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Gnáthleibhéal

Marking Scheme

Leaving Certificate Examination, 2005

Economics

Ordinary Level

Leaving Certificate Examinations 2005

Ordinary Level Economics

MARKING SCHEME

and

NOTES

(for use with the Marking Scheme)

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- There is no suggestion that the enclosed **notes** are exhaustive or definitively complete.
- Further points presented by candidates will be marked and rewarded on their merits.
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.

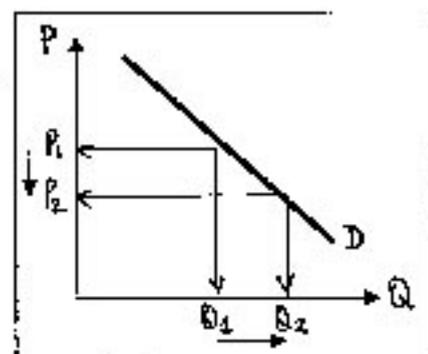
SECTION A

1. This diagram relates to a **Normal Good**.

(i) On the diagram, show the effect which a **decrease** in the price will have on quantity. Use labels P_2 and Q_2 .

New Lower P_2 : 4 marks

New Higher Q_2 : 4 marks



(ii) Price elasticity of demand for this good is **negative**. Explain the meaning of this statement.

This means that as the price of a good rises, the demand for the good will decline.

4 marks

4 marks

2. The following items are either substitute goods for cars or complementary goods for cars.

From the list below, identify which of the items are substitute goods (for cars) and which of the items are complementary goods (for cars). (16 marks)

| | | | |
|-----------------|--------------|---------------|-------------------------|
| BICYCLES | TYRES | PETROL | PUBLIC TRANSPORT |
|-----------------|--------------|---------------|-------------------------|

Answer:

| | | | |
|---------------------|---|-----------------|-------------------------|
| Substitute goods | → | BICYCLES | PUBLIC TRANSPORT |
| Complementary goods | → | TYRES | PETROL |

Marks: 4 correct answers at 4 marks each.

3. Complete the following statements:

(16 marks)

Because economics is the study of human behaviour, it is a **SOCIAL** science.

It analyses how scarce **RESOURCES** are used to satisfy man's **NEEDS** & **WANTS**.

16 marks graded.

4. One of the assumptions of a firm in **Perfect Competition** is that the goods produced are *homogeneous goods*. (16 marks)

State **FOUR** other assumptions / characteristics of a firm in Perfect Competition.

1. A large number of buyers exist.
2. A large number of sellers exist / Firms are price takers.
3. Freedom of entry and exit exists / No barriers to entry.
4. Perfect knowledge of profits / Firms are aware of the profit levels within the industry.
5. Perfect knowledge of prices / Consumers aware of the prices being charged in the industry.
6. No collusion within the industry.
7. Perfectly elastic supply of the factors of production.
8. Firms aim to maximise profits.

4 correct answers x 4 marks each.

5. Outline **TWO** advantages to a country of increased spending by the government on education. (16)

1. Increased participation levels in education (specifically low income groups).
2. Workforce becomes more highly skilled / more productive.
3. An educated workforce will help attract foreign industry to Ireland.
4. Increased standard of living for citizens resulting in increased economic growth.

16 marks graded.

6. (i) The term '**incomes-in-kind**' (benefits-in-kind) is used in national income. Explain the underlined term. (17 marks)

Income received / in a non-monetary form (in a form other than cash).

3 marks

3 marks

Payment made (to a factor) in the form of goods and services.

3 marks

3 marks

- (ii) In national income accounts, Savings (S) = Y – C.
If S = €100m. and C = €900m., **calculate the value of Y**. Show your workings.

$$\text{Savings (S)} = Y - C$$

$$€100\text{m} = Y - €900\text{m}$$

$$Y = €1,000\text{m}$$

11 marks graded.

7. Outline THREE economic problems, which LDCs are currently experiencing

(17 marks)

Population Growth:

Is very high resulting in consequent difficult economic problems / strain on scarce resources.

Famine:

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

Foreign Debts:

The repayments are very high and use up government revenues, which could have alternative uses.

Uneven distribution of wealth:

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

Dependence on one crop:

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

Percentage of the population engaged in extractive/primary industries:

May be high resulting in not enough working in secondary and tertiary sectors. This results in low standards of living.

Terms of trade:

These 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 for the majority of the population:

This is very low resulting in a poor standard of living and a consequent low demand for goods and services.

Levels of education/literacy:

These are very low and limit economic development.

Political corruption:

High expenditure by some LDCs on bureaucratic administration / military spending is excessive resulting in civil unrest.

Exploitation by multinationals of LDCs:

This may take the form of low wage rates and lack of care for the environment resulting in damage to the environment / high social costs.

17 marks graded.

8. Outline **FOUR** aims of government economic policy. (17 marks)

1. Achieve Full employment.
2. Reduce price inflation/limit price increases.
3. Achieve moderate economic growth.
4. Achieve Balance of Payments equilibrium/encourage exports.
5. Control government expenditure/finances.
6. Reduce borrowing / control the national debt as a percentage of GDP.
7. Reduce taxation levels / achieve taxation equity.
8. Promote balanced regional development.
9. Improve infrastructure.
10. Improve state services: –health/education services.
11. Achieve an equitable distribution of income / achieve a just social policy.
12. Protect the value of the domestic currency (non-euro zone countries).

17 marks graded.

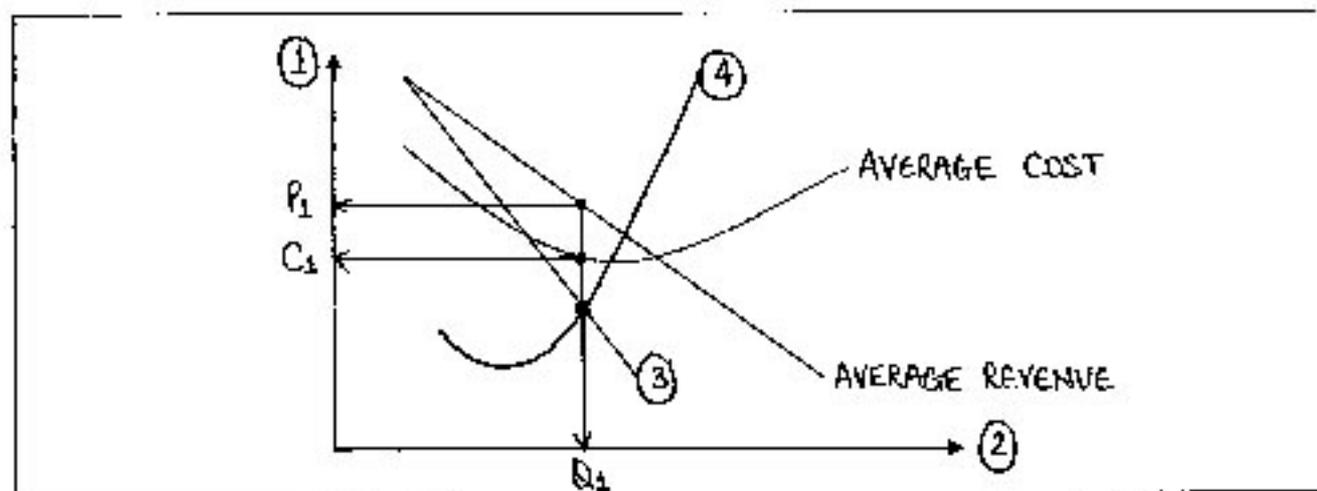
9. State **TWO** economic advantages of the decline in the number of people smoking within the Irish economy. (17 marks)

1. Consumers have a higher disposable income.
2. The consumer can now use this income for something else.
3. Consumers may have lower insurance premiums due to the reduction in risk.
4. Healthier population: people have less respiratory illnesses.
With less time off, workers become more productive.
5. Reduction in health costs: less people requiring medical care / greater life expectancy.
6. Environment benefits: less pollution / less litter.
7. Change in economic activity: more people visiting restaurants / pubs.

17 marks graded.

Q1 – MONOPOLY

The diagram below represents a **Monopoly** firm in equilibrium.



(a) (i) Copy the diagram into your answerbook. Clearly label each of the lines: 1 to 4.

| Line | Label / Title | Marks: 16 marks |
|------|------------------|-----------------|
| 1 | Price | 4 marks |
| 2 | Quantity | 4 marks |
| 3 | Marginal Revenue | 4 marks |
| 4 | Marginal Cost | 4 marks |

(ii) As shown in the diagram, the above firm produces Q_1 . Show on your diagram:

| | | Marks: 4 marks |
|-------|---|----------------|
| P_1 | the price the firm will charge for Q_1 | 2 marks |
| C_1 | the average cost of producing this output | 2 marks |

(iii) State **TWO** examples of industries which you consider to be monopolies in Ireland.

| | | |
|-----------------------------|------------------------------|---------------------|
| Rail Transport | Iarnród Éireann / Irish Rail | Marks: 5 marks |
| Letter Post | An Post | |
| Turf Production | Bord na Móna | 2 correct examples: |
| Bus Transport in Dublin | Dublin Bus | 3 + 2 marks |
| Domestic Electricity Supply | ESB | |

(25 marks)

(b) Explain each of the following barriers to entry and illustrate your answer with an example in each case. Patents and Copyrights; Government Regulation; Trade Agreements / Collusion.

| Explanation | Example |
|--|--|
| Patents and Copyrights | |
| A patent/ copyright confers the sole right on a business to a particular manufacturing process for a particular commodity. | Video + Dyson vacuum cleaners |
| Government Regulation | |
| The government may grant to a company the sole right to supply a good or service so that there is a legal restriction on competition. | Provision of bus services in Dublin City by Dublin Bus |
| Trade Agreements & Collusion. | |
| Firms may enter into trade agreements with other suppliers (collude with them) so that no other firm can supply the commodity to a particular segment of the market. | NTL / Chorus. |

25 Marks: 9 + 8 + 8 graded.

(c) State and explain:

(i) TWO **advantages** for the **employees** of a monopoly firm.

(ii) TWO **disadvantages** for the **consumers** of a monopoly firm.

(25 marks)

| Disadvantages for the consumers | Advantages for the employees |
|--|--|
| <u>High Prices</u> Monopolies can charge higher prices because there is no competition. | <u>Security of employment</u> As the firm is the only firm in the industry supplying the commodity employees have greater security of employment as no competition exists. |
| <u>Lower output produced</u> Monopolies may produce a lower output compared to a firm in Perfect Competition | <u>Less pressurised employment.</u> With no competition employees may not be subject to the same pressures as those in sectors with competition. |
| <u>Inefficient</u> Monopolies which do not produce at the lowest point of the AC curve waste scarce resources | <u>Pay and pensions.</u> Employees may be able to negotiate attractive rates of pay/pension with management. |
| <u>Super Normal Profits</u> If a monopolist charges a price above AC then this firm will earn SNPs at the expense of the consumer. | <u>Conditions of employment.</u> Management may offer excellent conditions of employment in order to attract top quality employees. |
| <u>Poor Quality Service</u> Because of the lack of competition the quality of service provided by the firm may be poor. | |
| <u>Marks: 13 graded.</u> | <u>Marks: 12 graded.</u> |

Q2 – DEMAND, MARKETS, AN POST

(a) The following factors cause **either** a demand curve **or** a supply curve to shift:

- income levels in the economy **fall**.
- costs of production for the product **rise**.
- the firm’s production methods **improve**.

In relation to **each** of the above factors:

- (i) state whether the demand curve **or** supply curve will shift.
- (ii) state whether the curve you mention will shift to the right or the left.
- (iii) explain **why** the curve has shifted in the direction you have stated. (30 marks)

| <i>Factor</i> | D/C or S/C shift | Shift to Right or Left | <i>Reason</i> |
|---|------------------|------------------------|---|
| Marks | 4 marks | 3 marks | 3 marks |
| income levels in the economy fall . | Demand curve | To the Left | Consumers have reduced incomes with which to buy the commodity so demand falls. |
| costs of production for the product rise | Supply curve | To the Left | If costs rise then the quantity supplied at each and every price falls so the S/C will shift to the left. |
| the firm’s production methods improve | Supply curve | To the Right | The firm will now be able to produce more at each price and so the S/C will shift to the right. |

(b) The diagram below represents the supply of seats at Croke Park, the biggest sports stadium in Ireland.

- (i) Explain the relationship between the price of tickets and the supply of seats shown in this diagram.
 - As the price of tickets change /the supply of seats remains unchanged: **7 marks graded**.
- (ii) Tickets may sell on the black market at very high prices.
 - Explain the term ‘**black market**’
 - Explain why tickets may sell for high prices on this market.

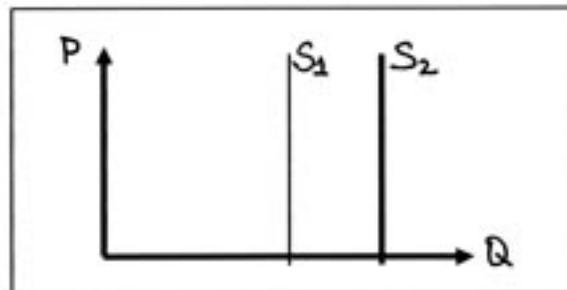
A black market is: **6 marks graded**

- An unofficial /illegal market.
- Sellers offer tickets on this market at prices other than their face value.

Tickets sell on a black market for high prices because: **6 marks graded**.

- Their supply is limited.
- Buyers are prepared to pay high prices because they want the tickets so badly.
- There aren’t enough seats to meet demand so buyers will pay a higher price to get a ticket.

- (iii) Copy the diagram into your answerbook and show the effect on the supply curve of the building of additional seating. Use the label S_2 . (25 marks)



New Supply Curve: 6 marks graded.

- (c) In recent years the demand for the 'letter-post' service provided by An Post has fallen. (20 marks)
- State and explain **TWO** reasons for this fall in demand.
 - State and explain **TWO** ways in which An Post could increase the level of demand for this service.

| TWO reasons for this fall in demand | TWO ways An Post could ↑ the level of demand |
|--|---|
| Change in the price of the good itself. The increased cost of posting a letter has led to a reduction in demand by consumers. | Reduce prices. If prices become more competitive it may result in an increase in demand. |
| Change in consumer tastes / fashion. Nowadays people want immediate responses; instant replies, so the use of texting, phone calls e-mails & fax messages facilitate this. | Increased efficiency. A guarantee that letter post will arrive the next day may result in more people using the service. |
| Change in the price of other goods. The price of alternative means of communicating is cheaper than the cost of letter post, hence an increase in the use of texting; e-mails etc. | Advertising / Sales Promotion 'gimmicks'. An Post could advertise the advantages and attractiveness of sending letters which may increase demand e.g. St.Patricks Day / Valentines Day. etc |
| | Become more profitable. If An Post became profitable it may then be able to offer more competitive rates or offer more attractive packages to entice people to send letters. |
| 2 reasons x 5 marks graded. | 2 reasons x 5 marks graded. |

Q3 COSTS, FACTORS OF PRODUCTION and WASTE DISPOSAL

- (a) A clothes producer pays rent to acquire the use of a premises. The producer also pays wages each week to workers. Other expenses include the bill for cloth, and a monthly loan repayment on finance obtained to purchase equipment.
- (i) Define fixed costs and variable costs.
- (ii) State whether each of the four payments underlined above are examples of fixed costs or variable costs. (20 marks)

| <i>Fixed Costs</i> | <i>Marks</i> | <i>Variable Costs</i> | <i>Marks</i> |
|--|----------------------------------|--|----------------------------------|
| <i>Are costs which do not change as output changes</i> | 4 marks 2 marks | <i>Are costs which do change as output changes</i> | 4 marks 2 marks |
| <i>Rent</i> | 2 marks | <i>Wages</i> | 2 marks |
| <i>Loan repayment</i> | 2 marks | <i>Bill for cloth</i> | 2 marks |

- (b) An entrepreneur combines land, labour and capital to produce a product or provide a service. (25)
- (i) Define **each** of the terms underlined above.

| <i>Factor</i> | <i>Definition</i> | <i>Marks</i> |
|----------------|---|-----------------------|
| Land | <ul style="list-style-type: none"> • anything supplied by nature • which helps in the production of output. | <u>5 marks</u> |
| Labour | <ul style="list-style-type: none"> • the human effort involved • in the production of output. | <u>5 marks</u> |
| Capital | <ul style="list-style-type: none"> • man made wealth / machinery used • in the production of output. | <u>5 marks</u> |

(ii) State and explain **TWO** factors which encourage **enterprise** in Ireland.

1. The existence of an optimistic future for the economy.

If the economic outlook of the economy is good then more people may take the risk in establishing an enterprise.

2. An education system which encourages innovation.

Through the education system students may become more familiar with the opportunities which arise from running a business and decide to establish an enterprise e.g. the operation of Mini-companies; the promotion of enterprise education etc.

3. Availability of low interest rates.

If the economy can sustain low interest rates then borrowing is attractive and it is easier to obtain capital for a business venture.

4. Low corporation taxation rate.

This enables entrepreneurs to minimise their tax liabilities and so the rewards for their risk taking is greater, thus encouraging more enterprise.

5. Changes in attitude towards risk-taking.

A positive attitude to profit and risk-taking will encourage more people to establishing an enterprise.

6. Government Policies.

If the 'red tape' / bureaucracy required to establish a business were minimised and simplified then more people might be encouraged to take the risk.

The government should pursue policies which help create an environment which encourages enterprise.

Marks: 2 x 5 marks graded.

(c) Waste disposal is a serious problem in society. There are many social costs involved in waste disposal (i.e. disadvantages to communities / society in general).

(i) State and explain **ONE** social cost associated with waste disposal: **9 marks graded.**

| Item | Explanation |
|------------------|---|
| Land Fill | Communities must suffer the problems associated with landfill sites. |
| Litter | People may dispose of litter carelessly resulting in increased litter / affecting scenic areas / damaging the environment. |
| Vermin | Without proper waste disposal there may be an increase in vermin in an area where littering takes place. |
| Use of resources | Local authorities must provide sites for the disposal of waste resulting in the use of resources which have alternative uses. |
| Tourism | A dirty and untidy area may result in reduced tourists visiting these areas. |

(ii) State and explain **ONE** way in which **EACH** of the following could help to reduce the social costs associated with waste disposal:

- Consumers;
- Manufacturers;
- The Government.

(30 marks)

| Group | Method | Explanation |
|---------------|----------|---|
| Consumers | Reduce | <ul style="list-style-type: none"> ▪ Reduce waste by home composting; not using as much packaging; don't litter. |
| | Re-use | <ul style="list-style-type: none"> ▪ Re-use containers; carrier bags; use old clothes as cleaning cloths etc. |
| | Re-cycle | <ul style="list-style-type: none"> ▪ Segregate waste into compost, plastic, glass, paper & cardboard. |
| Manufacturers | Reduce | <ul style="list-style-type: none"> ▪ Reduce the amount of packaging used in presenting goods. ▪ Introduce returnables e.g. glass bottles for drinks. ▪ Manufacture products with a high degree of re-cyclable materials. |
| | Re-use | <ul style="list-style-type: none"> ▪ Encourage consumers to return plastic containers by introducing a refundable fee. |
| | Re-cycle | <ul style="list-style-type: none"> ▪ Facilitate consumers re-cycling by encouraging them to return packaging to the retailer. |
| Government | Reduce | <ul style="list-style-type: none"> ▪ Move towards e-commerce rather than use paper e.g. on-line tax returns. ▪ Use re-cyclable paper in communicating with citizens. ▪ Facilitate a 'pay per weight' system so that reducing waste reduces citizens waste bills. ▪ Introduce more environmental taxes e.g. the plastic bag tax. |
| | Re-use | <ul style="list-style-type: none"> ▪ Educate citizens on methods of re-using wrapping. |
| | Re-cycle | <ul style="list-style-type: none"> ▪ Encourage local authorities to provide more centres for recycling. |

Marks: 3 x 7 marks graded.

Q4 MONEY, INTEREST RATES & SAVINGS

(a) (i) Define the terms: **money** and **legal tender**: **12 marks graded** .

Money: This is anything which is acceptable in payment for a debt.

Legal tender: This is anything which must (by law) be acceptable in payment for a debt.

(ii) Name the **TWO** items which are *not considered legal tender*, from the list below.

| | | | |
|----------------|-----------------|---------------------|---------------------|
| CHEQUES | €50 NOTE | 50 CENT COIN | CREDIT CARDS |
|----------------|-----------------|---------------------|---------------------|

Note: Do not state more than two items from the list.

Not legal tender: **CHEQUES** and **CREDIT CARDS**.

2 correct choices x 4 marks each.

(b) (i) Name the financial institution which sets interest rates for the Irish economy at present.

The European Central Bank – ECB. **4 marks**

(ii) State and explain how an **increase in interest rates** in Ireland would affect **each** of the following:

- the level of consumption in Ireland;
- property prices in Ireland;
- the cost of repaying the national debt.

(25 marks)

| | Statement | Explanation |
|------------------------------------|----------------------|---|
| Level of consumption in Ireland | Will Decrease | Borrowing is more expensive so this may result in a fall in spending. |
| | | If people save more because of the higher interest rates then spending will fall. |
| Marks | 3 marks | 4 marks |
| Property prices in Ireland | Will Fall | Borrowing becomes more expensive resulting in a reduction in demand for mortgages leading to less pressure on house prices. |
| Marks | 3 marks | 4 marks |
| Cost of repaying the national debt | Will Rise | The annual interest repayments on the national debt will increase. |
| Marks | 3 marks | 4 marks |

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

- Savings means not spending part of your income: **8 marks graded.**

(ii) Explain the effect which an increase in the rate of interest may have on a person's decision to save.

If the rate of interest rises then: **8 marks graded.**

- People will save more because they will get a better rate of return from their savings.

(iii) State and explain **TWO** factors, other than the rate of interest, which may influence a person's decision to save. (30 marks)

Level of income.

The greater a person's level of income the greater is his / her ability to save.

Level of Inflation.

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

Inflation results in having to spend more to buy goods and services and so ability to save is diminished.

Levels of Social Welfare Benefits.

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

Tax rates on savings / income.

If the rate of DIRT increased this would discourage the level of savings.

If rates of income tax increase then disposable incomes would fall resulting in reduced savings.

Government policies.

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

Future Expectations.

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

Age Structure of the population.

If a large percentage of the population is within the working age group then incomes increase facilitating an increase in the level of savings.

Marks: 2 at 7 marks graded.

Q5 TRADE, THE EU & ADAM SMITH

(a) The Irish economy is a small open economy which relies on exports to help our economic growth.

(i) Explain each of the underlined terms.

Open economy: An economy which engages in trade / imports and exports: **8 marks graded.**

Economic Growth: An increase in the level of national income /GNP: **8 marks graded.**

(ii) State and explain **TWO** factors which could make Irish exports cheaper abroad.

Lower Irish inflation rates v. that of competitors.

If the level of inflation is lower in Ireland than in the firm's export markets then the firm's goods are at a price advantage.

Value of the Euro v. that of other currencies.

If the value of the euro falls against other currencies then the price of that firm's exports will fall.

Transport costs.

As Ireland is an island nation these costs are significant when exporting goods from Ireland. If the costs of transport fall then this helps to lower the prices of Irish exports.

Labour Market Costs.

If labour costs in Ireland fall below that in export markets, then these lower costs will help lower the price of the Irish exports.

Government policies.

[indirect taxes / corporations tax / health and safety legislation / levels of subsidies]

Any actions by the government or EU which impose requirements on industry which have cost implications for firms, will make exports less competitive.

Insurance Costs

Insurance premium costs are high in Ireland.

Greater competition in this area coupled with a reduction in compensation claims could result in cost decreases.

Marks: 2 at 7 marks graded.

(b) (i) Name **TWO** EU member states, other than the UK, which do **not** use the euro as their currency.

| | | | | | |
|---------|-----------|----------------|---------|----------|----------|
| Sweden | Cyprus | Czech Republic | Estonia | Hungary | Latvia |
| Denmark | Lithuania | Malta | Poland | Slovakia | Slovenia |

Marks: 11 marks.

- (ii) If the UK decided to introduce the euro, state and explain **TWO** economic effects which this development may have for the Irish economy. (25 marks)

Exports prices stabilise.

Variations in the price of Irish exports to the UK due to currency fluctuations would no longer apply as both countries would now be using the same currency.

Import prices more certain.

If both countries were using the same currency the price of imports from the UK could not increase or decrease, due to changes in exchange rates.

Debt repayment.

More certainty would apply to the repayment of debt which was formerly denominated in sterling as variations in such repayments will not vary due to currency fluctuations.

Inflation.

The rate of inflation in Ireland would be less volatile as the inflationary/deflationary effects of currency changes on the price of UK goods bought in Ireland would be eliminated.

Tourism.

The Irish tourism industry would benefit as UK holiday makers coming to Ireland would no longer be required to change their sterling into the euro.

A strong euro would no longer act as a disincentive to UK holidaymakers visiting Ireland.

Price comparisons

The use of the same currency in both countries would allow for price comparisons by consumers in the UK and Ireland.

Marks: 2 x 7 marks graded.

- (c) Adam Smith contributed ideas to each of the following areas of economic thought: Canons of Taxation; Division / Specialisation of Labour. Write brief notes on each of these contributions. (20)

Canons of Taxation

| Characteristic | Brief explanation |
|----------------|--|
| Equity | The ability of each person to pay the tax must be taken into account Take a higher proportion of income in tax as income rises. |
| Economy | The revenue collected should exceed the costs of collection. The costs of assessment and collection should be as low as possible. |
| Certainty | The taxpayer/collector should know when and how much tax he/she will pay/collect. |
| Convenience | The tax should be collected in a way and at a time which is convenient to the taxpayer. |

Division / Specialisation of Labour

If each person specialised in a particular task it should result in greater efficiencies and output should increase.

20 Marks graded.

Q6 INFLATION & POPULATION

(a) The CSO publishes information on price inflation each month.

(i) What do the letters CSO stand for?

Central Statistics Office: **5 marks**

(ii) Explain what is meant by the term ‘price inflation’.

Price inflation: An increase in the level of prices over a period of time: **5 marks**

(iii) State and explain the possible uses of information on price inflation to each of the following groups: consumers; employees; the government:

| Group | Statement | Explanation |
|------------------------|---|---|
| Consumers | Cost of Living changes / Changes to standard of living | Consumers become aware of the level of price increases and thus increases in the cost of living. Should prices increase consumers will be aware of the decline in their standard of living. |
| | Return on level of savings | Consumers will be able to determine the real rate of return on their savings. |
| | Price comparisons / Shop around | Consumers will be able to compare prices within the country and between countries / it may encourage them to ‘shop around’ for the best prices. |
| 5 marks graded. | | |
| Employees | Changes to standard of living | Any change to the level of prices will enable an employee to determine the effect this will have on his/her standard of living. |
| | Need for a wage increase | The rate of price increase will determine the minimum pay increase which employees will seek so as to maintain their standard of living. |
| 5 marks graded. | | |
| Government | Price competitiveness | Government can compare the competitiveness of the Irish economy with that of other trading partners. |
| | Economic indicator | Along with other key indicators the rate of inflation allows the government to assess the performance of the economy. |
| | Pay negotiations | The rate of inflation will determine the maximum amount the government will allow for future pay increases. |
| | EU stability pact | The government will be able to determine if it is adhering to the conditions as set out under the pact. |
| | Budget outcomes | The government can use the information to determine changes to social welfare benefits. |
| 5 marks graded. | | |

(b) State the effect which each of the following developments may have on the rate of inflation. Explain your answer in each case.

- A **decrease** in world oil prices;
- An **increase** in the rates of indirect taxes;
- An **increase** in lending by banks.

(25 marks)

| | Statement | Explanation |
|---|-----------|---|
| A decrease in world oil prices | Decrease | <ul style="list-style-type: none"> ▪ The price of fuel will fall / decrease in petrol prices. ▪ Costs of home heating oil will fall. ▪ Costs of distribution will fall and so inflation falls. ▪ Costs of production will fall, resulting in lower inflation. |
| 9 marks graded. | | |
| An increase in the rates of indirect taxes | Increase | <ul style="list-style-type: none"> ▪ Prices for goods and services will rise. ▪ Producers will now have to pay higher input prices resulting in higher prices for finished goods and services. |
| 8 marks graded. | | |
| An increase in lending by banks | Increase | <ul style="list-style-type: none"> ▪ This increases the level of spending within the economy putting upward pressure on prices e.g. the housing sector. |
| 8 marks graded. | | |

(c) The CSO also publishes information on the size of Ireland's population. State and explain the possible effects which the rise in Ireland's population may have on each of the following:

- demand for goods and services;
- provision of state services;
- the Irish labour market.

(25 marks)

| | Statement | Explanation |
|-------------------------------|------------------------|--|
| Demand for goods and services | Increase | There are more people requiring goods and services. |
| 9 marks graded. | | |
| Provision of state services | Need for more services | There will be greater demand for state services. The government must provide these e.g. hospitals, schools, housing etc. |
| 8 marks graded. | | |
| Irish labour market | Increase | Participation in the Irish labour market may increase as more people become available for work. |
| 8 marks graded. | | |

Q7 TRADE & THE BALANCE OF PAYMENTS

- (a) (i) Explain what is meant by **visible exports**.
State **TWO** examples of visible exports.

Visible exports: **7 marks graded.**

- The sale of Irish goods to consumers outside Ireland.

Examples: 2 x 3 marks each.

- Sale of Irish beef abroad.
- Sale of computer parts abroad.
- Sale of Guinness / Bailey's in foreign markets.

- (ii) Explain what is meant by **invisible exports**.
State **TWO** examples of invisible exports.

(25 marks)

Invisible exports: **6 marks graded.**

- The sale of Irish services to consumers outside Ireland.

Examples: 2 x 3 marks each.

- 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 returned to Ireland.
- Irish emigrants' remittances, returned to Ireland.
- Irish workers servicing foreign aircraft.

(b) Copy the partially completed Balance of Payments Account below into your answer book.

(i) Calculate the figure for visible exports and state clearly whether the Balance of Trade is a surplus or deficit.

Balance of Payments – extract

| | € millions | € millions | Surplus or Deficit |
|------------------|------------|------------|--------------------|
| Visible Exports | 900 | | |
| Visible Imports | 800 | | |
| Balance of Trade | | 100 | SURPLUS |

10 marks graded.

(ii) Explain the effects which an increase in the level of visible imports of €200m. will have on the above Balance of Trade. There is no change in the level of visible exports.

Balance of Payments – New extract

| | € millions | € millions | Surplus or Deficit |
|------------------|------------|------------|--------------------|
| Visible Exports | 900 | | |
| Visible Imports | 1000 | | |
| Balance of Trade | | (100) | DEFICIT |

10 marks graded.

(c) Free International trade (i.e. trade without any barriers) is favoured by most governments.

(i) State and explain **TWO** economic advantages of free international trade. **and**

(ii) State and explain **TWO** economic disadvantages of free international trade.

(30 marks)

| <p align="center">Economic Advantages of free international trade</p> | <p align="center">Economic Disadvantages of free international trade</p> |
|--|--|
| <p><u>1. Improved standard of living.</u> Trade between countries increases the wealth of nations and this allows the purchase of a greater quantity of goods and services.</p> | <p><u>1. Infant industries.</u> Young industries may have a difficult time competing with established industries in other countries and so may close.</p> |
| <p><u>2. Greater choice of goods/services.</u> Trade between countries allows consumers benefit from a larger variety of goods and services, than would be available without trade.</p> | <p><u>2. Potential Job Losses.</u> Competition from foreign firms may result in job losses. The practice of dumping could also result in job losses.</p> |
| <p><u>3. More competitive prices.</u> Trade results in greater competition, which should lead to more competitive prices for consumers.</p> | <p><u>3. ‘Cheap Labour’ economies.</u> Companies cannot compete with those countries who gain their advantage by paying their workers low wages. This may result in the movement of firms to these countries.</p> |
| <p><u>4. Use of scarce world resources.</u> By specialising in production, countries maximise their combined outputs and thus resources are allocated more efficiently.</p> | <p><u>4. Production of strategic goods.</u> The production of certain commodities which a country deems essential to the operation of the economy (energy, food) may not be safeguarded from competition so continuity of supply may be threatened.</p> |
| <p><u>5. Employment opportunities.</u> Employment will be created in those industries which are expanding due to the benefits of trade.</p> | <p><u>5. Fall in government revenue</u> Customs duties will no longer apply resulting in less government revenue.</p> |
| <p><u>6. Allows specialisation to take place.</u> Free trade allows specialisation to take place and countries may benefit from the gains resulting from specialisation.</p> | |
| <p><u>7. Companies benefit from economies of scale.</u> Free trade allows for bigger businesses thus allowing these businesses to benefit from economies of scale.</p> | |
| <p align="center"><u>Marks</u> <u>2 points at 8 marks graded.</u></p> | <p align="center"><u>Marks</u> <u>2 points at 7 marks graded.</u></p> |

Q8 TAXATION, THE BUDGET & GOVERNMENT

(a) In the case of each of the following taxes:

- a tax on company profits;
- a tax on an employee’s wages;
- a tax levied on goods or services.

(i) Name each tax and

(ii) State whether the tax is an example of a direct tax or indirect tax.

(25 marks)

| Tax | Name of Tax | Direct Tax | Indirect Tax |
|---------------------------------|-------------------------|----------------|----------------|
| Tax on company profits | Corporation Profits Tax | √ | |
| Marks | 4 marks | 4 marks | |
| Tax on an employee’s wages | Income Tax / PAYE | √ | |
| Marks | 5 marks | 4 marks | |
| Tax levied on goods or services | VAT / Excise Duty | | √ |
| Marks | 4 marks | | 4 marks |

(b) A Minister for Finance prepares the following Current Budget for the year 2005.

Current Budget 2005

| | € million | | € million |
|---------------------------|----------------------|-----------------------------|----------------------|
| Government Current Income | 25,000 | Government Current Spending | 30,000 |
| Current Budget Deficit | 5,000 | | |
| | <u>30,000</u> | | <u>30,000</u> |

An unexpected boom in the economy results in the following changes:

- Current income **rises** by 20%
- Current spending **falls** by 10%

Re-draft the above current budget, taking the above changes into account.

Show all your workings.

(20 marks)

Re-drafted Budget

Current income **rises** by 20%: $20\% \times €25,000 = €5,000 + €25,000 = €30,000$.

Current spending **falls** by 10%: $10\% \times €30,000 = €3,000 - €30,000 = €27,000$.

| | € million | | € million |
|---------------------------|----------------------|-------------------------------|----------------------|
| Government Current Income | 30,000 | Government Current Spending | 27,000 |
| | | Current Budget Surplus | 3,000 |
| | <u>30,000</u> | | <u>30,000</u> |

20 marks graded.

(c)

- (i) State and explain **TWO** reasons why government Current Expenditure may **fall** during a boom in the economy.

| Statement | Explanation |
|-------------------------------------|---|
| Fall in Unemployment Benefit | With a boom employment rises and so expenditure on social welfare may fall. |
| Reduction in Current Budget Deficit | As revenue rises the need to borrow is reduced and this will help lower interest repayments on the national debt. |
| 2 reasons at 5 marks graded. | |

- (ii) State and explain **TWO** reasons why government Current Income may **rise** during a boom in an economy. (30 marks)

| Statement | Explanation |
|--------------------------------------|---|
| Rise in income tax revenue | Employment rises resulting in an increase in income tax / More people will pay tax at higher tax rates. |
| Rise in corporation tax revenue | Companies' sales will increase resulting in increased profits leading to increased tax revenue for the state. |
| Rise in indirect tax revenue | Spending rises and so the level of indirect tax revenue will rise. |
| Rise in the level of DIRT | Increased incomes will result in an increase in savings and increased DIRT revenue for the state. |
| 2 reasons at 10 marks graded. | |

END