



Coimisiún na Scrúduithe Stáit  
State Examinations Commission

**LEAVING CERTIFICATE 2009**

**MARKING SCHEME**

**AGRICULTURAL ECONOMICS**

**ORDINARY LEVEL**



**LEAVING CERTIFICATE 2009**  
**AGRICULTURAL ECONOMICS**  
**ORDINARY LEVEL**  
**SUPPORT NOTES**

Marking Scheme and Support Notes for use with the Marking Scheme

In considering the marking scheme the following points should be noted:

- The support notes presented are not exclusive or definitive.
- They are support notes and not model or suggested answers.
- Further relevant points of information presented by candidates are marked and rewarded on their merits.
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.

## **PART I (120 Marks)**

20 QUESTIONS - 15 QUESTIONS TO ANSWER.

ALL QUESTIONS CARRY EQUAL MARKS (8 MARKS)

### **Outline Marking Scheme**

<b>1.</b>	2 @ 4 marks each	<b>11.</b>	2 @ 4 marks each
<b>2.</b>	2 @ 4 marks each	<b>12.</b>	8 marks
<b>3.</b>	3 + 3 + 2 marks	<b>13.</b>	8 marks
<b>4.</b>	8 marks	<b>14.</b>	8 marks (4 m + 4 m)
<b>5.</b>	2 @ 4 marks each	<b>15.</b>	3 + 3 + 2 marks
<b>6.</b>	8 marks	<b>16.</b>	8 marks (4 m + 4 m)
<b>7.</b>	3 + 3 + 2 marks	<b>17.</b>	2 @ 4 marks each
<b>8.</b>	8 marks (4 m + 4 m)	<b>18.</b>	8 marks (4 m + 4 m)
<b>9.</b>	8 marks	<b>19.</b>	8 marks (4 m + 4 m)
<b>10.</b>	8 marks (4 m + 4 m)	<b>20.</b>	2 @ 4 marks each

## **PART II (200 Marks)**

6 QUESTIONS - 4 QUESTIONS TO ANSWER AT 50 MARKS EACH.

1. (a) Explanation of 'Marketing' 10 marks each (5 m + 5 m) 10
- (b) Two explanations @ 10 marks each (5 m + 5 m) 20
- (c) Two methods @ 10 marks each (5 m + 5 m) 20

**[50 marks]**

2. (a) (i) Explanations 2 @ 6 marks (3 m + 3 m)
- (ii) Payments 4 @ 3 marks
- (iii) Explanations 8 marks (4 m + 4 m) 32
- (b) Three implications @ 6 marks each 18

**[50 marks]**

3. Distinguish between each of four pairs:

- (a) Viable & non-viable farmers 13 marks (7 m + 6 m) 13
- (b) Two types of inflation 13 marks (7 m + 6 m) 13
- (c) Two types of loan 12 marks (6 m + 6 m) 12
- (d) Two types of tax 12 marks (6 m + 6 m) 12

**[50 marks]**

<b>4. (a)</b>	Matching of diagrams	3 @ 10 marks (4 m + 6 m)	30
<b>(b)</b>	(i) Factors	2 @ 4 marks each	
	(iii) Explanations	2 @ 3 marks	
	Diagrams	2 @ 3 marks	20
			<b>[50 marks]</b>

**5.** World Trade Organisation talks:

<b>(a)</b>	Impact on Irish farmers	18 marks (10 m + 4 m + 4 m)	18
<b>(b)</b>	Impact on Irish consumers	18 marks (10 m + 4 m + 4 m)	18
<b>(c)</b>	Impact on EU agriculture	14 marks (10 m + 4 m)	14
			<b>[50 marks]</b>

<b>6. (a)</b>	(i) Two reasons for cash flow budget @ 6 marks each		
	(ii) Source of income	6 marks	
	(iii) Explanation	12 marks (6 m + 6 m)	30
<b>(b)</b>	(i) Explanation	6 marks	
	Reason	6 marks	
	(ii) Explanation	8 marks (4 m + 4 m)	20
			<b>[50 marks]</b>

# Agricultural Economics – Ordinary Level

## Support Notes

Answer **fifteen** questions.

1. Name **two** organisations which promote the interest of Irish farmers:

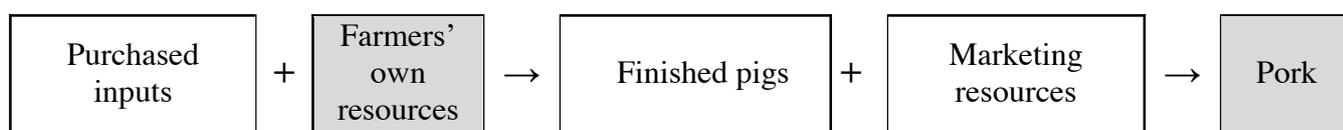
IFA: ICMSA: ICOSA

2. State **two** advantages of agricultural exports for the Irish economy:

Employment creation  
Earn foreign currencies

Greater income for farmers/Bigger market  
Economies of scale

3. Complete the food chain for pork in the spaces provided:



4. The net worth on a farm balance sheet equals Total Assets minus **Total Liabilities**.

5. State **two** services provided by Teagasc to Irish farmers:

Research services: Advisory Services: Training/Education Services

6. The following figures are from the books of a farmer's accounts on 31 December 2008:  
Fixed Assets €250,000 Current Assets €100,000 Liquid Assets €40,000 Current Liabilities €20,000.  
From the above figures, calculate the Liquidity Ratio.

**Liquidity Ratio** = 2:1      Liquid Assets / Current Liabilities = 40,000 / 20,000

7. Fill in the **three** missing Ps of the marketing mix in the spaces provided:

<b>PRODUCT</b>	<b>PRICE</b>	<b>PROMOTION</b>	<b>PLACE</b>
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8. Explain why grants are available to Irish farmers under the Bio Energy Scheme.

To encourage the production of biomass suitable for use as a renewable source of energy.  
To encourage the growing of willow and miscanthus.

9. Approximately 42% of Irish farmers are part-time farmers.

10. Complete the following sentence:

Gross Margin minus **Fixed Costs** equals Family Farm Income.

11. What factors would today's consumer consider when purchasing agricultural food products?

Food that is safe, traceable, readily available, convenient, good quality, value for money, healthy.

12. State the Factor of Production which earns a wage: **Labour**

13. The estimated value of agricultural output in Ireland is: (Tick appropriate box)

€1.7 bn  €3.7 bn  €5.7 bn

14. Explain the term '**Depreciation**' in a farmer's accounts.

The proportion of capital needed to replace outworn assets such as machinery and equipment.  
The reduction in value of agricultural fixed assets (e.g. Machinery) due to wear and tear.

15. Indicate whether the following are Competing Products or Joint Products:

(i)	Mutton and wool	<b>Joint Products</b>
(ii)	Wheat and barley	<b>Competing Products</b>
(iii)	Grain and straw	<b>Joint Products</b>

16. In the agricultural industry, the actions of an individual farmer cannot affect market prices.

As a result, the individual farmer is said to be a **price taker**.

17. State **two** factors which make it difficult for farmers to borrow in the current economic environment:

Credit crunch/ Banks reluctant to loan  
Repayment capacity may be limited.  
Repayments could limit cash flow  
Interest rates could fluctuate  
Falling value of land

18. Explain the term Super Levy with reference to milk production

Super Levy is the fine imposed on milk producers when the national milk quota is exceeded.

19. What is the **Disadvantaged Area Scheme**?

This is an EU transfer payment made to farmers to compensate them for poorer quality land.

20. State **two** effects of the recent fall in the value of Sterling (£) on Irish agriculture.

Irish agricultural products more costly in the UK / UK agricultural products cheaper in Ireland  
Reduction in demand for Irish agricultural products in UK  
Reduction in exports to UK / Increase in imports from UK  
Less income for farmers due to high dependence on UK market for Irish exports.

## PART II (200 marks)

### Support Notes

1. (a) **Explain what is meant by the term 'Marketing'.**

**Marketing** is the process of identifying customer demand and satisfying it profitably. The primary focus of marketing is the customer. For the farmer, the immediate customer is the processor and the ultimate customer is the consumer, via the processor and distributor.

(b) **Marketing efficiency in agriculture is restricted by the following characteristics of the industry**

(i) **the structure of farming and**

(ii) **the nature of the products.**

**Explain how each of the above characteristics restricts Marketing.**

(i) The structure of farming in Ireland: Large number of relatively small units. This means that the farmer has weak bargaining power against the large and more powerful industries with which s/he has to deal.

Little control over the price paid for inputs and the price received for products.

(ii) Most products supplied by farmers are bulky, so that transport and storage costs are high. For this reason the agricultural processing industries tend to be located near their source of supply rather than the markets. The perishable nature of most agricultural products means that timelines are critical. They must be sold fresh or else processed quickly after harvesting to avoid deterioration and loss.

(c) **Explain two methods which farmers could use to overcome these restrictions.**

Contractual agreements: farmers may enter into a contractual agreement with a buyer before setting out to produce a commodity. Vegetables would be a good example. Contracts have the advantage of providing a guaranteed outlet for the farmer's product so that s/he is not dependent of the whims of the market. They may however be demanding in terms of quality required and the conditions of sale. Also, large price fluctuations from year to year make contracts in some commodities such as beef and potatoes a risky business for both sides.

Quasi-vertical integration: this involves linking two or more stages in the food chain to streamline the flow of produce. An example would be where bacon factories provide farmers with capital to produce pigs on contract. Irish farmers dislike integration as it may give too much control over production to people outside farming.

Co-operation – voluntary co-operatives where each member has one vote regardless of the number of shares held are common in Irish agriculture. The co-operative approach gives the farmer more control over the business and also a share in the profits.

2. (a) A beef farmer who wishes to expand his farm plans to rent some more land and buy extra livestock. He already has adequate buildings but will have additional spending on machinery, wages and feedstuffs.

(i) **Explain clearly Fixed Costs and Variable Costs in Farming:**

Fixed costs are the same whether the level of production is large or small.  
Variable costs change according to the level of production.

(ii) **State whether each of the four payments underlined above are examples of fixed costs or variable costs.**

Rent	Variable Cost
Buildings	Fixed Cost
Machinery	Fixed Cost
Feedstuffs	Variable Cost

(iii) **Some costs may be fixed for short periods up to a month but variable over a longer period such as a year. Explain, with an example, how this might happen.**

Hired labour would be an example. During harvesting the wages would be fixed for about a month, but then the hired labour can be let go for a number of months. This would make it a variable cost over a longer term such as a year.

(b) **Explain the implications of the recent increases in animal feed costs on Irish beef production.**

- Increased feed costs have resulted in increased costs of production.
- Price cost squeeze.
- Reduced margins unless price of finished product has increased / decreased profitability.
- Pressure on beef producers/ Shift from beef production
- Switching to lower-quality inputs

3. Distinguish between the items in **each** of the following pairs:

(i) **Viable and Non viable farmers;**

Viable farmers are those who are adaptive to changing economic and technical conditions.

Non viable farmers do not have either the ability or the resources to keep their farms modernised.

(ii) **Cost-push inflation and demand-pull inflation.**

The selling price increases to compensate the producer for an increase in the costs of production.

Cost-push inflation occurs when the owners of factors in the economy are able to force up the price of these resources. Examples: OPEC increasing the cost of oil/petroleum causes an increase in price of most products, due to their dependence on oil/petroleum in production and distribution.

Demand-pull inflation arises when demand is increasing in an economy faster than supply. It can happen when there is full employment and may lead to increased imports and/or increased prices for labour and capital. This, in turn, will lead to a general rise in the price of goods and services.

The economy cannot produce enough goods and services to meet demand.

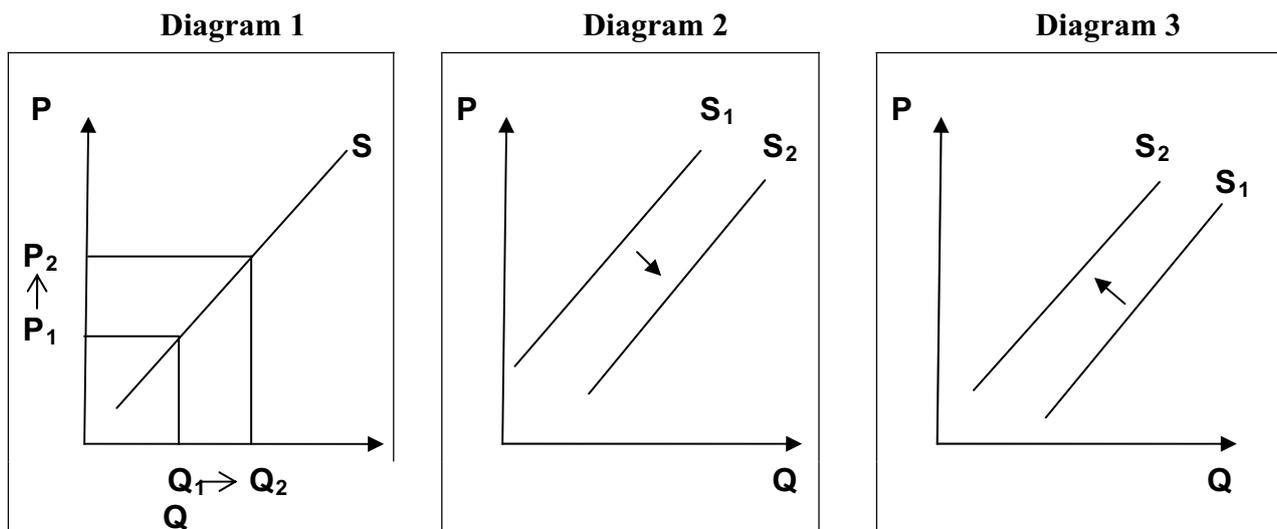
(iii) **A secured loan** is a loan in which the borrower pledges some asset (e.g. property) as collateral for the loan. In the event that the borrower defaults, the creditor takes possession of the asset used as security and may sell it to satisfy the debt. Secured loans are the most common form of credit.

**An unsecured loan** is a loan which is not backed by collateral. The integrity of the borrower would be good enough to satisfy the bank. A good credit rating would be necessary in order to obtain an unsecured loan. Such loans are usually of a short-term nature.

(iv) **Capital Gains Tax:** a financial charge imposed by the state on the profit made on the sale of an asset. The most common assets under this heading are stocks and shares, precious metals and property. The tax is imposed only if the selling price of the asset is higher than the purchase price. The standard rate of capital gains tax in Ireland is 20%.

**Value Added Tax:** this is an indirect tax on goods and services. It is applied at each stage of production. Producers and all others who add value to the goods collect the tax and pass on the cost to the next stage of production. It is the final consumer who ultimately pays all the VAT.

4. (a) The three diagrams below represent changes in the supply of barley.



- (a) Match each diagram with the appropriate development from the list above. In each case, explain why the supply reacts as illustrated on the diagram.

Diagram 1 - The market price of barley increases

More barley is supplied at the higher price as it is more profitable for the supplier to do so.

Diagram 2 - The cost of barley seed falls considerably

This reduces the cost of production and makes it more profitable to supply barley. More producers will enter the market resulting in an increase in supply. This shifts the whole supply curve to the right.

Diagram 3 - A very wet spring and summer

This causes a decrease in supply as it is not possible to grow as much barley in poor conditions. The yield at harvest time would be lower than in other years, shifting the supply curve to the left.

- (b) (i) State two other factors that might affect the supply of barley.

The price of other grain products;  
 Improved technology / technological progress;  
 EU regulations;  
 Cost of production of related commodities;  
 Husbandry improvement.

- (ii) Explain, with the aid of diagrams, how each of these factors affect supply.

Two explanations      3 marks each  
 Two diagrams          3 marks each

5. The recent *World Trade Organisation* talks sought to increase the level of food imports from non EU countries.

Explain the impact of this possible change in policy on:

**(a) Irish farmers**

Cheaper imports from non EU countries will compete with Irish products. Less demand for Irish products. Reduced returns. Volatility in prices. Reduced/volatile income for Irish farmers.

**(b) Irish consumers**

Wider variety, greater volume of goods. Increased competition. Reduced costs and greater choice for limited income. Concern about traceability standards.

**(c) EU agriculture.**

EU agriculture will have to compete with imports from non EU countries. Less demand for Irish products. Reduced returns. Reduced income for Irish farmers

6. (a) (i) **State two reasons why a farmer would prepare a cash flow budget.**

- It enables a farmer to plan ahead financially
- It can test the financial feasibility of the farm
- It can be monitored to see if the plan is working out
- It provides information on the farm's liquidity

- (ii) **What is the main source of income for the above farm?**

Milk, Dairy

- (iii) **Explain 'Single Farm Payment' as shown in the Cash Flow Budget above.**

The SFP is paid to farmers who farm according to EU environmental and welfare standards (good agricultural practice). It is a receipt in the farmer's accounts.

- (b) (i) **State which quarter will be the most difficult for the farm. Explain clearly the reason for your answer.**

APRIL-JUNE: Payments larger than Receipts in this Quarter

**Reason:** Large spending on Machinery & Equipment

- (ii) **Explain how the farmer could overcome this difficulty.**

- Postpone purchases of some of the equipment until July-Sept as receipts will be high enough then.
- Short term borrowing / Lease.



## Coimisiún na Scrúduithe Stáit

### *Marcanna Breise as ucht freagairt trí Ghaeilge*

Léiríonn an tábla thíos an méid marcanna breise ba chóir a bhronnadh ar iarrthóirí a ghnóthaíonn níos mó ná 75% d'iomlán na marcanna.

N.B. Ba chóir marcanna de réir an ghnáthráta a bhronnadh ar iarrthóirí nach ghnóthaíonn níos mó ná 75% d'iomlán na marcanna don scrúdú. Ba chóir freisin an marc bónais sin a **shlánú síos**.

### *Tábla 320 @ 10%*

Bain úsáid as an tábla seo i gcás na n-ábhar a bhfuil 320 marc san iomlán ag gabháil leo agus inarb é 10% gnáthráta an bhónais.

Bain úsáid as an ghnáthráta i gcás 240 marc agus faoina bhun sin. Os cionn an mharc sin, féach an tábla thíos.

Bunmharc	Marc Bónais
241 - 243	23
244 - 246	22
247 - 250	21
251 - 253	20
254 - 256	19
257 - 260	18
261 - 263	17
264 - 266	16
267 - 270	15
271 - 273	14
274 - 276	13
277 - 280	12

Bunmharc	Marc Bónais
281 - 283	11
284 - 286	10
287 - 290	9
291 - 293	8
294 - 296	7
297 - 300	6
301 - 303	5
304 - 306	4
307 - 310	3
311 - 313	2
314 - 316	1
317 - 320	0



