



Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2013

Marking Scheme

Economics

Higher Level

Note to teachers and students on the use of published marking schemes

Marking schemes published by the State Examinations Commission are not intended to be standalone documents. They are an essential resource for examiners who receive training in the correct interpretation and application of the scheme. This training involves, among other things, marking samples of student work and discussing the marks awarded, so as to clarify the correct application of the scheme. The work of examiners is subsequently monitored by Advising Examiners to ensure consistent and accurate application of the marking scheme. This process is overseen by the Chief Examiner, usually assisted by a Chief Advising Examiner. The Chief Examiner is the final authority regarding whether or not the marking scheme has been correctly applied to any piece of candidate work.

Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work.

In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

Future Marking Schemes

Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.



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State Examinations Commission

LEAVING CERTIFICATE 2013
MARKING SCHEME

ECONOMICS
HIGHER LEVEL

ECONOMICS HIGHER LEVEL

Marking Scheme and Support Notes

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

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SECTION A (100 marks)

1. The fundamental economic problem is one of 'scarcity'. Explain this concept. (16 marks)

Scarcity means that while the supply of resources / factors of production are limited the demand for these is unlimited (unlimited wants/limited resources). Hence, society must choose on the use to which the resources are put. Making choices involves an opportunity cost.

Any 2 points at 8 marks each

2. Define the 'Marginal Efficiency of Capital' (MEC). Outline **two** possible reasons for a fall in MEC. (16 marks)

Definition:

It is the extra profit earned as result of employing one extra unit of capital.

8 marks

Two possible reasons for a fall in MEC:

1. An increase in interest rates.
2. An increase in the cost of capital goods.
3. A decrease in the price of the finished goods.
4. A decrease in the productivity of capital / deterioration in the capital goods used.

Any 2 points at 4 marks each (2 +2)

3. Read each statement below and indicate if the price elasticity of demand (PED) for the product is most likely to be elastic or inelastic. (Tick ✓ the correct box.)

STATEMENT	ELASTIC	INELASTIC
Consumers are strongly attached and loyal to the product.		✓
Many close substitutes are available for the product.	✓	
The product is a luxury product.	✓	
The product accounts for only a small fraction of a consumer's weekly expenditure.		✓

(16 marks)

4 at 4 marks each

4. (a) Collusion may be a feature of an oligopolistic market. Explain what is meant by ‘collusion’.
 (b) Collusive practices may be undermined by price wars. Outline **two** benefits of price wars for the consumer. **(16 marks)**

Collusion:

Rival sellers in the industry come together for their mutual benefit.

8 marks

Two benefits of price wars for the consumer:

1. Lower prices / value for money

- Consumers will benefit from the availability of commodities at lower prices.
- Consumers will be able to get better value for their limited income.

2. Higher disposable income

With lower prices consumers will now have a higher disposable income resulting in a better standard of living.

3. More choice

As consumers now have a greater disposable income they can choose how to spend this additional income.

Any 2 points at 4 marks each.

5. Outline **three** mechanisms for restricting free trade. **(16 marks)**

Tariff	A tax on imports.
Quota	A limit on the quantity of goods imported.
Embargo	A total ban on imports.
Subsidy	A payment to exporters to reduce production costs.
Administrative barriers	Rules / regulations applying to imports.
Exchange controls	Limit the amount of foreign currency available to importers to buy imported goods.

6 marks + 5 marks + 5 marks

6. Explain what is meant by the economic term ‘Paradox of Thrift’. **(17 marks)**

An increase in savings by **individuals** could result in a fall in national / **total** savings due to reduced consumption, reduced demand, falling incomes, job losses and so total savings will fall. Increased savings represent a diminishing circular flow of income.

7 marks + 6 marks + 4 marks

7. Outline **four** contributions of Adam Smith to economic thought. (17 marks)

- (a) **The pursuit of self-interest**
This best benefits the individual and hence best benefits society.
- (b) **The Division of Labour**
Increased productivity and increased country's wealth.
- (c) **Labour Theory of Value**
The value of a product was equal to the amount of labour that went into producing the product.
- (d) **State protection of property rights**
Encourages the accumulation of personal wealth.
- (e) **'Invisible hand of competition'**
Allows a self-regulating market to operate thus ensuring economic progress is achieved.
- (f) **Perfect Competition**
Free entry into markets; profits sufficient to reward entrepreneurs; inefficiency penalised and price based on the cost of production. Monopolies would not persist.
- (g) **Laissez-faire / Limited government intervention**
Except for defence/justice.
- (h) **Canons of Taxation**
To fund the state's defence/justice systems taxation was necessary and he developed the four principles of a fair tax system: equity, economy, certainty and convenience.
- (i) **Paradox of Value** He distinguished between 'value in use' and 'value in exchange'. Some items had an immense utility (i.e. air, water) but are not exchanged, while others (i.e. diamonds) possessed little utility but could command a great value in exchange.
- (j) **Advocated Free Trade**
He advocated international free trade unhindered by the imposition of tariffs so that markets could operate effectively and allow the gains from trade to be spread between nations.

5+4+4+4

8. Define the term 'Average Propensity to Consume' (APC) **and** calculate the APC for 2012 from the information below. (Show your workings.) (17 marks)

<u>WORKINGS</u>
€34,000* - €5,200* = €28,800*
$\frac{€28,800}{€34,000} = 0.847 \text{ or } 84.7\%$

Year	Disposable Income	Savings
2012	€34,000	€5,200

Definition: **9 marks**
The proportion / fraction of total income which is spent on goods and services.

Calculate APC: **8 marks**

Each * item at 2 mark = 6 marks. 2 bolded figures at 1 mark each

9. A recent report to the Irish government highlighted the growing issue of alcohol abuse in Ireland.
- (a) Outline **one** private cost and **one** social cost related to excessive alcohol consumption.
- (b) Describe **one** advantage and **one** disadvantage of the government imposing a minimum price on alcohol products. **(17 marks)**

Costs	
One private cost:	One social cost:
<ol style="list-style-type: none"> 1. Decreased disposable income. 2. Possibility of long term illness / deterioration in health. 3. Possible absenteeism from work / less opportunities for promotion. 4. Increased private insurance costs. 5. Decreased productivity in work. 	<ol style="list-style-type: none"> 1. Increased health care costs. 2. Possible increase in crime /vandalism / risk of road accidents. 3. Increased absenteeism from work / disruption to provision of service. 4. Opportunity cost of money spent on health care.

Imposing a minimum price on alcohol products	
Advantage	Disadvantage
<ol style="list-style-type: none"> 1. Reduction in alcohol consumption. 2. Possible reduction in 'binge' drinking by younger consumers. 3. Reduction in admission to A&E so lower healthcare costs. 4. Better use of scarce resources in hospitals. 5. Reduction in crime / vandalism / road accidents. 6. May close the gap in price between pubs and supermarkets – boost for pub trade. 	<ol style="list-style-type: none"> 1. Increased prices for consumers / reduced disposable income. 2. Reduced competition on the market / restricted consumer choice. 3. Possible increase in cross border shopping for alcohol. 4. Pub closures with possible job losses. 5. Increase in smuggling/purchase of alcohol products in the black economy.

1st correct answer 5 marks. Next 3 correct answers at 4 marks each.

Q1 Demand / Substitution effect and Income effect.

- (a) (i) Distinguish between the terms ‘effective demand’ and ‘derived demand’.
(ii) Outline **two** possible exceptions to the Law of Demand. (25)

- (i) Distinguish between the terms ‘effective demand’ and ‘derived demand’.

Effective demand	Derived demand
Effective demand is demand supported by the necessary purchasing power.	Where a factor or production is demanded not for its own use but for its contribution to the production process.

1st correct response: 7 marks: (4 + 3)
2nd correct response: 4 marks: (2 + 2)

- (ii) Outline **two** possible exceptions to the Law of Demand.

1. Giffen Goods

- As the price falls, real incomes increase and consumers buy less of these goods and purchase more of better quality goods.
- As the price rises consumers have less income to spend on other types of goods so they tend to devote more of their income to these goods.

2. Status Symbols / Snob items / Ostentatious Goods / Goods of Conspicuous Consumption

- A rise in price makes these goods more exclusive, and therefore more attractive to those who have the incomes to purchase them.
- A fall in price may lead to a fall in quantity demanded as they may no longer appear as exclusive to the rich and are still outside the price range of the poor.

3. Goods the purchase of which is influenced by expectations as to future prices / Speculative goods

- If prospective consumers think that prices are likely to be even higher in the future, the current level of demand may not fall even if prices increase.
- If a person is considering buying a house the possibility that prices are likely to be even higher in the future will probably stimulate demand at current prices.

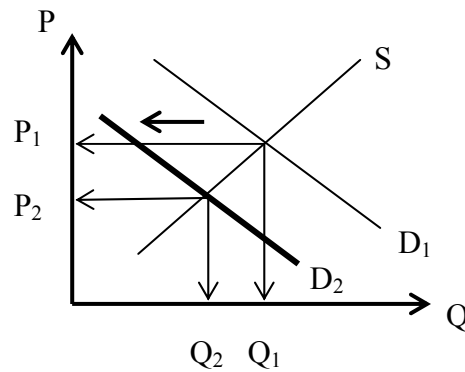
4. Goods of Addiction

- Consumers become so addicted to the drug that in order to get the same 'buzz' from consumption of the drug, demand for the commodity may increase, even when the price of the commodity increases.

2 at 7 marks (4+3) each

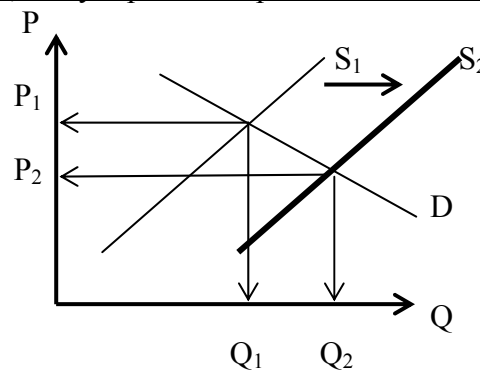
(b) The market for a brand of **blue jeans** is in equilibrium. Explain, with the aid of a separate diagram in each case, the effects which **each** of the following is most likely to have on the equilibrium position:

(i) Due to the economic downturn there is a reduction in the real income of consumers. (30)



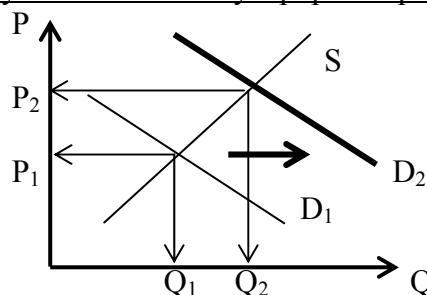
- Diagram: S/C; D₁; D₂; Lower P, Lower Q: all at 1 mark each = **5 marks**
- D/C shifts to the left (D₂) **shown on diagram at 1m**
- Because consumer income has fallen / they can't afford the product at **2m**
- New **lower** P₂ at **1m**
- New **lower** Q₂ at **1m**

(ii) A fall in the price of cotton, a key input in the production of the blue jeans.



- Diagram: D/C; S₁; S₂; Lower P, Larger Q: all at 1 mark each = **5 marks**
- S/C shifts to the right (S₂) **shown on diagram at 1m**
- Because the costs of production have fallen at **2m**
- New **lower** P₂ at **1m**
- New **higher** Q₂ at **1m**

(iii) The blue jeans have recently been endorsed by a popular sports star.



- Diagram: S/C; D₁; D₂; Higher P, Higher Q: all at 1 mark each = **5 marks**
- D/C shifts to the right (D₂) **shown on diagram at 1m**
- Because consumers' taste / preference for these jeans has increased: at **2m**
- New **higher** P₂ at **1m**
- New **higher** Q₂ at **1m**

- (c) A fall in the price of a consumer product has both a substitution effect and an income effect.
- (i) Explain the underlined terms.
- (ii) If the price of an **inferior** product falls (all other things being equal) will more or less of the product be purchased? Explain your answer with reference to the substitution effect and the income effect. (20)

(i)

Substitution effect	Income effect
When the price of a good rises customers may shift to cheaper substitutes to maximise utility.	When the price of a good falls it means that the consumer's real income will rise.

2 explanations at 5 marks each

(ii)

Price of inferior product falls	Substitution effect	Income effect
Effect on demand	Demand will rise	Demand will fall
Explanation	The consumer is getting more marginal utility for this good now that it is cheaper.	Because the good is an inferior good, demand will fall as the consumer will buy less as income has increased.

2 explanations at 3 marks each

If positive substitution effect is greater than the negative income effect then demand for the product will increase.

or

If negative income effect is greater than positive substitution effect then demand for the product will decrease.

4 marks

Q2 Monopoly

- (a) Technology companies such as Apple and Samsung are currently involved in legal disputes regarding patents on various aspects of their smartphones. When a company wins a patent dispute it may become the sole producer using the patented technology.
- (i) Explain **three** barriers to entry, other than patents, that can exist in business.
 - (ii) Outline **two** reasons why monopolies may not be in the public interest. (25)
- (i) Explain **three** barriers to entry, other than patents, that can exist in business.

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.
Companies may enter into trade agreements with other suppliers (collude with them) so that no other company 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 / High start-up costs
For some industries the capital required to get established in the industry is so large that only the company which can raise the necessary capital can operate in the market. Competitors are discouraged from entering because of the high initial start-up costs.
Mergers / Takeovers
By merging with a competitor or buying out the competitor a company may become a monopoly supplier in that industry.
Monopolies based on fear, force or threats
An individual or group of individuals may, by fear, force or threats, stop other individuals competing with the supplier e.g. the supply of illegal drugs
Limit pricing
A company 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 company may be able to dominate the market so that competitors may find it impossible to compete.

3 at 5 marks (2+3) each

(ii) Outline **two** reasons why monopolies may not be in the public interest.

Higher Prices

Monopolies can charge higher prices, compared to perfect competition, because there is no competition.

Lower output produced

Monopolies with similar costs to a firm in perfect competition may produce a lower output compared to a firm in Perfect Competition.

Inefficiency/Wasteful of resources

Monopolies not producing at the lowest point of the AC curve results in waste of scarce resources.

Super Normal Profits

If a monopolist charges a price above AC then it will earn SNPs at the expense of the consumer.

Poorer Quality Service

Due to lack of competition the quality of service provided may be poor.

Lack of innovation

The lack of competition means that a Monopolist does not have to innovate or develop new products or services.

May engage in price discrimination

Some monopolies engage in price discrimination which means that different prices are being charged for the exact same good or service.

Loss making state monopolies

If the monopoly is state run and is loss making e.g. CIE then these losses are borne by the taxpayers in the form of higher taxes.

2 at 5 marks (2+3) each

(b) Explain, with the aid of a diagram, the long run equilibrium position of a monopoly firm.

(25)

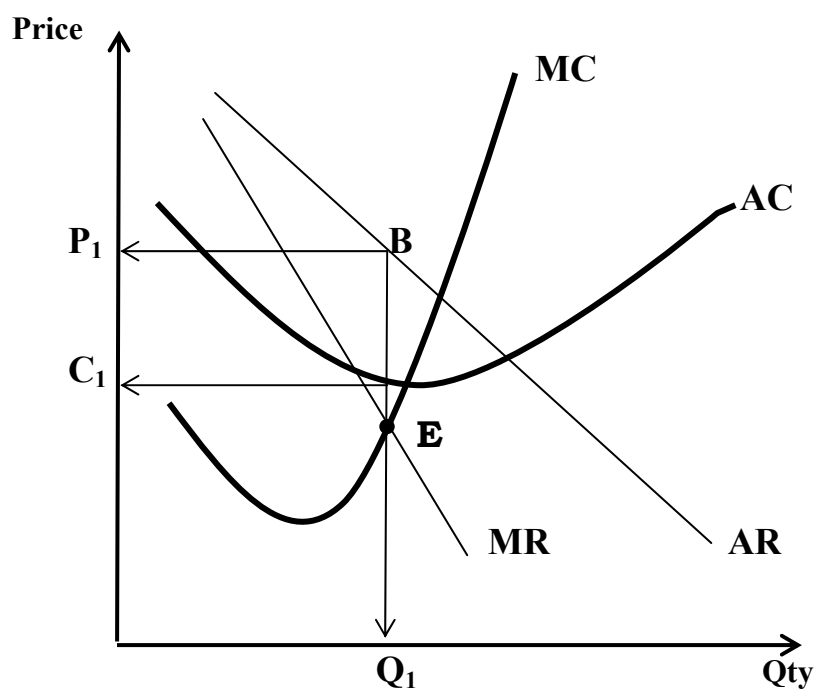


Diagram: 10 points at 1 mark each.

1	2	3	4	5	6	7	8	9	10
Price axis	Quantity axis	AR	MR	MC	AC	Equilibrium point- E	P ₁	C ₁	Q ₁

Explanation: 15 marks

1. Equilibrium/Profit maximising point

- Occurs at point E.)
 - Where MC = MR.)
 - And MC is rising.)
- Any 2 points at 2 marks each.**

2. Price / Output

- The firm produces Q₁ **2 marks**
- and sells it at P₁ **2 marks**

3. Cost / Normal profit

- The cost of producing this output / normal profit is shown at point C₁ **2 marks**

4. SNP's

- The firm is earning SNPs **2 marks**
- Because AR > AC **or** they can continue to exist due to barriers to entry. **1 mark**

5. Waste of Scarce Resources / Inefficiency

- The firm is not producing at the lowest point of AC **1 mark**

- (c) The global market for toothpaste products can be described as an imperfectly competitive market, where firms engage in competitive advertising and branding.
- (i) Explain the term 'competitive advertising'.
 - (ii) Outline, using an example, how advertising can be used to prevent small firms entering an industry.
 - (iii) State and explain **two** possible disadvantages of advertising for the consumer. (25)

- (i) Competitive advertising

This is advertising which stresses the advantages of one firm's products/services over its rivals.

7 marks

- (ii) Outline, using an example, how advertising can be used to prevent small firms entering an industry.

Any correct Explanation: **Prohibitive costs of advertising:** **3 marks**

If a small firm has to advertise in order to compete with rival firms its costs will increase disproportionately to a larger firm, therefore advertising may be used as a barrier to a small firm entering an industry.

or

Existing firms may continue to spend money on advertising to increase their sales/market share persuading consumers that their product is the best, so consumers will stay with their products making it difficult for small firms to enter.

Any correct Example:

3 marks

Two firms spend €6,000 on an advertising campaign.

The small firm produces output of 300 units so the average cost per unit is €20.

The larger firm produces output of 8,000 units so the average cost per unit is €0.75.

- (iii) State and explain **two** possible disadvantages of advertising for the consumer.

1. Increased prices

The firm may have to increase prices to cover the increased costs.

2. False / Misleading information

Consumers may be presented with inaccurate/incomplete information leading to confusion / mis-information.

3. Impulse buying / creates unsustainable wants

The advertising may lead customers to impulse buy and so 'waste' part of their income.

Advertising may create a desire in consumers for a life style which is not attainable.

4. Harmful commodities

Advertising may encourage the consumption of harmful commodities e.g. cigarettes; alcohol which may damage the health of the consumer.

5. Unnecessary pollution

Consumers may have to pay for the removal of litter caused by advertising such as leaflets discarded etc.

2 at 6 marks (3+3) each

Q3 Labour / Gender Pay Gap / Karl Marx

(a) State and explain **four** economic influences on an individual firm's demand for labour. (25)

1. Marginal revenue productivity of labour

How productive is the worker? Will the worker generate more revenue than his wage rate?

2. (Minimum) Wage rate

If the wage rate increases then this increases the costs for employers and may reduce their demand for labour.

3. Demand for output

An increase in the demand for the firm's output may increase the demand for labour.

4. Price of other factors of production (including capital)

Prior to employing more labour the firm would compare the cost of the additional labour with that of other factors of production available to determine which is the most competitive.

5. State subsidies

If the state were paying subsidies for the hiring of additional labour then this may make it more attractive to employ additional labour.

6. Taxation Rates on the firm's profits

If the profitability of a firm is reduced by higher tax on a firm's profits then this may affect a firm's decision to employ additional labour.

7. Payroll taxes / Employers rate of PRSI

If the rate of personal taxation increases then labour may seek a higher wage rate making the firm less competitive. Similarly if the rate of PRSI / USC on labour increases this is an additional cost for the firm, which may reduce its demand for labour.

8. Availability of technology

A firm's demand for labour will be affected by the availability of new technologies particularly if it helps to reduce costs.

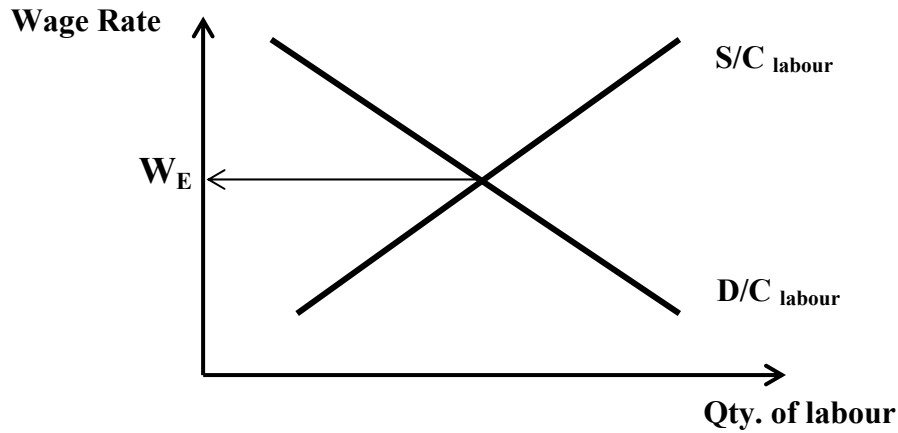
9. Trade union involvement

If a worker is a member of a trade union then the firm may not employ this worker. This applies to some firms in Ireland who prefer to operate without the involvement of trade unions.

**First 3 points at 7 marks (4+3) each
4th point at 4 marks (2+2)**

- (b) Explain, with the aid of a labour market diagram in each case, how equilibrium wage rates are determined in:
- A free labour market;
 - A labour market where a trade union has negotiated a minimum wage.
- (25)

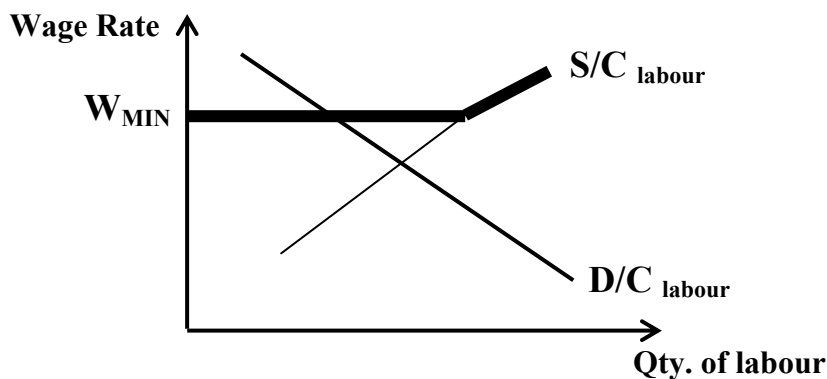
A free labour market:



- A free market is one where there are no restrictions on the demand and supply of labour.
- Where the demand for labour equals the supply of labour the equilibrium wage rate is set.

Diagram: 5 marks
Explanation: 7 marks (4+3)

A labour market where a trade union has negotiated a minimum wage



- The trade union may negotiate a minimum wage rate: **this is set at W_{MIN} .**
- No workers will be supplied below W_{MIN} .

Diagram: 5 marks
Explanation: 8 marks (4+4)

(c) Women in Ireland earn on average 17.1% less per hour than men, according to a study by the European Commission (*Tackling the gender pay gap in the European Union*, 2011). (15)

(i) Outline **two** possible reasons for the lower wage rates earned by women in the Irish economy.

1. Discrimination in the workplace

Women and men may not be paid the same wages even though they do the same work due to illegal discrimination.

2. Lack of enforcement by State agencies

State agencies do not enforce the existing legislation or take legal action against offenders.

3. Balancing work and family responsibilities

Women work shorter hours and often part-time to combine family responsibilities and paid work. Career progression can be interrupted by maternity leave.

4. ‘Glass ceiling’/fewer women in senior and leadership positions

Women are under-represented in most senior positions, in politics and in certain sectors within the economy such as on boards of management.

5. Different jobs, different sectors

Women and men carry out different jobs and often work in different sectors. In health and social work women make up 80% of workers.

6. Undervaluing of women’s work and skills

Women’s skills and competencies are often undervalued, especially in occupations where they are in the majority. This is reflected in lower rates of pay.

7. Gender role of women / Tradition

Some people may still consider that a woman’s role in society is to stay in the home and rear children and this may still cause rates to be lower in some societies.

2 points at 5 marks (2+3) each

(ii) Outline **one** measure that could be taken to close the gender pay gap.

1. Awareness - raising Campaign

Governments could put in place measures to raise awareness on gender equality and company good practice. A widespread advertising campaign during ‘European Equal Pay Day’ might raise awareness of the gender pay gap and initiate change.

2. Collective Agreements

Social partners could make provisions in collective agreements on gender equality and require companies to report on salaries and plans to close the gender pay gap.

3. Labour Inspections / Name and shame the offenders

Labour inspectors could be trained to carry out inspections on equal pay violations and publish names of offenders.

4. Audits by companies

Gender equality plans and audits enable companies to measure their progress in implementing gender equality and equal pay.

5. Make pay systems transparent

Transparent pay systems are very important in implementing equal pay e.g. software to help companies analyse pay and staffing structures and verify if equal pay exists.

6. Gender Equality Studies

A government could implement studies into the issue and take action to implement strategies to close the gender pay gap.

7. Implement / enforce existing laws

Governments could also ensure that current laws are enforced by taking legal cases against offenders.

8. Education on gender stereotyping

Policies could be pursued which challenge ‘traditional’ views of women in schools, home and in the workplace.

1 point at 5 marks (2+3)

(d) Explain briefly Karl Marx’s economic theory about the exploitation of labour in a capitalist system.(10)

- Marx argued that workers were paid subsistence / minimum wages by their employers.
- The value of the goods produced by a worker was more than the wages paid to the worker. (The difference between the two he called the ‘**surplus value**’ or **profit** to the employer). This illustrated that workers were exploited and in time would be replaced by capital resulting in their unemployment.

10 marks (6+4)

Q4 Current Budget Deficit / Taxation / Decreasing capital expenditure

(a) 'The Exchequer deficit in December 2012 was €14.89bn'. (Dept. of Finance, January 2013) (30)

(i) Discuss **four** possible economic consequences of the Government Current Budget Deficit for the Irish economy.

1. Additional taxation

The government needs to increase revenue to finance its activities and so has increased the rate of VAT; introduced the Property Tax and Septic tank tax. It also plans to introduce water charges.

2. Cuts in public expenditure

In the recent budget the rate of child benefit was cut and this affects all families in the state resulting in a reduction in their standard of living etc...

3. Reduction in the provision of state services

The provision of services such as SNAs; home help for care assistants is causing difficulties for sectors of the population.

4. Troika intervention

The requirement to reduce the current budget deficit by the Troika means that the Troika can intervene and advise the Irish government on policy measures within the economy.

5. Public sector pay

The government is insisting that the public sector pay bill is reduced and that measures to increase efficiencies in public services must be introduced.

6. Reduction in aggregate demand / job losses

With the additional taxation consumer spending has fallen. This has resulted in job losses particularly in the retail sector.

7. Loss of confidence / emigration

The impact of extra taxation; reduced consumer spending; job losses etc. means that people are fearful about the future which affects business confidence. People, who are mobile, are emigrating.

8. Moderation in citizens expectations

Citizens are aware of the current financial position. They may accept more readily charges for state / local services; increased taxes and a reduction in state services for some individuals e.g. fewer hours for care assistants etc.

4 points at 5 marks (2+3) each

(ii) Explain how a government budget could be used to reduce income inequalities in an economy.

Welfare benefits could be increased / maintained

This means that those on lowest incomes would receive additional income.

Tax changes

The government could make taxes like income tax, CGT and CAT more progressive.

Abolish tax reliefs and shelters that are used by very high income earners to avoid paying taxes.

Widen the lower income tax band so as to increase the real income of low income earners.

Wealth tax

The government could introduce a wealth tax in its budget similar to that introduced in economies like France where incomes over €1m are taxed at 75%.

Target universal entitlements

Instead of giving child benefit to every household with children it could be means tested or targeted at parents in receipt of welfare payments and working parents earning low wages.

Increase the minimum wage rate

In doing so workers on lower incomes would have a higher disposable income.

2 points at 5 marks (2+3) each

- (b) (i) State and explain **two** reasons why the government increased taxes on cigarettes and alcohol in its most recent budget.
- (ii) Outline **three** economic impacts for the Irish economy of an increase in Motor Tax. (30)
- (i) State and explain **two** reasons why the government increased taxes on cigarettes and alcohol in its most recent budget.

1. To discourage smoking / alcohol consumption

Increasing prices might encourage people to smoke less or drink less / their health improves.

2. To reduce health care costs

If individuals become healthier they may not require as much health care, so the costs of providing health care falls.

3. To reduce absenteeism from work

If less people are ill, there will be less absenteeism from work and productivity will increase.

4. To increase revenue from these taxes

As some people are addicted to smoking and consuming alcohol, irrespective of the tax increase, revenue from the sales of these products will continue to increase.

5. To specifically target the consumption of alcohol and tobacco by young people

The Minister may wish to make the prices of these products prohibitive for young people so that they are discouraged from smoking / 'binge' drinking.

6. To discourage/ limit tax evasion

Since goods like alcohol and tobacco have inelastic demand people continue to purchase these goods and by including tax in the price it makes it more difficult to evade taxes on these products.

2 points at 6 marks (3+3) each

(ii) Outline **three** economic impacts for the Irish economy of an increase in Motor Tax

1. Increased tax revenue for the local authority

The local authority receives an additional source of revenue from the tax. People see driving as a necessity so most people will still continue to use their car even with the increase in motor tax.

2. Reduced disposable income for consumers

The purchasing power of consumers falls as they have less income available for spending on other products.

3. No incentive for purchasing environmentally friendly cars

Those who purchased 'green' cars are being hit hard with the tax. This does not encourage people to purchase cars that have lower emissions.

4. Increased costs for businesses

The cost of transport for businesses will increase which will lower their competitiveness / increase consumer prices.

5. Possible closure of car dealerships

If fewer new cars are bought this may result in job losses.

6. Better for environment

Some families may be unable to retain their second car. Others may decide to give up their car and use public transport. This may have positive implications for the environment.

3 points at 6 marks (3+3) each

(c) 'The Public Capital Programme must make a further contribution to budgetary consolidation'.

(Infrastructure and Capital Investment, 2012 – 2016)

As an Advisor to the Minister for Public Expenditure and Reform, discuss **two** economic arguments in favour of a reduction in capital expenditure in the Budget. (15)

1. Reduce state borrowing and reduce the national debt

By reducing capital expenditure overall state borrowing will be reduced and this will have a positive effect on Ireland's national debt.

2. New Infrastructure already in place / fewer bottlenecks

Billions have been spent on improving the infrastructure over the past number of years and as a result our infrastructure, particularly the road network, is of a high standard. There are fewer infrastructural bottlenecks as a result of spending on infrastructure over the years.

3. Private sector is providing necessary infrastructure

In some sectors private companies are providing the necessary capacity e.g. broadband subscription growth.

4. Spending in line with other European countries

Even with the cuts in government expenditure Ireland will be spending about 2% of GDP on infrastructure. This is in line with the average across the Euro zone economies.

2 points

1st point at 10 marks (5+5)

2nd point at 5 marks (2+3)

Q5 Terms / National Income / Keynes Stimulus Plan

(a) Explain the following terms which are commonly used in estimating the National Income statistics of a country: Subsidies / Incomes-in-kind / Net Factor Income from the Rest of the World. (15)

Subsidies: **5 marks**
 Payments to a producer to help reduce the cost of production (price of the good)/ increase output.

Incomes-in-kind: **5 marks**
 • Income / rewards received in a non-monetary form.
 • Payment made in the form of goods or services.

Net Factor Income from the Rest of the World: **5 marks**
 This is the difference between incomes earned by foreign factors of production in Ireland and sent abroad and income earned by Irish factors of production abroad and returned to Ireland.

(b) (i) Illustrate by means of a diagram the **Circular Flow of Income** for an open economy.
 (ii) Are transfer payments an injection into, or a leakage from the Circular Flow of Income? Explain your answer.
 (iii) Outline **three** current determinants of the level of consumption in the Irish economy. (35)

(i) Illustrate by means of a diagram the Circular Flow of Income for an open economy.

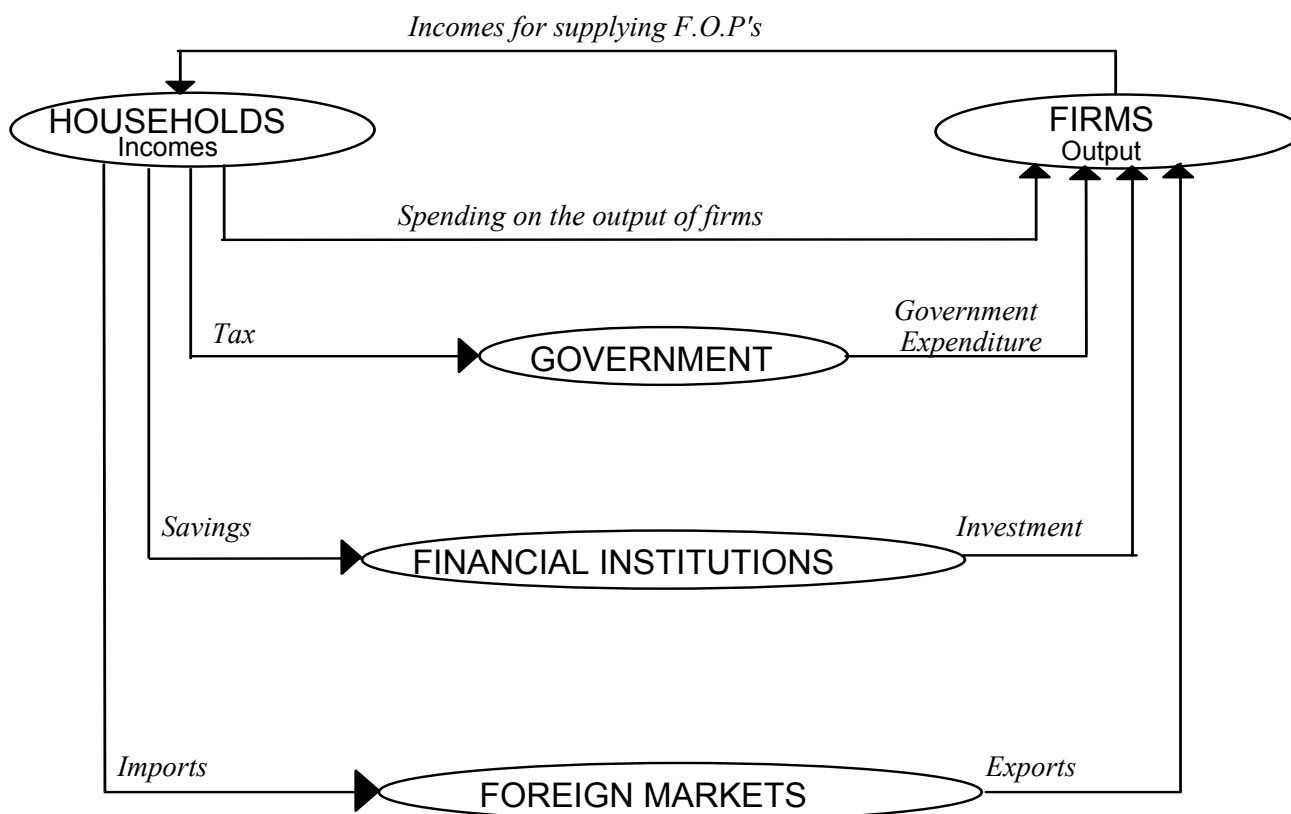


Diagram – 18 marks

	Individual mark	Total marks
Identifying the 5 'sectors'	5 at 2 mark each	10 marks
Identifying the correct 8 'flows' (component & direction)	8 at 1 mark each	8 marks

(ii) Are transfer payments an injection into, or a leakage from the Circular Flow of Income?
Explain your answer.

- They are an injection into to the circular flow of income.
- They become incomes for the recipients which they spend, and this increases aggregate demand.

5 marks (2+3)

(iii) Outline **three** current determinants of the level of consumption in the Irish economy.

1. Levels of incomes (irrespective of source)

Incomes are currently low / decreasing and resulting in a fall in consumer expenditure.

2. Interest rates

Interest rates are currently at a low level. Savers will have a lower incentive to save money as the return they are getting is lower, hence they are likely to spend more money in theory.

3. Access to / availability of credit

Consumers need to be able to access credit to buy larger items. If banks are not lending money then consumption in the Irish economy will be curtailed.

4. Rates of taxation

Taxation in Ireland is increasing. Disposable income is falling resulting in a decline in spending.

5. Consumer confidence

The less confident consumers are about future the less likely they are to spend.

6. MPC

The lower the MPC then the lower will be the level of consumption.

3 points at 4 marks (2+2) each

- (c) (i) Using the Keynesian multiplier process outline how a fiscal stimulus (i.e. a government injection) would affect an economy's Aggregate Demand.
- (ii) Explain why the Irish government might find it difficult to implement such a **Keynesian stimulus plan** at the current time. (25)

(i) Using the Keynesian multiplier process outline how a fiscal stimulus (i.e. a government injection) would affect an economy's Aggregate Demand.

- The initial increase in government expenditure will **have a greater final increase** in aggregate demand. **4 marks**

- Increase in aggregate demand = initial increase in government expenditure x by the multiplier. **9 marks**

or

Example

Government injects €10m.

Multiplier is 2.

So increase in Aggregate Demand = €10m x 2 = €20m.

(ii) Explain why the Irish government might find it difficult to implement such a **Keynesian stimulus plan** at the current time.

1. Ireland is in a bailout programme / Current Budget Deficit currently

The Irish Government is relying on funding from the IMF/EU/ECB to run the country. Even if a fiscal stimulus was appropriate, the Irish Government would have to seek permission (and money) to do it.

2. Ireland is an open economy

The value of the multiplier falls when imports are taken into account. This is because imports are a leakage from the circular flow of income. If the Irish Government increased spending some of that spending would leak out of the Irish economy due to the purchase of imports.

3. Ireland needs a global recovery

Ireland cannot recover on its own. It needs a global economic recovery. Growth in our national income depends on both a strong domestic and a strong international economy.

4. Reaction of the public

If the public don't believe that the fiscal plan is credible then it has a much less likely chance of working. If the Government did try to expand the economy they would need to convince Irish people that the plan would work and that the Government would be able to pay back the debt incurred by the increased spending.

5. Current economic climate / expectations of citizens

Citizens are fearful of the future. If the government injected money into the economy citizens may save more rather than spend. So the MPS may rise while the MPC may fall.

12 marks. 2 points

First point 8 marks (4+4)

Second point 4 marks (2+2)

Q6 Banking / Interest Rates / CPI

- (a) (i) Explain, using a numerical example, how banks create credit in an economy.
 (ii) Outline **two** factors which limit the ability of banks to create credit during recessionary times. (30)
- (i) Explain, using a numerical example, how banks create credit in an economy.

Alternative A

- Commercial banks accept cash deposits from their customers e.g. say €100, for safekeeping. **4 marks**
- These banks know from experience that their customers will only demand back a small amount of these deposits in cash - say 10% because of their use of cheques as an acceptable method of payment. **4 marks**
- So they now have surplus cash with which to give loans - €90. **4 marks**
- The amount of loans they give is related to, but in excess of their cash deposits and is based on their reserve ratio **4 marks**

or

$$\text{Increase in credit} = \text{Increase in Cash Deposits} \times \frac{1}{\text{Banks Reserve Ratio}}$$

Numerical example:

4 marks

A person deposits €100 into a bank. The bank's reserve ratio is 10%.
 So the bank can create credit as follows:

$$€100^* \times \frac{1^*}{10\%} = €1,000^* \quad [- €100 = €900^*]$$

(1 mark per asterisked figure)

Alternative B

Balance Sheet of a Bank - 4 marks

<u>Assets</u>	€	<u>Liabilities</u>	€
Cash lodged by X	100	X's deposit	100
Total Assets	100	Total Liabilities	100

Balance Sheet of a Bank – 6 marks

<u>Assets</u>		<u>Liabilities</u>	
Cash lodged by X	100	Deposits	100
Loan	900	New Deposits	900
Total Assets	1,000	Total Liabilities	1,000

- Mr. X lodges €100 into the bank
- It knows that only 10% is demanded in cash.
- It has enough cash to support total deposits of €1,000.
- The bank can create another €900 in deposits. It does this by giving out loans of €900.
- So €100 cash is sufficient for this purpose. This is shown in the new balance sheet.

Explanation 10 marks: 5 at 2 marks each

(ii) Outline **two** factors which limit the ability of banks to create credit during recessionary times.

1. Creditworthy customers / increased risks for banks

In times of recession many businesses experience cash flow difficulties. The risk of these companies failing can be quite high. Banks will be cautious in terms of lending as they will be worried about the risk of the loans not being repaid. Likewise, consumers' loans are riskier in a recession. Consumers might lose their jobs and be unable to repay their loans.

2. Cash deposits in the banks

A bank can only give loans provided that it can attract cash deposits. If it attracts more deposits then it can create more credit. Irish banks have experienced a difficulty in attracting deposits since the beginning of the recession as people favour the higher rates of return with state savings. Depositors have been wary of depositing money fearing that the banks might collapse.

3. Demand for loans / credit by customers

During a recession the demand for credit from businesses and consumers is reduced. Businesses are not likely to invest if they think that the recession is going to be prolonged. Likewise consumers will not borrow if they are worried about their job prospects.

4. Irish banks have weak balance sheets / Deleveraging

Irish banks, through reckless lending during the property boom, have weakened balance sheets. Their ability to create new money has been greatly reduced. Also, Irish banks are being encouraged to deleverage and shrink their balance sheets which may decrease their ability to create credit.

5. Customers' demands for cash

The bank must keep sufficient cash so as to be able to meet the demands of its customers for cash. If during a recession people pay more of their bills in cash then their demand for cash will increase and this will reduce the ability of the banks to create credit.

2 points at 5 marks (2+3) each

(b) Some central banks have responded to the global financial crisis by introducing the monetary policy measure of 'Quantitative Easing'

(I.e. buying financial assets from financial institutions using new money it has created).

(i) Outline **two** possible economic effects of this measure for an economy.

The European Central Bank (ECB) reduced interest rates in 2012.

(ii) Discuss **two** possible economic benefits of falling interest rates for the Irish economy. (20)

(i) Outline **two** possible economic effects of this measure for an economy.

1. Increased bank lending

With increased cash reserves the commercial banks may increase their lending.

2. Economic growth / jobs

Increased lending by banks should increase both consumer spending and investment spending which will boost aggregate demand and help create jobs.

3. Possible inflation

If the money supply increases at a faster rate than the supply of goods and services then inflation may increase.

4. Interest rates

An increase in the money supply, after the creation of new money which has been used to purchase financial assets, may lead to a reduction in interest rates which may restore business confidence and help stimulate economic activity.

5. Government bonds

If government bonds are purchased then this may cause their market price to rise leading to a decrease in their yield.

2 points at 4 marks (2+2) each

(ii) Discuss **two** possible economic benefits of falling interest rates for the Irish economy.

1. Borrowing encouraged

Borrowing is now cheaper resulting in cheaper loan repayments which will increase spending power resulting in a higher standard of living.

2. Savings discouraged

With a lower rate of return people may find it less attractive to save and so they will increase their spending.

3. Reduced mortgage repayments

The cost of monthly repayments (on tracker mortgages) decreases resulting in increased disposable income and a higher standard of living.

4. Cost of Servicing the National Debt

With lower domestic interest rates the cost of repaying the internal portion of the national debt falls.

5. Costs of Production / increased competitiveness

Cost of production will decrease resulting in lower domestic prices. This will increase the competitiveness of Irish exports and may lead to an increase in sales.

6. Incentive to Invest

The MEC will rise resulting in increased profits and this may encourage investors. It becomes less expensive for businesses to borrow and so they may invest.

7. Economic Growth encouraged

With possibly increased investment / increased consumer spending future economic growth in Ireland may be encouraged.

8. Taxation revenues

With a possible reduction in savings the government may receive less revenue through DIRT. However, with a possible increased spending the revenue from VAT and excise duties may rise. If unemployment decreases there will be an increase in income tax revenue.

9. Employment

Increased consumer spending; rising demand for Irish exports; an increase in investment and an increase in economic growth may result in an increase in the numbers employed.

2 points at 6 marks (3+3) each

- (c) The monetary policy of the ECB aims to maintain the annual euro area inflation rate at a very low level.
- (i) State the rate of inflation in Ireland during 2013, as measured by the Consumer Price Index
 - (ii) Outline **two** uses of the CPI, other than as a measure of the rate of inflation.
 - (iii) Discuss the possible limitations of the CPI as an accurate measure of changes in the cost of living in Ireland.
- (25)

- (i) State the rate of inflation in Ireland during 2013, as measured by the Consumer Price Index.

May 2013: 0.4%

From January 2012 to January 2013: 1.2%

5 marks

- (ii) Outline **two** uses of the CPI, other than as a measure of the rate of inflation.

1. Measures International Competitiveness /International Comparisons

By comparing our inflation rate with that of our trading partners we can determine whether our competitiveness on international markets is improving or getting worse.

2. Indicator of economic performance

The CPI, together with statistics on employment, economic growth, exchequer returns etc., provide an indicator of the country's economic performance.

3. Indexation of savings / investments

Some savings schemes have 'index-linked' returns meaning that the rate of interest will be equal to the rate of inflation. Individuals with insurance / pension policies may be able to increase their contributions so as to maintain the real value of these policies.

4. Used by government indexing tax bands / social welfare payments

The government may use decreases in the CPI to index tax bands so that taxpayers are paying more tax. Similarly the government may use decreases in the CPI to decrease rates of social welfare so as not to interfere with the standard of living of the recipients and thereby reduce government expenditure.

5. Used in pay negotiations

Historically trade unions / employees have used increases in the CPI as the basis for making claims for a wage increase.

2 points at 5 marks (2+3) each

- (iii) Discuss the possible limitations of the CPI as an accurate measure of changes in the cost of living in Ireland.

1. Limitations of an average

The CPI represents the average spending patterns of the total population. Hence it may not represent accurately particular groups in the population e.g. non-smokers; non-drinkers.

2. New products

As it includes only those products in the base year it lags behind consumer trends and fashions. New products are not included in the index.

3. Rural versus urban lifestyles

Both urban and rural households are represented by the present set of weights but this may not reflect accurately changes in their respective cost of living.

4. Switching by consumers

When prices rise the CPI does not measure the extent to which people may switch to cheaper brands.

5. Quality of products

The index does not take account of changes in the quality of products. Higher prices may reflect an improvement in the quality of the product.

6. Measures changes to prices

The CPI only measures changes to prices not changes in the cost of living because it doesn't take into account all the items which affect a person's living standards i.e. income tax, social welfare etc.

7. Static weights

The weights used are those which apply in the base year.

The importance of some items in the base year changes over time because of changes in prices, taste and income.

2 points at 5 marks (2+3) each

Q7 Balance of Payments / Rising Euro / Challenges of Irish businesses

(a) 'The Balance of Payments figures give the most detailed information on Ireland's large and rapidly growing internationally traded services sector' (*The Irish Times*, September 2012). (30)

(i) Explain the term Balance of Payments Current Account.

(ii) Explain **two** economic consequences of a surplus on the Balance of Payments Current Account.

(iii) Describe how foreign firms in Ireland may affect Ireland's Balance of Payments Current Account.

(i) Explain the term Balance of Payments Current Account.

• This shows the receipts and payments for visible and invisible trade over a period of time.

or

• This shows the difference between total exports and total imports.

6 marks

(ii) Explain **two** economic consequences of a surplus on the Balance of Payments Current Account.

1. Injection into the economy

As exports are an injection into the circular flow of income the multiplier is increased in size and so national income rises.

2. Increase in our external reserves

Our external reserves may increase and this will increase our ability to make international payments.

3. Jobs created

Higher exports may result in job creation within the economy and this may curb the increase in emigration.

4. Attract FDI

MNCs may become aware of Ireland's success on foreign markets and this may encourage them to locate in Ireland.

12 marks: 2 points at 6 marks (3+3) each

(iii) Describe how foreign firms operating in Ireland may affect Ireland's Balance of Payments Current Account.

1. Salaries / wages returned to home country

These companies may bring staff / expertise from their home country. Part of the salaries earned may be returned to the home country thereby leaving Ireland.

2. Imported raw materials / capital goods

These companies will require capital goods and raw materials. Some of these may need to be imported. These are physical imports and will appear in the Current Section.

3. Exported finished products

Some foreign companies produce their commodities mainly for export. These are considered physical exports and appear in the Current Section.

4. Repatriated profits

Once profitable these companies may decide to repatriate their profits. These are considered an invisible import.

12 marks: 2 points at 6 marks (3+3) each

- (b) Discuss the possible economic effects for the Irish economy of the euro **rising** in value relative to many other international currencies. (25)

1. Imports Cheaper

Price of imports from US / UK / Japan etc. will decrease.

This will result in a lower import bill for Irish producers / increase in imports from these countries.

2. Exports Dearer

Price of exports from Ireland to US / UK / Japan etc. will increase and therefore become more difficult to sell. This may result in reduced exports to these countries.

3. Tourism into Ireland suffers

Fewer foreign visitors will holiday in Ireland because it is more expensive for foreign people to buy euro currency. It may also result in more Irish people holidaying in those countries as it is now cheaper.

4. Employment

With a reduction in exports, employment in Ireland will decrease in those industries which rely on such exports.

5. Slowdown in rate of economic growth

With the loss of jobs, spending within the economy falls. Expenditure by the government on social welfare increases. Combined these will negatively impact on the rate of economic growth.

6. Foreign investment in Ireland discouraged

It will be more costly for firms from these countries to purchase capital goods/invest in Ireland. Investment by Irish companies abroad may be encouraged as it becomes cheaper to do so.

5 points at 5 marks (2+3) each

- (c) 'Exporting businesses need to become the engine of economic growth.'
(Statement of Strategy 2011-2014, Department of Jobs, Enterprise and Innovation)

Discuss the key challenges for Irish businesses on international markets. (20)

1. Finding new markets

It is very hard for Irish firms to break into new markets such as Russia and China. The government could and does help by developing trade links and undertaking trade missions. They could also help these firms research new markets.

2. Global Recession

Even if Irish firms could find new markets abroad, demand in the markets they are selling into has fallen which means consumers in other countries won't buy as much of our exports.

3. Difficulty accessing credit

Irish firms will find it difficult to grow and expand into foreign markets if they can't get credit from banks to fund expansion or even access overdraft facilities while they wait for payments to be made.

4. Competitiveness

Even though costs of production have fallen in the Irish economy for the last number of years, Irish goods may not be as competitive abroad as goods from other countries. Some of the new EU countries can produce goods cheaper than we can. This will hinder our ability to sell our goods on international markets.

5. Exchange rate

If the Euro rises in value relative to our trading partners our exports will be dearer in countries like the US, UK and China which presents challenges for Irish firms trying to compete abroad.

6. Keep bureaucracy to a minimum

If Governments in other countries remove any unnecessary bureaucracy and 'red tape' it would be easier and faster for Irish firms to develop new markets and products abroad.

7. Education and skills

Some multinational companies have been critical of the Irish education system and our emphasis on rote learning. This may result in a workforce that does not have the problem solving skills of other workforces that can be more innovative in creating goods/services. Also our ability to re-train the pool of workers available will be crucial to our future success.

8. Transport costs

As Ireland is an island nation transport costs can be significant when exporting goods from Ireland and must be incorporated into the final price. A rise in world oil prices means that Irish producers face a rising transport bill over which they have no control.

9. Language skills

Some multinational companies such as Intel have stated that we should improve our language skills such as Chinese so that we can take better advantage of emerging markets in Asia.

4 points at 5 marks (2+3) each

Q8 Unemployment / National Debt / Ageing population

- (a) ‘The rate of unemployment among 15-24 year olds in Ireland has increased by 74% between 2006 and 2011’ (*Profile 3 At Work*, Central Statistics Office, July 2012).
- (i) Explain **three** economic consequences of a high rate of youth unemployment on the Irish economy.
- (ii) Discuss **three** measures which the Irish government may introduce to reduce the problem of youth unemployment. (30)

- (i) Explain **three** economic consequences of a high rate of youth unemployment on the Irish economy.

Statement	Explanation
Increased government (current) expenditure	The government will have to fund a higher social welfare bill.
Reduced government (current) revenue	With fewer people working the government will collect less in both direct and indirect tax revenue.
Loss on return on investment in education ‘Lost generation’	With young people not contributing to society the state loses out on the taxpayers’ investment in their education.
Emigration	With less job opportunities available some people who are able may consider emigrating if job opportunities exist elsewhere.
Social costs to society	Crime, vandalism and anti-social behaviour may increase among young people who are bored and have no stake in society. This could increase policing costs for the government.
Increased demand for places in third level	With employment prospects poor those who had not availed of third level education may now seek that opportunity putting pressure on the resources of both the colleges and the state (for finance).
Less incentive for businesses to invest	As there is less demand for goods and services by people on lower incomes businesses may be less willing to invest resulting in reduced output.

3 points at 5 marks (2+3) each

- (ii) Discuss **three** measures which the Irish government may introduce to reduce the problem of youth unemployment.

1. Provide more opportunities for education / training

Universities / ITs/ Solas could ensure that good quality education and skills training is provided to meet the demands of certain growth sectors in the economy.

2. Subsidised work placements/internships

The government could give a welfare ‘top-up’ to individuals willing to do work experience and offer placements with companies to develop their skills and experience.

3. Lower PRSI contributions

For those businesses which take on and train additional young workers the government could reduce the employer’s PRSI.

4. Reduce the minimum wage

This will reduce costs for businesses and may encourage them to hire extra workers.

5. Healthy banking sector

Make sure Irish banks are adequately capitalised and are able to lend to businesses encouraging more employment in businesses in the economy.

6. More school based vocational training

Review the curriculum at second level to reflect the current / future needs of the labour market and thus help address the labour shortages.

7. Policies to encourage geographical mobility

This may allow young people to take up work in other geographical locations thus increasing employment e.g. subsidised accommodation; travel expenses.

8. Reduce costs for business including payroll and other taxes

The government could, through regulation, force those firms supplying utilities to reduce their prices. This could reduce the costs for businesses, which may lead to a reduction in prices.

Demand may increase resulting in an increase demand for labour. This may help decrease export prices thereby increasing aggregate demand, resulting in employment.

9. Reduce rates of social welfare for ‘young’ unemployed

The differential between the social welfare rate and the wage rate will then be increased and this may encourage more young people into the labour market.

3 points at 5 marks (2+3) each

(b) 'Ireland's National Debt was €137.6bn at the end of December 2012'. (NTMA)

- (i) Discuss the disadvantages for Ireland of having a high National Debt.
- (ii) Outline **two** means by which Ireland's National Debt may be made more sustainable. (30)

(i) Discuss the disadvantages for Ireland of having a high National Debt.

1. Opportunity costs involved / loss of public services

With more funds being used to meet our annual interest repayments the government has less funds available for other purposes. The government has cut spending on public services, resulting in deterioration in provision of some services e.g. the health service; education service

2. Increased burden on current and future taxpayers

The increase will mean that the government will have to consider increasing future taxes on future taxpayers.

3. Annual interest repayments

The increasing national debt means that the annual cost of repaying our national debt is rising. Interest payments are payments for past consumption and they are made at the expense of current consumption.

4. Loss of economic sovereignty / intervention of Troika

When a country cannot fund itself it can apply to external bodies, such as the IMF, for funding. However to get the funding a country has to accept conditions as specified by the external bodies.

5. Reduction in our international credit rating

High debt means that credit ratings will be affected. This will have an impact on the ability of the Irish Government to get private external funding in the bond market.

6. Sale of semi-state bodies

The current government is committed to the privatisation of some state companies and to use the revenue to reduce our debt. This is in line with Troika requirements.

3 points at 6 marks (3+3) each

(ii) Outline **two** means by which Ireland's National Debt may be made more sustainable.

1. Debt write off

Many commentators agree that Irish Debt levels are unsustainable and some of it must be written off in order for the economy to grow into the future.

2. Negotiate Lower interest rates

NTMA should try to ensure that the annual interest repayments are less costly for the country.

3. Negotiate a longer time repayment period

This would reduce the annual interest repayments and may make the National Debt more sustainable.

4. Ensure debt is 'self-liquidating'

The government must ensure the funds are used to generate revenue that helps to repay the debt rather than the debt being 'deadweight'.

5. Encourage Economic growth

The government could encourage aggregate demand which would be a source of additional income for people and subsequent additional tax/income for the government. With the increase in the government's current income the national debt would be easier to repay/could be repaid in increased instalments, which would leave the debt more sustainable.

2 points at 6 marks (3+3) each

- (c) Ireland, in common with many developed countries, is facing the challenges of an ageing population. Discuss the possible economic consequences of an ageing population for the Irish economy. (15)

1. Pressure on provision of state pensions

The government must encourage individuals through tax incentives to avail of private pensions in order to reduce the pressure on the government to provide state pensions.

2. Possible increased tax burden

With larger numbers of people over 65 the dependency ratio may increase, resulting in the need for higher taxes on the workforce to fund services for older people.

3. Increased government expenditure

The government may spend a greater proportion of its revenue on the provision of services for the elderly such as; medical care, free transport, nursing homes.

4. Changing pattern of demand

Demand for those goods and services required by older people will increase e.g. nursing homes; medication etc.

5. The participation rate falls

As more people reach retirement age, the supply of labour may be affected. Some may wish to work part-time. Some may retire.

6. Reduced mobility of labour

As people get older they are less like to move to a different location in search of work.

3 points at 5 marks (2+3) each

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