

(ii) The prices of complementary goods

In relation to good A, if the price of its complement increases, the demand for good A decreases - e.g. an increase in the price of petrol will result in a drop in the demand for (large) cars.

(iii) The prices of substitute goods

In relation to good A, if the price of its substitute increases, the demand for good A will increase - e.g. if the price of butter increases the demand for margarine will increase.

(iv) The income of the consumer

For most goods as income rises the demand increases and vice versa.
e.g. smaller quantities of goods are bought when a person becomes unemployed.

(v) The consumers' tastes or preference for a commodity

When a commodity comes into fashion or into season there is an increase in the quantity demanded at each price. Advertising attempts to influence taste in favour of the good.

(vi) The expectations concerning future prices, availability of income

If consumers expect that future prices are likely to be greater than they are at present, then there will be an increase in the demand for the good at each price. If consumers are confident about the availability of income in the future, the demand for goods and services increases.

(vii) Government regulations

If the government initiates a programme to curtail consumption of a particular product then it may affect the demand for a good e.g. a health education campaign to curtail cigarette consumption.

(viii) Unplanned factors

If there was a sudden heat wave this may result in an increase in the demand for sun cream / ice cream.

- (b) (i) 3 missing figures x 3 marks each = 9 marks
(ii) when 3 units are consumed: 4 marks. Explain: 4 marks
(iii) One commodity: 4 marks. Explanation: 4 marks.

(i) Complete the table

Number of units consumed	1	2	3	4	5	6
Total utility in units	20	45	75	90	100	105
Marginal utility in units	20	25	30	15	10	5
				<u>3 marks</u>	<u>3 marks</u>	<u>3 marks</u>

(ii) How many units are consumed before Diminishing Marginal Utility sets in? Explain.

- 3 units are consumed before diminishing utility sets in. **4 marks**

Explain

- When the 4th unit is consumed the consumer's marginal utility falls. **4 marks**

(iii) State 1 commodity a person consumes which may not result in a fall in marginal utility – explain

Commodity: Cigarettes / Alcohol / Medicine etc. **4 marks**

Explanation: **4 marks**

- For addictive goods consumers do not act rationally and they get as much satisfaction from each extra unit consumed.
- Medicine: each additional dose is as important as the previous one.

(c) (i) *Symbols: 6 x 3 marks each = 18 marks.* *(ii) 12 marks graded.*

ΔQ	Change in quantity demanded	3 marks
ΔP	Change in price	3 marks
P_1	Original price	3 marks
P_2	New price	3 marks
Q_1	Original quantity demanded	3 marks
Q_2	New quantity demanded	3 marks

(ii) Price Elasticity of demand for a normal good is negative.

- This means that as price increases the quantity demanded for that good falls.
Example:
- Specific example: e.g. sweets

Question 3: Land, Location of Business, Wages

(a)

(i) Definition: 10 marks graded.

(ii) 8 marks graded.

(iii) 2 at 6 marks graded.

(i) Land:

Anything supplied by nature, which helps in the production of output/wealth

(ii) Land differs from the other factors in the following ways:

<i>Factor</i>	<i>Explanation</i>
Fixed in supply.	Nature has provided only a certain amount of land and man cannot increase this.
Its earnings are economic rent/ It has no cost of production.	This is because land is a gift of nature.
The price of land does not affect the quantity available.	This is unusual for factors. In the case of labour if wages fall the supply of labour may decrease.

(iii) Two reasons for the increase in the price of land in Ireland in recent years.

<i>Reason</i>	<i>Explanation</i>
1. Inflation	Inflation in Ireland has been rising – this leads to a general increase in prices, including land prices.
2. Demand for housing purposes.	The boom in construction of houses had lead to an increased demand for land for this purpose, thereby pushing prices up/as the level of immigration increases in the Irish economy, the demand for land for accommodation purposes will inevitably increase also.
3. Demand for infrastructural purposes.	The improvements in the state’s infrastructure i.e. roads has lead to an increased demand for land for this purpose, thereby pushing prices up. Many of our present waste-disposal sites are nearing, or have reached, their full capacity – the acquisition of new sites leads to increased demand for land.
4. Scarcity of land / land hoarding	As the supply of land is fixed by nature and as demand rises price will inevitably rise. Some landowners are ‘hoarding’ land until prices increase.

(b)

3 reasons: 7 + 7 + 6 marks graded.

THREE reasons which influence an investor's decision in locating business in Ireland.

Infrastructure

A firm may require a good efficient transport infrastructure to get the goods to the market, source raw materials etc. This may include a good road network and possible closeness to a seaport and/or airport. A manufacturing firm will require the un-interrupted supply of power and the supply of clean water.

Availability of land for expansion

If the firm plans to expand it will require land for this expansion.

Local authority planning permission/ Environmental regulations

All investors must ensure that the appropriate planning permission is available from the local authority. Particular industries may be subject to environment regulations and these must be checked with the appropriate authority.

Workforce availability/wage levels

High educational standards have been a major contributory factor in relation to increased levels of foreign direct investment in Ireland, since such standards enhance labour productivity. Relatively high wage levels in the economy may discourage foreign direct investment.

Tax incentives/subsidies

There may be tax incentives available if the firm locates in certain areas of the country (disadvantaged areas). Ireland has a relatively low rate of corporation tax, which results in higher after-tax profits for enterprises. The payment of subsidies/grants by the government may act as an incentive for investment.

(c)

(i) 9 marks graded.

(ii) 2 at 8 marks graded.

(i) State and explain **ONE** reason why a worker might chose to work less hours.

Preference for more leisure time

Workers might prefer to increase their leisure time rather than their time at work.

Desire not to pay higher tax

Workers may find that the extra tax paid does not make it financially worthwhile to work extra hours.

Standard of living

With the increased hourly wage rate the worker's standard of living / quality of life may be satisfactory without having to increase the number of hours worked.

(ii) State and explain TWO reasons why different wage rates are paid for different jobs.

1. Different skills

The skills attaching to different jobs vary and pay is commensurate with the level of skill involved.
e.g. a doctor receives a higher rate of pay than a nurse.

2. Training

Workers who undergo longer periods of training will receive higher levels of pay.
e.g. a nurse who engages in further training becomes more specialised and will receive higher pay.

3. Educational qualifications

Generally wage levels recognise the educational qualifications achieved by the worker.
e.g. a teacher with an honours degree receives a higher allowance than a teacher with a pass degree.

4. Nature & Conditions of the job

Conditions of work may vary between jobs and pay levels will reflect this.
e.g. dangerous work, unsocial hours, temporary nature of the job.

5. Negotiating strength of the workers trade union

If workers are members of a strong trade union this union may obtain wage levels in line with the workers marginal revenue productivity.

6. Tradition attaching to certain jobs

It has been possible for those involved in the self-governing professions i.e. those in the legal / accountancy professions to maintain high pay levels because of the tradition which attaches to such professions.

7. Possession of innate talents

Some people possess certain talents and hence may be able to earn very high incomes e.g. sports stars, those in the entertainment industry.

8. Gender Bias.

Despite legislation a bias exists in the payment of women in the Irish workforce.
Women workers in Ireland earn roughly 80% of earnings of their male counterparts.

Question 4: Government Budgeting, Economic Aims and Savings

- (i) Correct answer: 6 marks, Economic term: 6 marks.
 (ii) Answer: 6 marks.
 (iii) One example each of revenue and expenditure : 4m. + 3m.

(a)

(i)	<u>Difference</u>	- €450m	6 marks
	<u>Economic term</u>	Current Budget deficit	6 marks
(ii)	<u>How is this financed</u>	Increased borrowing/use of previous surpluses.	6 marks
(iii)	<u>Examples:</u>		4m. +3m.
	<p><u>Government Current Income</u></p> <ol style="list-style-type: none"> 1. Direct tax revenue (or example) 2. Indirect tax revenue (or example) 3. National lottery receipts. 4. Interest on loans given to semi-states / local authorities 5. Surpluses of semi-state bodies. 6. Departmental balances. 7. Prize Bond scheme. 8. Fees charged for state services 		<p><u>Government Current Expenditure</u></p> <ol style="list-style-type: none"> 1. Salaries of all state employees 2. Cost of running government departments 3. Costs of running state institutions. (schools, hospitals, prisons, CSO, Ombudsman etc) 4. Social welfare payments 5. National debt service. 6. Grants to local authorities. 7. Ireland’s contribution to the EU budget.

(b)

3 terms: 7 + 7 +6 marks graded.

Economic growth

- A situation where a country’s GNP / National Income is rising.

Price stability

- A situation where the prices of goods and services within the country are not rising/ where the rate of inflation is maintained at a low level.

Balanced regional development

- A situation where each region within the country is developing at a level comparable to the other regions.
- An improvement in a region’s infrastructure / standard of living so that all regions within the country are at a similar state of economic development.

Full employment

- A situation where each person who wants a job, is employed, at existing wage rates.

(C)

(i) Savings: 6 marks

(ii) 2 factors at 6 marks graded.

(iii) 2 reasons at 6 marks graded.

(i) Savings

Income not spent/non-consumption.

(ii) State and explain TWO factors which may influence a person's level of savings.

Level of income

The greater the level of income, the greater the scope for savings.

Rate of interest

The higher the rate of interest, the greater the level of return. People may save more.

Tax rates on savings

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

Government policies

The SSIA scheme introduced by the government encouraged an increase in the level of savings.

Inflation

Inflation means that the real rate of interest is falling, resulting in a lower return on savings.

Level of social welfare payments

Higher levels of social welfare payments may facilitate an increased level of savings.

Future expectations

If people are concerned about the future of the economy they may reduce current spending and increase their savings.

Quality of financial products / pensions

If the financial products available on the market provide reasonable returns, people are more likely to save.

(iii)

2 reasons x 6 marks graded.

State and explain TWO reasons why the government might wish to increase the level of savings in Ireland.

Inflationary pressures reduced

Lower current spending will lower demand-pull inflation.

Create funds for future investment

Savings become the funds for future investment in the economy.

The Irish economy has had very low interest rates in recent years. In such a climate, additional incentives, such as SSIA's may be necessary to ensure an adequate level of saving in the economy.

Decrease demand for imports

With lower spending the demands for imports should fall.

Encourage citizens to provide for the future

Any scheme, which encourages savings, should help to focus citizens' attention on the importance of making adequate provision for the future.

Government revenue motive

Interest earned on savings is generally subject to DIRT, and this acts as a boost to government revenue.

Question 5: Less Developed Countries.

(a)

4 points: 7 + 6 + 6 + 6 marks graded.

Population Growth

LDCs experience high population growth placing strains on the resources in the economy.

Famine

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

Foreign Debts

Debt repayment uses up government revenue limiting the revenue available for other purposes in the economy.

Uneven distribution of wealth

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

Dependence on one crop

Some LDCs are over-dependent on one crop, the prices of which can fluctuate considerably on world markets. They are also very vulnerable to crop failures.

Percentage of the population engaged in extractive/primary industries

This may be high leading to insufficient workers being available for secondary & tertiary sectors, resulting in lower living standards.

Terms of trade

These LDC countries may face low export prices and high import prices.

Poor living conditions

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

Lack of capital

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

Per capita income

Low income per head is a common characteristic of LDCs, resulting in poor living standards and a consequent low demand for goods and services.

Levels of education/literacy

Low standards in relation to education and literacy restrict the ability of LDCs to achieve economic development.

Political corruption

Indications of political corruption include excessive military spending, bureaucratic systems of government and questionable electoral practices.

Exploitation by multinationals (MNCs)

This may involve the payment of low wage rates or damage to the environment, which may result in significant social costs for the country concerned.

(b)

3 measures: 7 + 7 + 6 marks graded.

1. Promote population control

This could be achieved through the use of public information programmes, resulting in a decrease in the birth rate thus enabling the country to sustain its population in future years.

2. Improve basic infrastructure

This would include the provision of clean water and proper sanitation as well as the development of public housing, roads, power supplies, communications network etc.

3. Promote land/ agricultural reform

This objective could be achieved through diversification of production, an equitable ownership system and farm modernisation programmes.

4. Improve education

Start with a basic literacy programme to improve literacy skills.
Provide primary education.

5. Incentives for development of enterprise

LDCs eventually need to develop an indigenous enterprise culture and thus decrease their dependence on foreign aid.

6. Political reform

Amongst the necessary reforms are a reduction in bureaucracy, the elimination of corruption and a decrease in the level of expenditure on arms.

7. Re-negotiate debt repayments

The government should try to re-negotiate the terms and repayment schedule of existing loans and reduce its dependency on borrowings into the future.

(C)

2 advantages: 8 + 7 marks graded.

2 disadvantages: 8 + 7 marks graded.

-

<u>Advantages</u>	<u>Disadvantages</u>
<p><u>1. Improved standard of living</u> If the social infrastructure improves then the quality of life of citizens will improve e.g. improved housing, hospitals etc.</p>	<p><u>1. Costs to the environment</u> The developments may result in increased pollution, disfigurement of the landscape etc.</p>
<p><u>2. Increased life expectancy</u> If water supply is clean and regular and sanitation improves then life expectancy of citizens should be extended.</p>	<p><u>2. Scarcity of resources</u> Investment in infrastructure results in an accelerated consumption of the earth's scarce resources.</p>
<p><u>3. Improved ability to attract industry/investment</u> If the infrastructure improves the country may become a more attractive location for industry.</p>	<p><u>3. Opportunity costs</u> Such investment results in a reduction in the availability of consumer goods as factors of production and finance are diverted into the production of additional infrastructure.</p>
<p><u>4. Improved employment opportunities</u> If industry locates in the country then more employment opportunities will become available.</p>	<p><u>4. Migration</u> If infrastructural improvements are confined to urban areas then this may result in a large-scale movement from rural areas resulting in the development of shantytowns.</p>
<p><u>5. Less damage to the environment</u> The provision of water and improvements in sanitation will limit damage to the environment.</p>	<p><u>5. Welfare may not improve.</u> Higher incomes may be achieved at the expense of poor work practices, an increase in crime and a loss of cultural identity.</p>
<p><u>6. Contribution to economic growth</u> Investment in infrastructure results in improved productivity, higher growth rates and enhanced competitiveness for the economy in general.</p>	<p><u>6. Taxation</u> The government may have to raise taxation levels in order to finance the increased investment in infrastructure.</p>
<p><u>7. Government finances</u> If infrastructural developments result in higher growth rates in the future then subsequent projects may be financed from increased government revenue.</p>	<p><u>7. Debt</u> The country's national debt may have to increase if the investment is financed through the use of borrowed funds.</p>

Question 6: Trade and the EU

(a)

(i)

10 marks: Two answers at 5marks.

(ii)

3 methods at 5 marks graded.

(i)

Country	Output (production per worker per week)	
	MACHINES	CARS
FRANCE	20x2	0
KOREA	0	15x2
Total Output	40	30

(ii) THREE methods a government may use to restrict free trade.

1. Tariffs

This is a tax on imported goods.

2. Quotas

This is a limit on the quantity of imports into a country.

3. Embargoes

This is a total ban on the importation of a commodity into a country.

4. Administrative barriers

When one country refuses to admit the produce of another country unless they are accompanied by very technical documentation/ they meet strict conditions / satisfy very definite specifications.

5. Exchange Control regulations (non euro-zone)

A country limits the amount of foreign currencies available to domestic importers so as to limit their ability to buy imports.

(b)

(i) 2 reasons at 7 marks graded.

(ii) Invisible exports: 8 marks graded 2 examples x 4 marks each.

(i) Two reasons why exports are important to the Irish economy.

1. Create jobs / job security

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

2. Increased GNP

An increase in exports will lead to increased incomes within the country.

3. Increased sales / profits

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

4. Earn foreign currencies

The receipt of foreign currencies can boost our reserves / help protect the value of the € / provide the finance to help pay for our imports.

5. Injection into circular flow of income

Exports represent an injection into the circular flow of income.

6. Attract investment.

Strong exports will enhance confidence in the economy and may help attract increased investment into the economy.

(ii) Invisible exports

- **The sale of Irish services to consumers outside Ireland.**

Examples

- **Foreigners holidaying in Ireland**
- **Foreigners using Irish transport services**
- **Foreigners paying for the use of Irish financial services**
- **Irish entertainment artists performing abroad**
- **Employees of Irish companies doing consultancy work abroad**
- **Profits earned by Irish companies abroad being returned to Ireland**
- **Irish emigrants' remittances**
- **Irish workers servicing foreign aircraft**

- (c) *(i) 2 countries at 3 marks each*
(ii) 2 advantages at 7 marks graded.

(i) **TWO** countries, which joined the EU in May 2004.

Cyprus	Czech Republic	Estonia	Hungary	Latvia
Lithuania	Malta	Poland	Slovakia	Slovenia

(ii) **TWO** economic advantages to these countries of EU membership

1. Access to EU funds

The countries will now have access to EU funds, which will help develop their economies further.

2. Access to larger markets

Companies operating in these countries will now have unrestricted access to the other EU member states, thus boosting trade.

3. Mobility of labour

Labour can now move to other member states to seek employment and to seek further education opportunities.

4. Location for inward investment

Membership of the EU results in these countries becoming more favourable destinations for inward investment and lower labour costs also contribute to this development.

5. Employment

With the increase in inward investment there will be a greater demand for labour.

6. Increased economic growth

Greater production will result in increased GNP within these countries.

7. Improved standards of living

With more jobs, higher incomes and greater spending the citizens should enjoy an improved standard of living.

8. Increased competition

Consumers should benefit as these economies become subject to increased competition, which may result in more competitive prices and/or improved quality of goods and services.

9. Tourism opportunities

Citizens of existing EU member states will, over time, become more informed of the new member states and this may boost the tourism industry in the new member states.

10. Human rights safeguarded

Being a member of the EU will help safeguard the human rights of citizens of these countries, some of which are developing democracies.

11. Economic stability

As a member of a large and important trading bloc, with future membership of the euro possible, economic stability of the new member states should be improved.

Question 7: National Income

(a)

*(i) any 3 terms at 5 marks graded.
(ii) Workings: 10 marks graded.*

(i) Define ANY THREE of the following terms:

Consumption

- Income which is spent on good and services.

Incomes-in-kind

- Payment received in a form other than in cash/non-monetary form.

Investment

- This is the production of capital goods / increase in the capital stock of the economy.

Open economy

- An economy which imports and exports / engages in international trade.

- (ii) Given: national Income as $(Y) = C + I + G + X - M$
 $Y = €500\text{m}$; $C = €300\text{m}$; $I = €100\text{m}$; $G = €80\text{m}$ and $X = €50\text{m}$
Calculate the level of **imports (M)**. Show your workings.

$$\begin{aligned}(Y) &= C + I + G + X - M \\ €500\text{m} &= €300\text{m} + €100\text{m} + €80\text{m} + €50\text{m} - M \\ €500\text{m} &= €530\text{m} - M \\ M &= €530\text{m} - €500\text{m} = \underline{\underline{€30\text{m}}}\end{aligned}$$

(b)

- (i) 2 methods: 2 at 3 marks*
(ii) 2 uses at 7 marks graded.

- (i) State TWO other methods used to calculate National Income.

- **Income method**
- **Expenditure method**

- (ii) State and explain TWO possible uses of National Income statistics

Measures 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.

Indicates changes in standard of living

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

International comparisons

Ireland's national income statistics allow comparisons between countries in terms of economic growth.

Distribution of income

An examination of the statistics will give us an indication as to the distribution of incomes within different sectors in the economy e.g. agricultural sector etc.

Contribution of government

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

Negotiation of Partnership agreements

The statistics indicate the rate of economic growth which can be used as a basis for negotiations in future partnership agreements.

(c)

(i) What do the letters ‘GNP’ stand for? : 6 marks.

(ii) State and explain TWO possible advantages to a country of an increase in GNP.

2 at 6 marks graded.

(iii) State and explain TWO possible disadvantages to a country of an increase in GNP.

2 at 6 marks graded.

(i) GNP

- Gross National Product

(ii) Advantages of an increase in GNP.	(iii) Disadvantages of an increase in GNP
<u>Increased employment</u> An increase in GNP will lead to an increase in demand for goods and services with a corresponding increase in demand for labour to produce the extra output.	<u>Inflationary pressures</u> With the rise in the level of economic activity the level of demand-pull inflation will rise.
<u>Improved government finances</u> With an increase in spending, indirect tax revenue should rise. More employment will result in an increase in direct tax revenue and expenditure on social welfare should fall.	<u>Labour shortages</u> Increased demand for goods and services may lead to labour shortages in certain sectors of the economy.
<u>Balance of Payments effect</u> If some of the additional output is exported then our Balance of Payments position will improve.	<u>Demand for wage increases</u> Expectations by workers may increase with respect to pay increases.
<u>Improved standard of living</u> Higher GNP will result in increased wealth in the economy allowing us to buy more goods and services and leading to a reduction in poverty.	<u>Increased demand for imports</u> An increase in GNP increases income levels in the economy and thus demand for imports, which will worsen our Balance of Payment position.
<u>Effects on emigration/immigration</u> If job opportunities exist then people who had planned to emigrate may remain and more immigrants may be attracted into the economy.	<u>Revised expectations by citizens</u> With rising GNP citizens may revise their expectations upwards e.g. demand better infrastructure/services.
<u>Investment opportunities</u> Rising GNP indicates a growing economy and this may attract inward investment.	<u>Pressure in housing market</u> The rise in GNP will increase spending power in the economy and cause further inflation in property prices.

Question 8: Privatisation, Aer Lingus and the National Debt.

(a)

(i) Definition: 4 marks

(ii) 3 privatised companies at 2 marks each

(iii) 2 reasons at 5 marks graded.

(i) Define privatisation.

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

(ii) Name **THREE** companies **already** privatised from the list.

EIRCOM

IRISH FERRIES

GREENCORE

(iii) State and explain **TWO** reasons why the government might privatise state-owned companies

1. Revenue for the government

The sale will bring in revenue to the government. This may lead to a reduction in borrowing and/or provide more funds for semi-state companies in difficulty/the receipt of regular income in the form of corporation tax from the privatised company in the future.

2. Competition introduced into industry

These companies will now be forced to compete in a market place without the protection of the state, resulting in more competitive prices / improved quality.

3. Loss of obligation to subsidise

The government will no longer have to fund these companies and future losses will be borne by the shareholders rather than by the government.

4. Opportunity for citizens to become shareholders

Citizens may become shareholders in privatised companies.

5. New opportunities for the state to exercise control over industry

The state may now introduce new methods for exercising controls over privatised industries e.g. appointment of a regulator.

6. Room for private sector to grow/Opportunities for firms to move into foreign markets.

By exiting from the market place the state now allows private entrepreneurs to enter the market place / it also allows these newly privatised companies to compete in foreign markets.

(b)

(i) One financial difficulty at 5 marks graded.

(ii) 2 advantages and 2 disadvantages at 5 marks graded.

(i) State and explain **ONE** reason why Aer Lingus may have experienced financial difficulties.

Competition from low cost airlines

Aer Lingus has been faced with increased competition from low cost airlines resulting in a decline in sales / increased pressure to lower prices.

High labour costs

In the past, numbers employed increased resulting in high labour costs.

High operating costs

Aer Lingus operates different fleets i.e. Boeing, Airbus etc. which results in higher maintenance costs for the airline. Aer Lingus had also been subject to high fuel costs following Sept.11th.

Limited routes

Aer Lingus has been restricted in the past by Government decisions in relation to what routes it may fly and this has restricted their ability to compete.

Post September 11th – decline in passenger numbers

Following Sept. 11th Aer Lingus suffered a major decline in numbers travelling, particularly on its transatlantic routes resulting in a decline in revenue.

Unplanned events

Unplanned events, outside the control of the industry have exacerbated the problems faced by Aer Lingus in recent years e.g. the foot-and-mouth out-break resulted in the cancellation of many events in 2002.

(ii) Privatisation of Aer Lingus: advantages and disadvantages to employees / passengers.

EMPLOYEES

ADVANTAGES	DISADVANTAGES
1 at 5 marks graded.	1 at 5 marks graded.
<p><u>1. More motivated workforce</u> Increased competition may increase the incentive for the workforce to become more innovative/productive in their jobs.</p>	<p><u>1. Job Losses / reduced job security</u> The biggest risk for employees is the loss of jobs through rationalisation of services.</p>
<p><u>2. Reward/Incentive for innovation</u> If the firm can meet the challenges of competition, employees may reap more rewards for their innovations i.e. higher bonuses etc.</p>	<p><u>2. Changes in conditions of employment / Loss of benefits</u> The firm may change work practices for the employees, resulting in possible deterioration in their conditions of work.</p>
<p><u>3. Security of employment</u> If the new firm increases its market share then this may result in a growth in employment / additional job security.</p>	<p><u>3. Curtailment in pay/pension increases</u> The new owners, with different business objectives, may limit the pay/pension increases to its employees.</p>

PASSENGERS

Advantages	Disadvantages
1 at 5 marks graded.	1 at 5 marks graded.
<p><u>1. Quality of services</u> The competition may force the new company to improve the quality/efficiency of the service provided.</p>	<p><u>1. Loss of non-profit making services</u> The company may discontinue non-profit making services in an effort to reduce costs.</p>
<p><u>2. More competitive prices</u> Increased competition may force the firm to offer consumers more competitive prices.</p>	<p><u>2. Decline in standards of service</u> The quality of the service provided by the company may deteriorate in an effort to reduce costs.</p>
<p><u>3. Increased choice / availability of services</u> Consumers may now be able to avail of a wider choice of services due to deregulation and more open competition.</p>	<p><u>3. Increased prices</u> In a drive to increase profits the new firm may increase prices for some services provided / charge for services which were once considered 'free'.</p>
<p><u>4. Continuity of supply</u> As the newly privatised company will have access to new sources of funds the long-term prospects for survival will be enhanced.</p>	<p><u>4. Preference to meet shareholders demands</u> Greater emphasis might be placed on meeting the expectations of shareholders rather than improving the quality of the service for consumers.</p>

- (c) *(i) 2 definitions at 6 marks each.*
(ii) 2 uses at 3 marks each.
(iii) 2 advantages at 6 marks each graded.

(i) Define National debt and opportunity cost.

National debt

- This is the total amount of money borrowed by the government, which is outstanding.

Opportunity cost

- The cost of foregone alternatives.

(ii) State **TWO** uses of revenue received from privatisation.

2 uses at 3 marks each.

1. Provision of improved services e.g. education, health, welfare etc.
2. Job creation in the public/private sectors.
3. Revenue for wage increases in the public sector.
4. Improvements in the state's infrastructure.
5. Funds for future state pensions.

(iii) **TWO** economic advantages resulting from a reduction in Ireland's National debt.

1. Lower annual interest repayments

Once our national debt falls, the amount of interest we must pay annually also falls.

2. Increased funds available for the government

With less being repaid on our national debt, more funds are now available to the government for other uses.

3. Less pressure on taxpayers

With a reduction in our national debt the pressure on present/future taxpayers to fund the debt may lessen.

4. Financial markets

The requirement on the part of NTMA to source loans within Ireland is reduced. This means that more finances are available for the private sector.