

Leaving Certificate Examination 2006

Ordinary Level

Agricultural Economics

<p>MARKING SCHEME and NOTES for use with the Marking Scheme</p>

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

- In many instances only key words are given i.e. these words must appear in the correct context in the candidate's answer in order to merit the assigned marks.
- The descriptions, methods and definitions in the scheme are **not** exclusive or definitive and alternative valid answers are acceptable.
- 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.

STATE EXAMINATIONS COMMISSION

AGRICULTURAL ECONOMICS –ORDINARY LEVEL

OUTLINE MARKING SCHEME

PART ONE (120 MARKS)

Q1. 2 X 4 marks	Q2. 1 x 8 marks	Q3. 1 x 8 marks	Q4. 1 x 8 marks
Q5. 1 X 8 marks	Q6. 2 x 4 marks	Q7. 1 x 8 marks	Q8 1 x 8 marks
Q9. 1 x 8 marks	Q10. 1 x 8 marks	Q11. 1x8 marks	Q12.1x8 marks
Q13.1x8 marks	Q14. 1x8 marks	Q15. 1x8marks	Q16.1x8 marks
Q17.2x4 marks	Q18.1x8 marks	Q19. 1x8 marks	Q20. 1x8 marks

PART TWO (200 MARKS)

Question 1 (a) 3 x 10 marks graded
(b) 2 x 10 marks graded

Question 2 (a) 4 x 3 marks
(b) 4 x 3 marks
(c) 2x3 +6 marks
(d) 2 x7 marks

Question 3 (a) 14 + 7 + 9 marks
(b) 4 x 5 marks

Question 4 (a) 7 + 6 marks
(b) 6 + 6 marks
(c) 7 + 6 marks
(d) 6 + 6 marks

Question 5. (a) (2 x 4) + (2 x 6) marks
(b) 2 x 6 marks
(c) 1 x 8 marks
(d) 2 x 5 marks graded

Question 6. (a) 2 x 15 marks graded
(b) 2 x 10 marks graded

AGRICULTURAL ECONOMICS 2006

ORDINARY LEVEL

MARKING SCHEME

PART I (120 marks)

All questions carry equal marks (8 marks).

1. (i) Purchased inputs
(ii) Farmers own resources
(iii) Agricultural output
(iv) Processing
(v) Exports
(vi) Distribution
(vii) Imports ANY 2 X 4 marks

2. Land - 10 % of land is rented /90 % is owned
Labour - 10% is hired /90% is family
Capital - 10% is borrowed / 90% is owned ANY 1 X 8 marks

3. Depreciation 8 marks

4. (i) Seasonality of milk supplies
(ii) Necessity to have facilities to produce a range of products ANY 1 X 8 marks

5. Fertilisers / Lime / Seed / Sprays / Feed/ Medicine/ Electricity/ Telephone etc.
ANY 1 X 8 marks

6. Capital for labour 2 x 4 marks

7. (i) Diversification;
(ii) Selecting enterprises with stable prices;
(iii) Forming contracts with purchasers. ANY 1 X 8 marks

8. (i) Changes in the population
(ii) Changes in real incomes ANY 1 X 8 marks

9. Marginal Physical Product 8 marks

10. Consumer Price Index 8 marks

- 11.** (i) Income from employment outside of farming;
(ii) Transfer payments. 8 marks
- 12.** (i) Ability to borrow against the security of the property;
(ii) Ability to sell or lease some of the property if necessary;
(iii) Possibility of capital gains;
(iv) Insurance value of knowing that much of the earning capacity of the property will survive the death of the owner
ANY 1 X 8 marks
- 13.** (1) Capital Acquisition Tax
(2) Capital Gains Tax
ANY 1 x 8 marks
- 14.** Current Liabilities 8 marks
- 15.** To estimate the proportions of actual consumer expenditure on various items, so that these can be used as weightings in calculating the Consumer Price Index. 8 marks
- 16.** EU grouping of farmers' organizations from member states which seek to protect farmers' interests at EU level. 1 x 8 marks
- 17.** (i) To provide advice and information to farmers/research;
(ii) To provide agricultural education for young people about to enter farming;
(iii) To produce REPs plans. ANY 2 x 4 marks
- 18.** (i) Levies collected on agricultural imports;
(ii) Tariffs on non-agricultural imports;
(iii) Value Added Tax levied uniformly throughout the member states;
ANY 1 x 8 marks
- 19.** (i) To receive extra income from the government;
(ii) To receive funds to improve their farms;
(iii) To conserve the rural environment ANY 1 x 8 marks
- 20.** (i) High labour costs/ Less labour availability;
(ii) High inflation/land prices;
(iii) Less demand for food products;
(v) New road networks disrupting farming activities;
(vi) High price of food. ANY 1 x 8 marks

AGRICULTURAL ECONOMICS 2006
ORDINARY LEVEL

MARKING SCHEME

QUESTION 1 (50 Marks)

(a) (i) The Structure of farming

i.e. a large number of relatively small units

EXPLANATION: The farmer has to deal with large and powerful industries, e.g. processors, suppliers etc.

Therefore the farmer has little control over the prices he pays for his inputs and the prices he receives for his products.

10 marks graded

(ii) The Dispersal of Farming geographically

i.e. Farms are spread throughout the country

EXPLANATION: Assembly and grading of produce is difficult because consumers and processors demand very high standards / lack of uniform standards.

Provision of market information to many scattered individuals is a problem. This information is necessary for the farmer to meet market requirements.

10 marks graded

(iii) The bulky and perishable nature of agricultural products

EXPLANATION: Most agricultural products are bulky so transport and storage is expensive.

The perishable nature of most agricultural products means they must be sold fresh or processed quickly after harvest to avoid deterioration and loss.

10 marks graded

(b) Strategies to improve farmers' bargaining power

(i) Farmers could form a co-operative in order to have more bargaining power when dealing with large businesses.

(ii) Centralised marketing can provide countervailing power against big business and can lead to greater economies of scale and better control of supply than can marketing by a number of individual firms e.g. Bord Baine, Bord Bia etc.

(iii) Contractual agreements provide the farmer with a guaranteed outlet for his produce before he/she enters into an agreement with the buyer to produce a commodity.

(iv) Vertical integration involves linking two or more stages in the food chain to streamline the flow of produce, in keeping with market requirements.

ANY 2x 10 marks graded

QUESTION 2 (50 Marks)

(a) Horizontal Axis – Quantity
Vertical Axis - Price
Supply Curve
Demand Curve 12 marks

(b) Demand Curve – High Price ↔ Low Demand 3 marks
Low Price ↔ High Demand 3 marks

Supply Curve – High Price - High Supply 3 marks
Low Price - Low Supply 3 marks

(c) Equilibrium Price (P1) 3 marks
Equilibrium Quantity (Q1) 3 marks

At the equilibrium price the quantity supplied and quantity demanded are equal. 6 marks

(d) Reasons for shift in the Demand Curve to the Right

- (i) Change in consumers' purchasing power / real income
- (ii) Change in price of substitute commodity
- (iii) Change in taste and preferences of people
- (iv) Change in the number of consumers in the market

ANY 2 X 7 marks graded

QUESTION 3 (50 Marks)

(a) (i) Farm Output

=Sales less purchases: Milk =	€130,000	2m	
	Livestock €	65,000	2m
	Crops	<u>€ 8,000</u>	2m
		€203,000	1m
Less changes in inventories =	€-12,000	2m	
Plus household Consumption =	<u>€ 3,000</u>	2m	
Farm Output =	€194,000	3m	14 marks

(ii) Farm Gross Margin

= Farm Output	=	€194,000	2m	
Less variable costs =	<u>€ 72,000</u>	2m		
	€122,000	3m		7 marks

(iii) Family Farm Income

= Farm Output	=	€194,000	2m	
less variable costs =	€ 72,000	2m		
less fixed costs =	<u>€ 54,000</u>	2m		
	€ 68,000	3m		

OR

(iii) **Family Farm Income**

Farm Gross Margin	= €122,000	3m
Less Fixed Costs	= € 54,000	3m
	€ 68,000	3m

ANY 1X9 marks

(b) Examples of Fixed Costs: Permanent labour, rent, own machinery expenses, interest on borrowings etc
ANY 2 x 5 marks

Examples of Variable Costs: purchased feed, fertilizers, lime, purchased seeds, casual labour, hire of machinery etc
ANY 2 x 5 marks

QUESTION 4 (50 Marks)

(a) Factor Market – demand for resources, e.g. labour, when firms interacts with the supply of resources from households
7 marks

Product Market – demand for goods and services by households when they interact with the supply of goods and services from firms.
6 marks

(b) Competing Products e.g. wheat, barley. They can be substituted for each other depending on their relative profitability.
6 marks

Joint Products – products which are linked together in production e.g. wool and sheep meat.
6 marks

(c) Feed area – total adjusted area less area of crops sold and used in farm house plus an allowance for purchased concentrates etc.
7 marks

Forage Area – area of pasture, hay, silage, root and green crops fed to animals on a farm.
6 marks

(d) Viable farmers are those farmers who have a sufficient volume of production to earn satisfactory incomes with a moderate level of price supports.
6 marks

Non-viable farmers are farmers who, because of a deficiency of either physical or human resources, cannot earn a reasonable income under any farm policy that would be acceptable to society as a whole.
6 marks

QUESTION 5 (50 Marks)

(a) Horizontal Axis – Output 4 marks
Vertical Axis – Costs & revenue 4 marks

Marginal Cost Curve 6 marks

Marginal Revenue Curve 6 marks

(b) **Marginal cost** is the change in total costs per additional unit of output. 6 marks

Marginal Revenue is the change in total revenue per additional unit of output or the price of the product. 6 marks

(c) The most profitable level of output (Q_1) is where the two curves interact. 8 marks

(d) Less than Q_1 – profits can increase because the marginal cost is less than marginal revenue.

Greater than Q_1 – profits decrease because the marginal cost is greater than the marginal revenue.

It is profitable to expand so long as the price of the product is greater than its marginal cost. 10 marks graded

QUESTION 6 (50 Marks)

(a) **Probable effects on Irish Agriculture of the entry of new member states into the EU in recent years.**

- (i) More export markets;
- (ii) Increased sources of labour;
- (iii) More investment opportunities / Joint ventures;
- (iv) Less rural development funds /Less finance available;
- (v) New products on the market/niche markets.

ANY 2 points x15 marks graded

(b) **Recommendations of Agenda 2000**

- (i) Decoupling Direct Payments;
- (ii) Modulation funds for rural development;
- (iii) Increase in Area Aid. ANY 2 points x 10 marks graded