



Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2011

MARKING SCHEME

ECONOMICS

ORDINARY LEVEL

Ordinary Level Economics

MARKING SCHEME
&
SUPPORT NOTES
(for use with the Marking Scheme)

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- The support notes presented are not exclusive or definitive.
- The support notes in many cases contain key phrases which must appear in the candidate's answer in order to merit the assigned marks.
- 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 and mark allocations may therefore vary from year to year.

SECTION A

1. Complete the missing words in the spaces below to complete the names of the organisations.

(i) **NAMA:** NATIONAL Asset MANAGEMENT Agency. **2 MARKS + 2 MARKS**

(ii) **ECB:** EUROPEAN Central BANK. **3 MARKS + 3 MARKS**

(iii) **IMF:** INTERNATIONAL MONETARY Fund. **3 MARKS + 3 MARKS**

(16 marks)

2. Name the economic system (**Free Enterprise, Mixed Economy** or **Centrally Planned**) to which each statement below best applies:

	STATEMENT	ECONOMIC SYSTEM
(i)	Major government involvement in the economy	Centrally Planned
(ii)	The market system decides what to produce	Free Enterprise
(iii)	Production is carried out by the public sector and the private sector.	Mixed Economy

(16 marks)

1st correct answer: 8 marks. 2nd & 3rd: 2 x 4 marks each

3. State **one** economic advantage and **one** economic disadvantage of the possible introduction of third level college fees.

One economic advantage:

- 1. Increased revenue for colleges.**
- 2. Reduced strain on the government's finances.**
- 3. Opportunity cost: government can use finances given to colleges for other uses.**
- 4. Colleges can appoint new staff / introduce new courses.**

One economic disadvantage:

- 1. May discourage people going to third level.**
- 2. The fees may fall more heavily on low income families and so may be inequitable.**
- 3. If less people attend, the workforce may be less educated / less skilled.**
- 4. Could damage Ireland's ability to attract FDI / MNCs.**

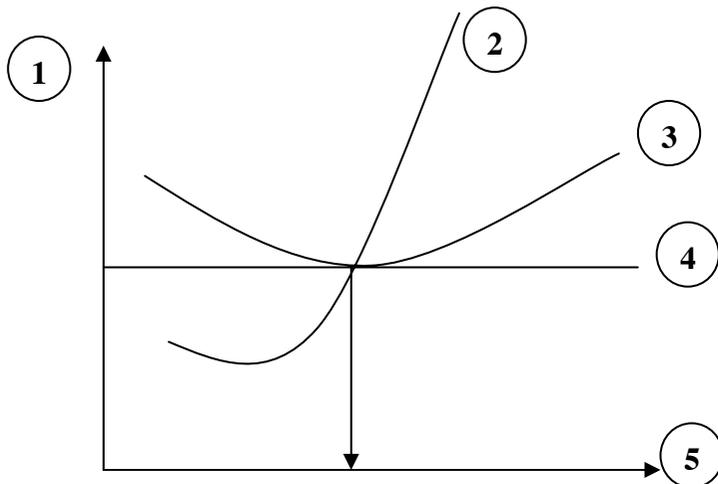
(16 marks)

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

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

(a) Label **each** of the lines numbered 1 to 5. Use the answer box provided.

(b) Show on the diagram the output the firm will produce in equilibrium (use label Q_1).



Answer Box

No.	Label	Marks
1.	PRICE	2
2.	MARGINAL COST	3 (2+ 1)
3.	AVERAGE COST	3 (2+ 1)
4.	DEMAND / AR / MR	3 (2+ 1)
5.	QUANTITY	2

(16 marks)

Q_1 3 marks (If Q_1 not stated but line drawn – 1 mark)

5. In relation to the following **barriers to trade**, match the barrier with the correct explanation (One answer is completed for illustration purposes).

Barrier	Explanation
A. Administrative barriers	1. A payment to exporters to reduce production costs.
B. Embargo	2. A limit on the quantity of goods imported.
C. Quota	3. Rules / regulations applying to imports.
D. Subsidy	4. A tax on imports.
E. Tariff	5. A total ban on imports.

BARRIER →	A	B	C	D	E
EXPLANATION →	3	5	2	1	4

(16 marks)

1st and 2nd correct response: 2 x 6 marks each.
3rd and 4th correct responses: 2 x 2 marks each.

6. Explain the term **economic good**. Circle the **two** examples of economic goods from the list below.

Explanation:

It is a good which is **SCARCE** / commands a **PRICE**, is **TRANSFERABLE** and provides **UTILITY**.

Any two points of information x 4 marks each = 8 marks.

Circle **only two** of these:

Beauty

Cars

Food

Intelligence

(17 marks)

1st correct response: 5 marks. 2nd correct response: 4 marks.

7. Some of the factors outlined below influence **consumer demand for a good**.

Write **TRUE** or **FALSE** after each of the following sentences.

	SENTENCE	TRUE or FALSE
(i)	The price of the good itself.	TRUE
(ii)	The cost of producing the good.	FALSE
(iii)	The state of production technology.	FALSE
(iv)	The income of the consumer.	TRUE

(17 marks)

1st and 2nd correct responses: 2 x 6 marks
3rd correct response: 3 marks. 4th correct response: 2 marks.

8. One of the economic aims of the Irish Government at present is to reduce Government Current Spending. State **three** other economic aims of the Government.

1. **Increase employment / decrease unemployment / attract FDI (MNCs).**
2. **Keep price inflation down– limit price increases.**
3. **Achieve economic growth.**
4. **Achieve Balance of Payments equilibrium /encourage exports.**
5. **Reduce the current budget deficit (by 2014).**
6. **Reduce borrowing / control the national debt as a percentage of GDP.**
7. **Achieve a just / fair taxation system (equity) / increase the tax base.**
8. **Promote balanced regional development.**
9. **Develop the country’s infrastructure.**
10. **Maintain state services / make public services more efficient i.e. health/education etc.**
11. **Achieve an equitable distribution of income / achieve a just social policy.**
12. **Restore stability to the Irish banking sector.**
13. **Restore confidence among consumers / encourage consumers to start spending.**

(17 marks)

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

9. **If National Income (Y) =C + I + G = €2,400m, calculate the National Income if exports are €300m and imports are €200m (Show all your workings).**

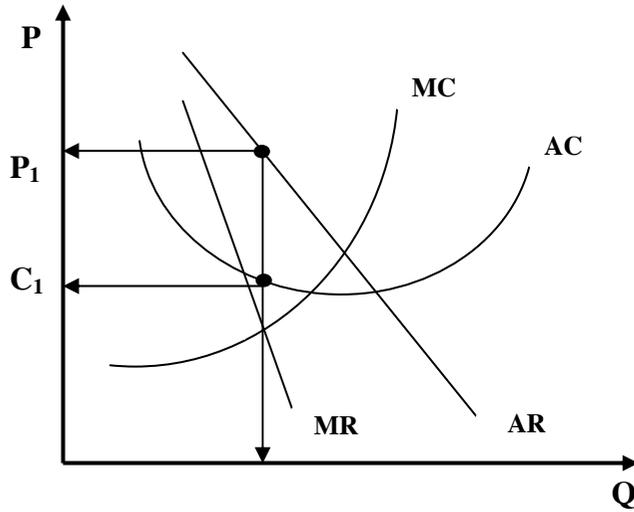
WORKINGS	ANSWER
$Y = C + I + G + X - M$ $Y = €2,400m + €300m - €200m$	€2,500 m

(17 marks)

Each component: 3 figures x 3 marks each = 9 marks
2 signs x 2 marks each = 4 marks
Correct answer = 4 marks

Q1 Monopoly

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



- (a) (i) Copy the diagram into your answer book.
Write each of the 6 (six) labels in full (other than Q_1)
- (ii) The firm produces Q_1 output in equilibrium.
Show on your diagram:
- the price charged for this output (use label P_1)
 - the average cost of producing this output (use label C_1)

(30 marks)

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

- (ii) Show on your diagram:
- the price charged for this output (use label P_1)
 - the average cost of producing this output (use label C_1)

P_1	the price charged for this output
C_1	the average cost of producing this output

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

(b) New firms may wish to enter a monopoly market but they face **barriers to entry**.

(i) State **three** possible barriers.

(ii) Write brief notes on **each** of these.

(21 marks)

Ownership of a Patents / Copyrights
A patent / copyright will confer the sole right on a business to a particular manufacturing process for a particular commodity e.g. the production of the Apple iPad.
Government Regulation / Legal restrictions
The government may grant a company the sole right to supply a good or service so that there is a legal restriction on competition e.g. Dublin Bus routes / rail services.
Trade Agreements & Collusion.
Firms may enter into trade agreements with other suppliers (collude with them) so that no other firm finds it possible to supply the commodity to a particular segment of the market.
Ownership of raw materials
A company may acquire the sole right to the available raw materials thereby becoming a monopoly in that particular market e.g. an oil exploration company.
Industry requires a large investment in capital / economies of scale
For some industries the capital required to get established in that industry is so large that only the company which can raise the necessary capital can operate in the market.
Mergers / Takeovers
By merging with a competitor or buying out the competitor a firm may become a monopoly supplier in that industry.
Monopolies based on fear, force or threats
An individual or group of individuals may, by instilling fear, force or threats, stop other individuals competing with the supplier e.g. the supply of illegal drugs
Limit pricing
A firm may use limit pricing (selling at exceptionally low prices) to force new entrants out of the industry so that it retains monopoly power.
Proliferation of brands on the market
By using extensive branding of its products a firm may be able to dominate the market so that competitors may find it impossible to compete.

1st correct response: 11 marks. State: 8 marks. Explain: 3 marks.

2nd and 3rd correct responses: 2 x 5 marks each. State: 3marks. Explain: 2 marks.

Example on its own of each barrier with no explanation: 1 mark only.

- (c) The Electricity Supply Board (ESB) is facing increasing competition and possible privatisation.
- (i) Explain the underlined term.
 - (ii) Name **one** company currently competing with the ESB for domestic / home electricity supply.
 - (iii) State and explain **one** way **any two** of the following may be affected by the possible privatisation of the ESB:
 - **consumers** of the ESB;
 - **employees** of the ESB;
 - the **Irish Government**.
- (24 marks)**

(i) Privatisation – **6 marks**

This is the sale of a state owned company to private owners. (**3 marks + 3 marks**)
 The transfer of ownership from the Government owned public sector to the private sector.

(ii) Bord Gais / Air Tricity: **6 marks**

(iii) **One way any two** of the following may be affected by the privatisation of the ESB

CONSUMERS

<i>Positive effects</i>	<i>Negative effects</i>
Any 1 x 6 marks. State: 3m. Explain: 3m	
<p>1. Quality / Choice of services The privatised firm may improve the quality / efficiency / choice of the service provided.</p>	<p>1. Loss of non-profit making services Non-profit making services may be discontinued by the company in an effort to reduce costs e.g. discontinue supply of service to people who are in arrears with their payments.</p>
<p>2. More competitive prices The firm may offer consumers more competitive prices on its various services.</p>	<p>2. Standards of service The quality of services provided by the company may deteriorate in an effort to save costs.</p>
<p>3. Continuity of supply The newly privatised company may have access to new sources of funds and because they are not subject to government interference their long term prospects for survival may improve – ensuring continuity of supply for consumers.</p>	<p>3. Preference to meet shareholders demands Greater emphasis may be placed on meeting the expectations of shareholders rather than improving the quality of the service for consumers.</p>
	<p>4. Increased prices / Charges for services In a drive to increase profits the new firm may increase prices for some services provided / charge for services which were considered ‘free’ e.g. free units of electricity to OAPs.</p>

EMPLOYEES

<i>Positive effects</i>	<i>Negative effects</i>
Any 1 x 6 marks. State: 3m. Explain: 3m	
<p>1. Reward/Incentive for innovation. Employees may reap more rewards for their innovation i.e. higher bonuses etc.</p>	<p>1. Loss of job / reduced job security. The biggest risk is the loss of jobs through rationalisation of services.</p>
<p>2. Employment opportunities If the firm increases its market share this may result in a growth in employment / additional job security.</p>	<p>2. Changed working environment / Loss of benefits The firm may change employee conditions of employment resulting in a deterioration of these.</p>
<p>3. Voluntary redundancy Employees who wish to retire early may be offered additional financial benefits to enhance their pensions.</p>	<p>3. Curtailment in Pay / Pensions increases The new owners may limit the pay / pension entitlements due to its employees.</p>

GOVERNMENT

<i>Positive effects</i>	<i>Negative effects</i>
Any 1 x 6 marks. State: 3m. Explain: 3m	
<p>1. Revenue from Sale The revenue received from the sale may lead to a reduction in state borrowing / provide funds for other state activities.</p>	<p>1. Loss of control Government loses direct control over the service / loss of a valuable state strategic asset.</p>
<p>2. Opportunities of citizens to become shareholders The government may wish for citizens to become shareholders and thereby increase savings.</p>	<p>2. Control may go outside of state If the firm is bought by a company outside the state then the provision of the service is reliant on profitability and if not earned the service may be discontinued.</p>
<p>3. Allows private sector to grow. By exiting from the market place the state now allows private entrepreneurs to enter the market place.</p>	<p>3. Increased unemployment. If this occurs then it may result in increased social welfare expenditure which will result in a further drain on the state's resources.</p>
<p>4. Government retain part ownership Government can maintain control over strategic infrastructure e.g. electricity transmission lines.</p>	<p>4. Loss of future revenues The state will lose out on future revenues from profit making state bodies.</p>

Q2 Demand, Supply, Markets and Transport

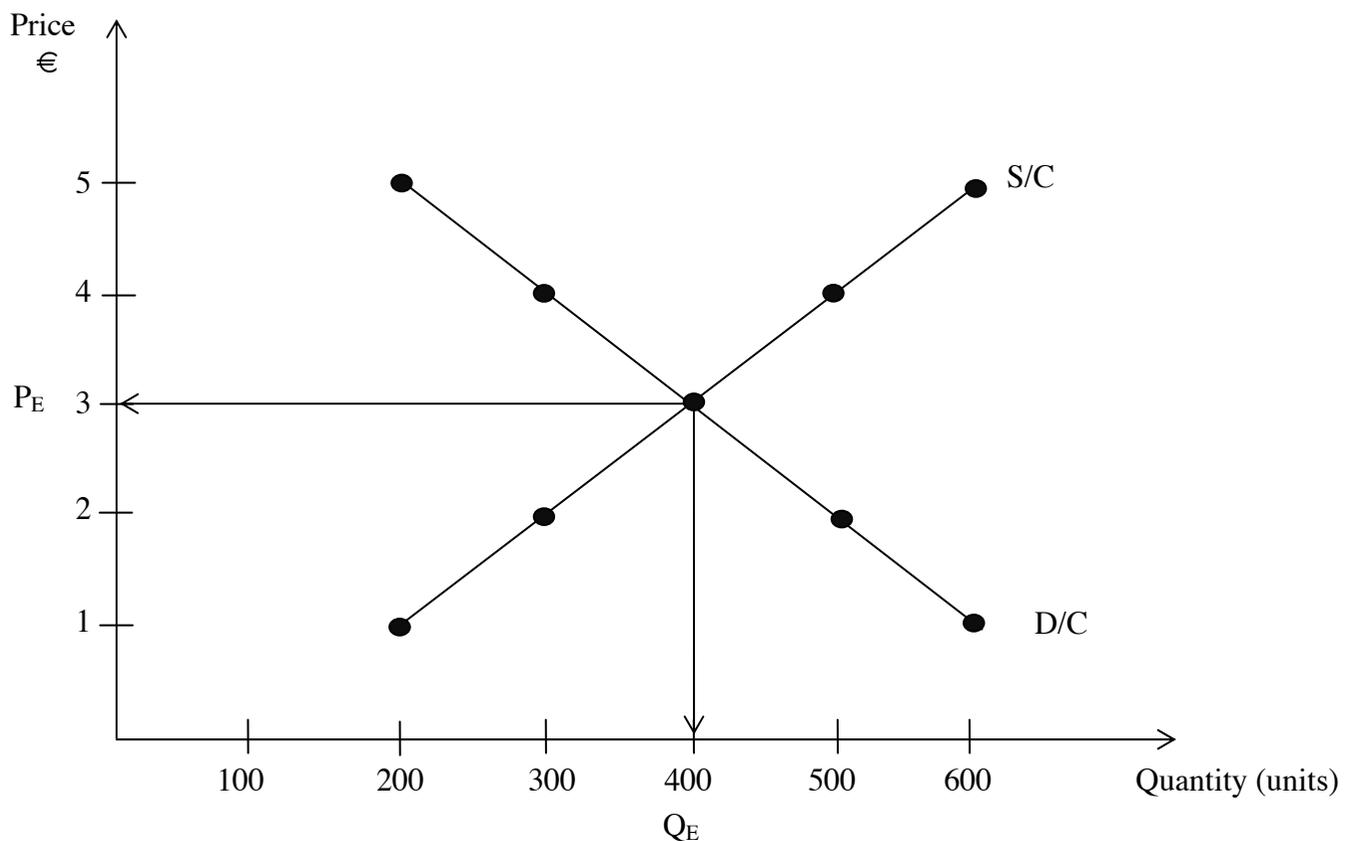
The information below represents the expected demand and the planned supply schedule for umbrellas at the Oxegen Music Festival in 2011.

Price €	Quantity Demanded (units)	Quantity Supplied (units)
1.00	600	200
2.00	500	300
3.00	400	400
4.00	300	500
5.00	200	600

Using the above data and **one** diagram (you may use graph paper if you wish):

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

(25 marks)



Graph: D/C: 4 points x 2 marks each = 8 marks (exclude: €3 and 400 units).

S/C: 4 points x 2 marks each = 8 marks (exclude: €3 and 400 units).

Labels: P, Q, D/C and S/C = 4 marks (4 x 1 marks each).

P_e and Q_e : 1st correct response: 3 marks. 2nd correct response: 2 marks.

(1 mark each if lines drawn but P_e and Q_e are not labelled).

(b) The demand curve for umbrellas **OR** the supply curve for umbrellas may shift to the right or to the left due to the following:

- an unexpected heavy rainfall occurs during the Oxegen Music Festival;
- breakdown of the main supply truck delivering umbrellas to the festival site.

In relation to **each** of the above statements, answer the **three** following questions:

- state whether the demand curve **or** supply curve will shift;
- state whether the curve you mention will shift to the right **or** the left;
- explain why the curve has shifted in the direction you have stated.

(20 marks)

	Unexpected heavy rainfall	Marks	Breakdown of the main supply truck	Marks
D/C or S/C?	Demand Curve	3	Supply Curve	3
Shift to right or left?	Right	3	Left	3
Explanation	<ul style="list-style-type: none"> • More people will want / need umbrellas • so the demand will increase <p style="text-align: center;">or</p> <ul style="list-style-type: none"> • the D/C will shift to the right 	<p>2</p> <p>2</p>	<ul style="list-style-type: none"> • Less umbrellas will be supplied due to the breakdown • so the supply will fall <p style="text-align: center;">or</p> <ul style="list-style-type: none"> • the S/C will shift to the left. 	<p>2</p> <p>2</p>
		10		10

(c) The opening of new sections of motorways between Dublin and other Irish cities has affected the demand for rail transport in Ireland.

- Outline **one** possible economic advantage **OR one** possible economic disadvantage of these new motorways for the public.
- State and explain **two** actions Iarnród Eireann (Irish Rail) could take to increase demand for its services.
- Explain **two** advantages for the Irish economy of increased use of public transport such as Iarnród Eireann (Irish Rail), instead of private transport.

(30 marks)

- (i) Outline **one** possible economic advantage **OR** one possible economic disadvantage of these new motorways for the public.

Possible economic advantage	Possible economic disadvantage
1. Safer Transport There may be reduced risk of accidents with the improved motorways.	1. Reduced economic activity Those towns by-passed may suffer a reduction in business activity, resulting in job losses.
2. Quicker Journeys / easy access Better roads will allow motorists achieve greater speed and so reach destinations in shorter times. All regions are easily accessible.	2. Possibility of tolls Users of the new motorways may have to pay tolls for using the new roads.
3. Improved lifestyle The citizens of those towns by-passed will have less traffic congestion and with less traffic their lifestyle may improve.	3. Damage to environment The new motorways may be built in areas which damage the environment e.g. the M3 through Tara in Meath.
4. Employment / Government Revenues Generated in the maintenance of roads / collection of toll charges. If more people use the roads the government will collect increased VAT and excise duties.	4. Opportunity cost Underutilisation of the roads may result in additional costs to the state / the money could have been used for other purposes.
1 point x 6 marks. State: 3 marks. Explain: 3 marks	

- (ii) State and explain **two** actions Iarnród Eireann (Irish Rail) could take to increase demand for its services.

1. **Reduce prices** to attract more customers to use rail.
2. **Incentives for regular rail travellers** such as loyalty reward programmes may attract more users.
3. **Advertising/Sales Promotion** campaigns may encourage more people to use rail transport.
4. **Increased frequency of trains** to suit customers e.g. business travellers; shoppers; students etc.
5. **Improve quality of service / improved accessibility:**
 Allow customers to book seats in advance; provide quality food at competitive prices etc.
 Develop the rail network so that all parts of the country are accessible.

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

- (iii) Explain **two** advantages for the Irish economy of increased use of public transport such as Iarnród Eireann (Irish Rail), instead of private transport.

1. **Reduced traffic congestion** resulting from reduced numbers using private transport.
2. **Reduced carbon emissions** resulting in reduced damage to the environment.
3. **Reduced use of fossil fuels:** More people using public transport will reduce the use of fossil fuels thereby saving scarce resources.
4. **Improved safety** with less people using the roads this reduction may result in a reduced number of accidents.
5. **Improved utilisation of services / Economies of scale:**
 There may be an improved return on the (state) investment in infrastructure / the cost of providing the service may fall if more people use the service.
6. **Reduced imports:** Less cars may be demanded resulting in reduced imports, improving the balance of trade.
7. **Lower cost of living:** Consumers will not have to pay various taxes VRT, VAT and excise duties.
8. **Increased employment:** More workers may be required, resulting in increased tax revenue / reduced social welfare spending.

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

Q3 Costs, Wages, Minimum Wage Rate

- (a) A retailer needs capital to commence business. A retailer also needs to purchase stock, pay wages and pay rent for premises.
- (i) Explain the term ‘capital’ as a factor of production.
 - (ii) Define the terms **fixed costs** and **variable costs**.
 - (iii) State whether each of the **three** underlined costs above is an example of a fixed cost or a variable cost. **(25 marks)**

(i) Capital: **6 marks**

Anything **man made** which helps in the **production of output**.

4 marks

2 marks

(ii) + (iii)

(iii)

Fixed Costs	Marks	Variable Costs	Marks
costs which do not change as output changes <i>or</i> those costs which have to paid, even if nothing is produced	4 marks 1 marks	costs which change as output changes	4 marks 1 marks
Rent	3 marks	Stock	3 marks
		Wages	3 marks

- (b) Wage levels have fallen in both the public sector and the private sector in Ireland.
- (i) Explain **each** of the underlined terms and state **one** example of an occupation in each.
- (ii) Discuss **two** economic effects which falling wage levels may have on **each** of the following:
- Businesses;
 - Government finance
- (25 marks)**
- (i) Explain **each** of the underlined terms and state **one** example of an occupation in each.

Public sector: 5 marks (3 + 2 for example)

That part of the economy which is **run by state bodies / government departments**, usually to provide services for its citizens and is controlled by the state.

Example: a teacher

Private sector: 4 marks (2 + 2 for example)

That part of the economy which is **run by private individuals or groups** and is not controlled by the state.

Example: a shop worker

- (ii) Discuss **two** economic effects which falling wage levels may have on **each** of the following:
- Businesses;
 - Government finance

Economic effects which falling wage levels may have on:	
Businesses	Government finance
<p>1. Reduced costs / Lower prices Costs of production will fall resulting in greater profits for businesses. With falling costs businesses may become more competitive which could result in lower prices.</p>	<p>1. Reduced current expenditure The pay bill for public sector workers will fall reducing the expenditure of the government. If more workers are hired then the amount of social welfare paid out will fall.</p>
<p>2. Continuity of production With reduced costs it may help the business continue to produce.</p>	<p>2. Reduced borrowing The lower wage bill for the public sector may help the government reduce its borrowing.</p>
<p>3. Hiring additional labour With lower wage costs it may permit the business to hire additional labour.</p>	<p>3. Reduced direct tax revenue. With lower incomes direct tax revenues will fall e.g. income taxes. Also if business activity declines then the amount of CPT may decline.</p>
<p>4. Reduced demand for output With falling wage levels disposable income will fall. This will result in reduced demand for the firms output.</p>	<p>4. Reduced VAT / Excise duties revenue Reduced disposable income will lower spending. This will result in a reduction in these revenues.</p>
<p>5. Difficulty in filling job vacancies If wage levels fall beyond a certain point people may be financially better on state benefits and business may become short staffed and unable to provide quality goods / services.</p>	<p>5. Effect on social welfare payments If by reducing wage rates employers hire additional labour then the amount of social welfare payments will fall and revenue from tax will rise.</p>
<p>2 x 4 marks each. State: 2 marks. Explain: 2 marks.</p>	<p>2 x 4 marks each. State: 2 marks. Explain: 2 marks.</p>

(c) In the Government's Budget introduced in December 2010, the national minimum wage was reduced from €8.65 to €7.65 per hour.

- (i) Explain the underlined term.
- (ii) State **two** economic reasons why, in your opinion, the national minimum wage was reduced.
- (iii) Outline **two** possible economic effects of this wage reduction for the Irish worker. **(25 marks)**

(i) The minimum wage: **5 marks**

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

2 marks

3 marks

(ii) State **two** economic reasons why, in your opinion, the national minimum wage was reduced.

1. **Reduce costs / restore competitiveness:** by reducing costs a business can continue in existence / allow a firm make greater profits.
2. **Reduce prices:** With production costs falling the firm may be able to reduce prices.
3. **Increase employment:** Cheaper labour may encourage firms to hire extra labour.
4. **Attract investment:** Reduced wage costs may encourage foreign firms to locate in Ireland.
5. **Encourage MNCs to stay in Ireland:**
Less foreign MNCs may re-locate outside Ireland if wages costs are reduced.

2 x 5 marks each = 10 marks.
State: 2 marks. Explain: 3 marks

(iii) Outline **two** possible economic effects of this wage reduction for the Irish worker.

1. **Lower standard of living:** Income will be reduced resulting in a lower standard of living.
2. **Lower productivity:** A worker may, if pay is reduced, not put in the same effort into the work.
3. **Reduced incentive to work:** Some workers may decide that the rewards from working are insufficient and they may opt instead to give up their job and rely on social welfare.
4. **Increase in debt / mortgage arrears /poverty:** With lower incomes the worker may have to borrow to meet daily living expenses; and find it difficult to repay mortgages resulting in an increase in long term poverty.
5. **Less leisure time:** Workers may be prepared to take on additional jobs and work longer hours in order to maintain living standards leaving less time for family and social life.

2 x 5 marks each = 10 marks.
State: 2 marks. Explain: 3 marks

Q4 Trade and Tourism

You are given the following information about a country's trade.

Visible Exports €million	Visible Imports €million	Balance of Trade €million	Surplus or Deficit
24,000	23,600	400	Surplus

- (i) Explain the terms 'visible exports' and 'visible imports' giving **one** example in each case, with reference to Ireland.
- (ii) If the level of visible imports above increased by €600m calculate the new Balance of Trade. (Show your workings).
- (iii) State whether the new Balance of Trade is a surplus or deficit and explain your answer. **(25 marks)**

- (i) Explain the terms 'visible exports' and 'visible imports' giving **one** example in each case.

	Visible exports	Visible imports
Explanation	The sale of <u>Irish goods</u> <u>abroad</u> / <u>to consumers outside Ireland</u>	The <u>purchase of foreign goods</u> <u>from abroad</u> / <u>by Irish consumers</u>
	5 marks (3 + 2)	5 marks (3 + 2)
Example	<ul style="list-style-type: none"> • Sale of Irish beef abroad. • Sale of computer parts abroad. • Sale of Guinness / Bailey's in foreign markets. 	<ul style="list-style-type: none"> • Purchase of foreign cars. • Purchase of foreign foods. • Purchase of clothes from China.
	One example: 2 marks	One example: 2 marks

- (ii) **7 marks**

$$\begin{array}{r}
 \text{Visible Exports} \\
 \text{Less: Visible Imports: } \underline{\text{€23,600m}} + \underline{\text{€600m}} \\
 \hline
 = \text{€24,000m} \\
 = \underline{\text{€24,200m}} \\
 (\text{€200m})
 \end{array}$$

- (iii) The Balance of Trade has now changed to a **deficit**. **2 marks**
 Because (visible) imports **exceed** (visible) exports. **2 marks**

- (b) Ireland as a small open economy relies on international trade.
- (i) Explain the underlined term.
 - (ii) State and explain **three** economic reasons why Ireland needs to engage in trade. **(20 marks)**

(i) Small open economy: **5 marks**

An economy which engages in trade / imports and exports.

(ii) State and explain **three** economic reasons why Ireland needs to engage in trade.

1. Job creation.

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

2. Increased GNP / Economic growth [benefit to the country]

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

3. Increased sales [benefit to the business]

Domestic firms may increase their sales and their profits by exporting their excess output on a foreign market.

4. Earn foreign currencies

The receipt of foreign currencies can boost Irish reserves / provide the currency to help pay for Ireland's imports.

5. Attract investment

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

6. More choice for consumers / higher standard of living

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

7. Raw materials unavailable in Ireland

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

8. Enhanced international reputation

Selling quality goods and services abroad will enhance the reputation of the country and lead to further benefits.

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

- (c) Overseas visitors to Ireland are an example of an invisible export.
- (i) Explain the underlined term.
 - (ii) State and explain **two** benefits for the Irish economy of an increase in the number of overseas visitors to Ireland.
 - (iii) State and explain **two** actions which the Irish Tourist Industry could take to encourage visitors to Ireland. **(30 marks)**

(i) Invisible export: **6 marks**

The purchase of an Irish service (4) by a foreign citizen / **the money comes into Ireland.** (2)

(ii) **Two** benefits for the Irish economy of an increase in number of overseas visitors to Ireland

1. Increased employment

More jobs will be created in the hotel / restaurant and catering industry.

2. Increased income / GNP

Tourists spend income in Ireland and this increases the circular flow of income.

3. Benefits to business

Improved profitability for firms within the tourism industry

Hotel, restaurants and pubs will face a less uncertain future and demand for their services will increase.

4. Tax revenues

Increased employment will boost direct tax revenues and increased spending will boost indirect tax revenues.

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

(iii) **Two** actions the Irish Tourist Industry could take to encourage more visitors

1. Reduce air fares

This will make it cheaper for people to visit Ireland.

2. Advertising

Increase spending on international advertising so as to attract more people to visit e.g. current advertising campaigns in US, UK and Germany. Target specific markets such as golfing enthusiasts, equestrian enthusiasts to come to Ireland.

3. More competitive prices for accommodation / eating out etc

Special prices could be offered for tourists for accommodation, food, transport etc and this may entice people to visit e.g. reduced prices for tourist menus in restaurants.

4. Special promotions

Money-off vouchers / coupons in foreign magazines / newspapers, which tourists could use if they visit Ireland.

5. Car hire: The price for car hire could be subsidised and this may encourage foreigners to visit.

6. Industry lobbying of Government

The industry could lobby the government to introduce measures which may aid the industry e.g. help with an advertising campaign (Ireland Inc.); reduction in public transport charges; reduction in the travel tax; reduction in VAT for tourism related products / services etc.

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

- (b) The Irish Government is considering the introduction of household water charges.
- (i) Outline **two** economic reasons for the introduction of these charges.
- (ii) Discuss **two** economic effects of these charges on households. **(20 marks)**

Economic reasons for the introduction of these charges	Economic effects of these charges on households
<p>1. Revenue for government These charges will help raise revenue for the state.</p>	<p>1. Lower standard of living Disposable incomes will fall and this will reduce people's standard of living.</p>
<p>2. Evasion eliminated It is impossible to evade these charges and so this means a more defined source of revenue for government / allows for better financial planning by government.</p>	<p>2. Inequitable The charges may fall most heavily on people with lower incomes e.g. a large family will use more water and so pay higher water charges.</p>
<p>3. Employment in metering Jobs will be created in introducing metering systems into homes etc.</p>	<p>3. Reduced economic growth People will have less disposable incomes to spend so demand will fall and this will reduce economic growth.</p>
<p>4. Development of infrastructure The revenue received may be used to invest in improving water supply infrastructure resulting in less water wastage from damaged pipes.</p>	<p>4. Household budgeting Households must plan for these charges and so manage finances more carefully. They also involve an opportunity cost in that the income could have been spent on something else.</p>
<p>5. Water conservation If people have to pay water charges then they may economise on its use and cut out waste.</p>	
<p>2 x 5 marks each. State: 2 marks. Explain: 3 marks</p>	<p>2 x 5 marks each. State: 2 marks. Explain: 3 marks</p>

(c) Ireland's National Debt as a percentage of GDP is continuing to increase.

- (i) Explain the underlined term.
- (ii) What do the initials GDP stand for?
- (iii) State **one** reason why Ireland's National Debt has been increasing in recent times.
- (iv) State and explain **two** economic disadvantages which may result from this increase in Ireland's National Debt. (30 marks)

(i) National Debt: the **total amount / cumulative** of **government borrowing** which is **outstanding**.

3 marks

2 marks

1 mark

(ii) GDP: **Gross Domestic Product** **6 marks (2 + 2 + 2)**

(iii) **One** reason why Ireland's National Debt has been increasing in recent times:

- 1. Increased borrowing by the state for current budget deficit purposes.**
(reduced tax revenues / increased current spending)
- 2. Increased borrowing by the state for infrastructural projects.**
- 3. Increased interest rates on the loans.**
- 4. Borrowing to finance the state's bailout of the banks.**

1 x 6 marks

(iv) **Two** economic disadvantages of the increase in Ireland's National debt.

1. Opportunity costs involved.

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

2. Increased burden on taxpayers.

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

3. Increased annual interest repayments.

An increasing national debt means that the annual cost of repaying our national debt is rising.

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

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

5. Reduced public confidence.

Citizens may lose confidence in the economy and reduce their spending. This may further reduce economic growth.

6. Diminished international credit-rating.

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

7. EU / IMF: conditions applied to Ireland.

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

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

Q6 National Income, Ghost Estates and Infrastructure

(a) The 'Multiplier effect' tells us by how much National Income will increase following a given injection into the economy (e.g. an increase in government spending).

- (i) Explain the underlined term.
- (ii) Outline **two** economic effects which an injection may have on an economy.
- (iii) Given the following information:

National Income is €600m.; The Multiplier is 2; Injection of €20m.

Calculate the new level of National Income. (Show your workings). **(25 marks)**

(i) National Income:

Income earned by the permanent residents of a country from current economic activity in one year.

2 marks

2 marks

2 marks

(ii) **Two** economic effects which an injection may have on an economy:

1. Increased demand

An injection will lead to an increase in the demand for goods and services within an economy.

2. Increased employment

Increased spending should lead to the creation of more jobs within an economy.

3. Increased inflation

With higher spending there will be pressure on prices to increase.

4. Increased savings

Higher demand will result in higher incomes and part of these incomes may be saved.

5. Increased imports

With higher spending on goods and services the demand for imports will increase (due to MPM).

6. Government revenues

An injection which increases spending and employment will result in increased taxation revenues.

2 x 6 marks each.

State: 3 marks. Explain: 3 marks.

(iii) Given the following information:

National Income is €600m.; The Multiplier is 2; Injection of €20m.

Calculate the new level of National Income. (Show your workings).

$$\text{€20m} \quad \times 2 \quad = \quad \text{€40m} + \text{€600m} \quad = \quad \text{€640m}$$

1 mark

1 mark

1 mark

1 mark

3 marks

- (b) The fall in demand for residential property (houses) and the existence of ‘ghost estates’ (i.e. unfinished housing estates) are problems for the housing market in Ireland.
- (i) State and explain **two** reasons for the falling demand for residential property.
 - (ii) State and explain **one** reason for the growth in these ‘ghost estates’.
 - (iii) Suggest **two** economic actions the Government could take in relation to these ‘ghost estates’.

(25 marks)

- (i) **Two** reasons for the falling demand for residential property.

Reasons	Explanation
Higher interest rates	Interest rates have increased and this has led to less people seeking mortgages, leading to decreases in mortgage lending by financial institutions.
Availability of loans	Financial institutions lack funds and have restricted lending recently
Economic recession	With the rate of economic growth declining, less people are entering the property market, thereby decreasing demand.
Speculation in houses.	Decreases in property prices reduce speculative demand with less people seeking investment opportunities in property, reducing demand for residential property.
Expectations re: future prices	Some people may postpone buying now, hoping that prices for property will continue to fall by an even greater amount in the future.
Increased emigration / decreased immigration	Emigration is increasing and immigration is decreasing, thereby reducing the demand for residential property.
2 x 6 marks each. State: 3 marks. Explain: 3 marks.	

- (ii) State and explain **one** reason for the growth in these ‘ghost estates’.

1. Surplus of houses

Too many houses were built during the ‘boom’ period and with falling demand a surplus of houses now exists.

2. Developers going bust / lack of finance

With the collapse of the banking sector and the recession some developers went bankrupt and were unable to complete these estates. Developers continuing in business are unable to get the finance to complete the estates.

3. Unemployment / Economic recession

With rising unemployment people are unable to get mortgages and the demand for property has decreased, resulting in surplus stock of houses.

1 x 5 marks. State: 2 marks. Explain: 3 marks.

- (iii) Suggest **two** economic actions the Government could take in relation to these ‘ghost estates’

1. Demolish the unfinished houses, thereby providing employment.

2. Complete the houses and make them available for social housing.

3. Complete the houses and try to sell them on the open market.

2 x 4 marks each.

- (c) The Construction Industry Federation (CIF) favours increased spending by the Irish Government on infrastructure. Such spending, however, involves an opportunity cost.
- (i) Explain **each** of the underlined terms.
 - (ii) State **two** examples of major infrastructure projects recently completed in Ireland.
 - (iii) Outline **one** economic benefit for continuing to spend on Ireland's infrastructure. **(25 marks)**

(i) Infrastructure: **6 marks**

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

(Examples: transport, telecommunications, electricity and gas, water supplies: **3 marks**)

Opportunity cost: **6 marks**

- **The cost of foregone alternatives.**
- **The cost of passing up the next best alternative when making a decision.**
- **The amount of other goods / services which could have been obtained instead of any good.**

(ii) **Two** examples of major infrastructure projects recently completed in Ireland

<ul style="list-style-type: none"> • Terminal 2 Dublin Airport • New Terminal Cork Airport • Motorways throughout Ireland • National Conference Centre Dublin 	<ul style="list-style-type: none"> • Broadband • Luas West Link to Saggart • Limerick / Shannon Tunnel
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2 x 4 marks each.

(iii) **One** economic benefit for continuing to spend on Ireland's infrastructure

1. Reduced costs of completion

With the economic recession the costs of completing these projects is now lower, so it may make economic sense to continue with these projects.

2. Availability of labour

Large numbers of people are unemployed in the construction sector and by completing projects now, unemployment will fall and the state will make the best use of the available labour.

3. Economic growth

Increased spending will help increase demand which in turns increases economic growth in Ireland. Improved infrastructure may encourage business to operate / may attract FDI

4. Standard of living.

For the people who are employed in these projects their standard of living will automatically rise. When these projects are completed the standard of living for citizens will rise, due to the availability of this improved infrastructure.

1 x 5 marks.

State: 2 marks. Explain: 3 marks.

Q7 Money, Banking and Keynes

(a) Currency is one form of money. One function of money is a store of wealth.

- (i) Explain **each** of the underlined terms.
- (ii) State and explain **two** other functions of money.
- (iii) State **one** example of money other than currency.

(25 marks)

(i) **Currency: 5 marks**

Notes and coins used to buy goods and services.

Store of wealth: **5 marks**

Allows people to save for the future.

(ii) **Two** other functions of money

Medium of exchange

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

Measure of Value

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

Standard for Deferred Payment

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

2 x 5 marks.

State: 2 marks. Explain: 3 marks

(iii) **One** example of money other than currency

- **Cheques**
- **Credit Cards**
- **Debit Cards**

1 x 5 marks

- (b) Some banks in Ireland have been nationalised, and some have closed their operations in Ireland.
- (i) Explain the underlined term and name **one** bank that has been nationalised.
- (ii) Discuss **one** economic effect which the closure of a bank may have on **each** of the following:
- Business customers;
 - Employees of banks;
 - Shareholders of banks.
- (25 marks)**

- (i) Explain the underlined term and name **one** bank that has been nationalised

Nationalised – 5 marks

Taking of banks into public / government ownership.

One bank that has been nationalised - 2 marks

Anglo Irish Bank

- (ii) **One** economic effect (**per group**) which the closure of a bank may have on:

Group	Economic effect
Business customers	<p>1. Loss of local service/higher costs The business will have to make alternative arrangements for their banking services, which may increase costs.</p> <p>2. Inconvenience Lodging monies may become more difficult with consequent security issues.</p> <p>3. Lack of relationship with bank manager / cash flow problems A business must build a business relationship to acquire bank overdraft / lending facilities. If they are not known personally by the bank manager they may experience cash flow difficulties.</p>
Employees	<p>1. Loss of jobs Some employees may lose their jobs with the closure of the bank.</p> <p>2. Re-location Some employees may be offered jobs in a new location resulting in increased costs / inconvenience in getting to work.</p>
Shareholders	<p>1. Reduced profits If the bank suffers a loss of customers then profits may decline resulting in reduced dividends to shareholders.</p> <p>2. Poor publicity The bank may suffer poor publicity, which may deter shareholders from investing in the bank.</p> <p>3. Reduction in share price The loss of confidence by shareholders with the possibility of reduced profits may result in a decreasing share price, resulting in a reduction in the value of the shareholders investment.</p>
<p>3 points x 6 marks each. State: 3 marks. Explain: 3 marks.</p>	

- (c) (i) The economist, John Maynard Keynes, stated that people keep their wealth in the form of cash for three reasons:

- **Transactional;**
- **Precautionary;**
- **Speculative.**

Explain **each** of the above reasons.

- (ii) Keynes favoured Government involvement / participation in an economy. Do you agree with Keynes? Outline **one** reason for your answer.

(25 marks)

(i)

Reason	Explanation
Transactional	Cash is needed to buy goods and services
Precautionary	Cash is needed for emergencies / for ‘a rainy day’
Speculative	Cash is needed to take advantage of possible profitable investment opportunities.
	3 x 6 marks each

- (ii) Keynes favoured Government involvement / participation in an economy. Do you agree with Keynes? Outline **one** reason for your answer. Yes / No. **1 mark**

Reasons for agreeing	Reasons for disagreeing
Redistribute wealth Government can raise taxation and re-distribute this to people who need it.	Decreased taxation Less government interference may result in reduced taxation for taxpayers and an increased standard of living.
Essential services Services essential to citizens can be provided e.g. policing, sanitation etc.	Costly / inefficient services The state services may be provided at higher prices due to a lack of competition in the market.
Economic growth Government can use its policies to achieve an increase in the standard of living.	Discourage enterprise Costs for business may increase due to taxes / administration charges. Increased regulation – this may discourage enterprise.
Create employment By targeting its economic policies it may help create jobs in the state directly.	Stifle economic growth Excessive state intervention/interference may lead to a ‘nanny state’ and, with less private economic activity may stifle economic growth.
Protection of consumers Legislation and regulation may help protect consumers from exploitation by business.	Borrowing by government Government intervention has led to an increase in government borrowing and a rise in a country’s national debt.
Prevent growth of private monopolies Legislation may prevent the growth of private monopolies which could exploit consumers.	

State: 3 marks. Explain: 3 marks.

Q8 Population, Retirement and Economic Development

- (a) In April 2011 the CSO conducted a Census of Population at an estimated cost of €60m.
- (i) What do the initials CSO stand for?
 - (ii) Explain the meaning of the underlined term.
 - (iii) Explain **one** possible use **each** of the following could make of the data collected:
Business; Local government i.e. your local County / Town Council; Central Government. **(25m)**
- (i) CSO: **Central Statistics Office 9 marks (3 + 3 + 3)**
- (ii) Census of Population
This is the official counting of the country's population. 4 marks
- (iii) **One** possible use of the data collected for each the following:

Group	Possible Economic Use
Business	<p>Future levels of consumer demand Producers can predict more accurately future demand for their goods and services.</p> <p>Population data Detailed information on the population such as age, gender, marital status, number of children, religion etc. is provided – and so businesses have detailed information on their market.</p> <p>Labour market The data can be used by businesses firms to see if they can meet their future labour requirements.</p>
Local government	<p>Housing requirements The local authority can forecast its future need for local authority houses.</p> <p>Provision of services The authority can forecast its needs for public transport, schools etc.</p> <p>Need for facilities for the population The authority can plan for retail, recreational facilities etc. for its population.</p>
Central Government	<p>Infrastructural requirements It helps the government plan for future infrastructural requirements e.g. schools, roads etc.</p> <p>Provision of essential services It indicates if additional investment in services is required i.e. health, education etc. The information provided will also aid the government in preparing its current budget.</p> <p>Pension / financial planning The government can predict more accurately what provision it should make for pensions, child benefits etc in the future.</p> <p>Demographic changes It provides information on demographic changes nationally. On a regional basis it helps the government plan for the future needs of the regions.</p> <p>Qualifications of workforce It provides details of the educational qualifications; levels of training attained by the workforce which can help the government plan for future development of education and training services.</p>
<p>3 x 4 marks each – ONE POINT PER GROUP. State: 2 marks. Explain: 2 marks.</p>	

- (b) The Irish Government increased the statutory retirement age from 65 to 68 years.
- (i) State and explain **a reason** why the Government increased the retirement age.
 - (ii) State and explain **one** possible economic effect which an increase in the retirement age may have on **each** of the following:
 - The Irish Labour Market;
 - Consumer spending.
- (20 marks)**

(i) **One reason** why the Government increased the retirement age

1. Reduce the costs of future pensions / provision of services for ‘older’ people

People will retire at an older age and this saves the government the cost of their pensions / provision of services for these people / government continues to earn tax revenue from their continued employment.

2. People living longer.

As people are living longer they may wish to work longer and this allows for people to continue working.

3. Retain experienced workforce

By increasing the retirement age experienced workers are retained and this may result in greater efficiencies in the workplace / better delivery of public services / reduced training cost for new workers.

1 x 8 marks.

State: 4 marks. Explain: 4 marks.

(ii) **One** possible economic effect which an increase in the retirement age may have on **each** of the following:

Factor	Explanation
Irish Labour Market	<p>1.Reduced job vacancies / increased competition for jobs This may lead to increased unemployment for those seeking jobs e.g. graduates; school leavers / increased competition among workers for limited job vacancies.</p> <p>2. Days lost due illness As the workforce gets older there may an increase in sickness / illness resulting in days lost.</p> <p>3. Productivity Older workers may be more skilled / trained / experienced and so may be more productive. Alternatively they may be become tired and so productivity may fall.</p> <p>4. Lower training costs (in the short term) With fewer workers retiring the training costs of new workers may fall.</p>
Consumer spending	<p>1. Increased spending by those retained workers. Wages / salaries provide more disposable income and so their spending may increase.</p> <p>2. Changed pattern of spending Due to the changed composition of the workforce the pattern of spending may change.</p>
<p>2 x 6 marks each. State: 3 marks. Explain: 3 marks.</p>	

- (c) The Irish Government continues to spend on financial aid, to fund economic development in LDCs (less developed countries), although at a reduced level.
- (i) Explain the underlined term.
 - (ii) State and explain **two** economic effects which this **reduction** in financial aid may have on the citizens in LDCs.
 - (iii) Outline **two** actions which the **governments of LDCs** could take to increase the standard of living of its citizens. **(30 marks)**

- (i) Economic development: **6 marks**

An **increase in the level of income** standard of living / output / GNP **per person** accompanied by a **change in the structure of society**.

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

- (ii) **Two** economic effects a reduction in financial aid may have for citizens in LDCs

1. Reduced standard of living

With less money coming into the economy the average standard of living will fall.

2. Deterioration in infrastructure

Reduced aid will mean that the government / voluntary organisations will spend less on infrastructure and citizens will suffer the consequences.

3. Increased poverty

Those people who rely on the financial aid are generally the poorest and so these people will suffer most leading to increased poverty within the LDCs.

4. Increased death rates

If the financial aid was used to buy food then some people in the LDCs may be deprived of food.

5. Decline in provision of services

Those services relying on financial aid may now lack finance which results in their closure or contraction e.g. schools; health care provision etc.

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

(iii) **Two actions the governments of LDCs could take to increase the standard of living of its citizens.**

1. Promote population control.

Governments could encourage a reduction in population by various measures which would improve the welfare of its citizens.

2. Improve basic infrastructure.

Provision of clean water & proper sanitation will help improve the standard of living.

Provision of basic housing and the development of roads, power supplies etc.

These improvements may help attract MNCs to the country and help create jobs.

3. Promote land / agricultural reform.

By spreading the ownership of land more people will benefit.

Improved production methods will modernise the agricultural industry.

By reducing the emphasis on one crop / diversifying production may help increase incomes.

4. Improve education.

A basic literacy programme to improve literacy skills.

Provide primary education.

Develop the secondary sector and initiate further education programmes.

Provide technical skills for the population.

5. Provide better services.

The government could provide services for its citizens e.g. health care provision; social services etc.

6. State bureaucracy / corruption / spending on arms.

Reduce bureaucracy within state institutions.

Eliminate corruption so that aid flows to those who it was intended for.

Divert funds from arms spending to more urgent current requirements.

**2 points x 6 marks each.
State: 3 marks. Explain: 3 marks.**

