



Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2010

MARKING SCHEME

ECONOMICS

ORDINARY LEVEL

Ordinary Level Economics

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

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- The support notes presented are not exclusive or definitive.
- The support notes in many cases contain key phrases which must appear in the candidate's answer in order to merit the assigned marks.
- Further relevant points presented by candidates will be marked and rewarded on their merits.
- The detail required in any answer is determined by the context and the manner in which the question is asked, and by the number of marks assigned to the answer in the examination paper. Requirements and mark allocations may therefore vary from year to year.

SECTION A

1. What economic institutions do the following initials stand for?

- | | | | |
|-------------|------------|------------------------------------|------------------|
| (i) | IMF | International Monetary Fund | 4 + 2 + 2 |
| (ii) | WTO | World Trade Organisation | 4 + 2 + 2 |

(16 marks)

2. Many Irish citizens donate financial aid to organisations that assist citizens in less developed countries (LDCs). Name **one** organisation involved in this activity. State **one** economic measure, other than financial donations, that **Irish citizens** can take to improve economic activity in LDCs.

Organisation: **Goal / Concern / Trócaire / Red Cross / World Vision / Bóthar** etc.

8 marks

Measure:

1. Buy goods produced in LDCs (trade not aid)

This could result in more money flowing into LDCs thereby increasing their wealth.

2. Put pressure on governments in developed countries to change trading practices.

By exerting pressure on governments in the developed world, trade policies could change ensuring fairer treatment of LDCs.

3. Campaign for debt reduction.

Through campaigning highlight the importance of debt reduction in LDCs and thereby change public opinion/govt. policy.

4. Encourage multinationals to adopt fair trade and fair employment practices.

Citizens can, through various measures (e.g. boycotts of products), ensure that MNCs do not exploit the people or resources of LDCs.

5. Volunteer to work in a LDC.

Citizens could work in an LDC and provide a necessary service e.g. teach or build or provide healthcare etc.

6. Buy Fair Trade products

Citizens can help by buying 'fair trade' products which ensure higher prices for producers and hence a better standard of living for citizens in LDCs.

7. Donations other than financial aid.

Citizens could donate food, clothes, livestock etc so as to improve the standard of living of citizens in LDCs.

1 measure at 8 marks.

3. Name the market structure (Perfect Competition, Imperfect Competition or Monopoly) to which each statement below applies:

	STATEMENT	MARKET STRUCTURE
(i)	Product differentiation exists	Imperfect Competition
(ii)	Products are homogeneous/identical	Perfect Competition
(iii)	Firm has complete control over price or output	Monopoly

(16 marks)

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

4. Explain the term opportunity cost and give **one** example.

Explanation:

- **The cost of foregone alternatives.**
- **The cost of passing up the next best choice when making a decision.**

Any relevant example:

The opportunity cost of going to college is the money you would have earned if you took employment instead.

16 marks

(16 marks)

5. State **two** economic effects which an increasing level of unemployment may have on the Government's Current Budget Deficit.

1. **Social welfare payments** will increase resulting in an increase in the budget deficit.
2. **Increased expenditure on job promotion / training courses** by the government which increases the budget deficit.
3. **More staff may have to be employed in the government departments** to deal with the increase in the demand for their services e.g. Department of Social Welfare.
4. **Reduced income tax revenue** due to the fall in numbers employed.
5. **Reduced corporation tax revenue** due to the decline in economic activity in the state.
6. **Reduced indirect tax revenue** due to a reduction in spending.
7. **Increased government expenditure** on medical cards, rent allowance, school books etc.
8. **Government must find other sources of income** to cover extra costs of unemployment / or reduce expenditure in other areas.

(16 marks)

2 effects at 8 marks each.

6. Currently more people are availing of third-level education in Ireland. Outline **two** economic advantages of this development for the Irish economy.

1. **Future employment prospects for these citizens may improve.**
2. **Standard of living for these citizens may increase, resulting in increased economic growth.**
3. **Workforce becomes more highly skilled / more productive / businesses may become more efficient.**
4. **More educated workforce may help attract FDI / encourage entrepreneurship in Ireland.**
5. **More educated workforce may result in better / more enlightened decision making by government.**
6. **Towns / cities where 3rd level colleges are located may benefit from increased economic activity.**
7. **Opportunity costs: more people availing of third level education may result in a reduction in social welfare payments.**

(17 marks)

1st correct answer: 10 marks. 2nd correct answer: 7 marks.

7. The following items are either substitutes or complements for Mobile Phones. From the list below, identify which of the items are substitutes and which of the items are complements. Write your answers in the spaces provided.

Mobile Credit	e-mail	Landline Telephone	Mobile Ringtones & Apps
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Answer:

Substitutes for mobile phone	(1) e-mail	(2) Landline Telephone
Complements for mobile phone	(1) Mobile Credit	(2) Mobile Ringtones & Apps

(17 marks)

1st correct answer: 5 marks.
2nd, 3rd & 4th correct answer: 4 marks each.

8. Entrepreneurship is important in the development of an economy. Explain the underlined term and state **one** economic reason why entrepreneurship is important.

Explanation:

10 marks

Entrepreneurship is the risk undertaken by an individual in combining the other factors into a production unit to produce a product or provide a service in the hope of making a profit.

One reason why entrepreneurship is important

7 marks

1. Creates employment

Entrepreneurs need workers to produce goods/services.

2. Organises production

Entrepreneurs organise the other factors of production into production units.

3. Decides what commodities will be produced

Entrepreneurs decide which goods and services are going to be produced and in what quantities, by anticipating consumer demand.

4. Decides prices to be charged

Entrepreneurs decide what price to charge for their goods and services hoping there will be a demand at these price levels.

5. Encourages further investment

Entrepreneurs put both their money and skills into a business in the hope of making a profit and this may encourage further investment in the economy if successful.

6. Provides an outlet for savers funds

Entrepreneurs provide an investment outlet for savers funds, generating a return on savings.

7. Generates revenue for the government

Entrepreneurs help generate revenue for the government through taxation revenues.

8. May increase exports

If the goods produced are exported this will help improve the balance of payments position.

9. Creates wealth within the country / economic growth

Successful entrepreneurs create wealth which helps increase the standard of living.

(17 marks)

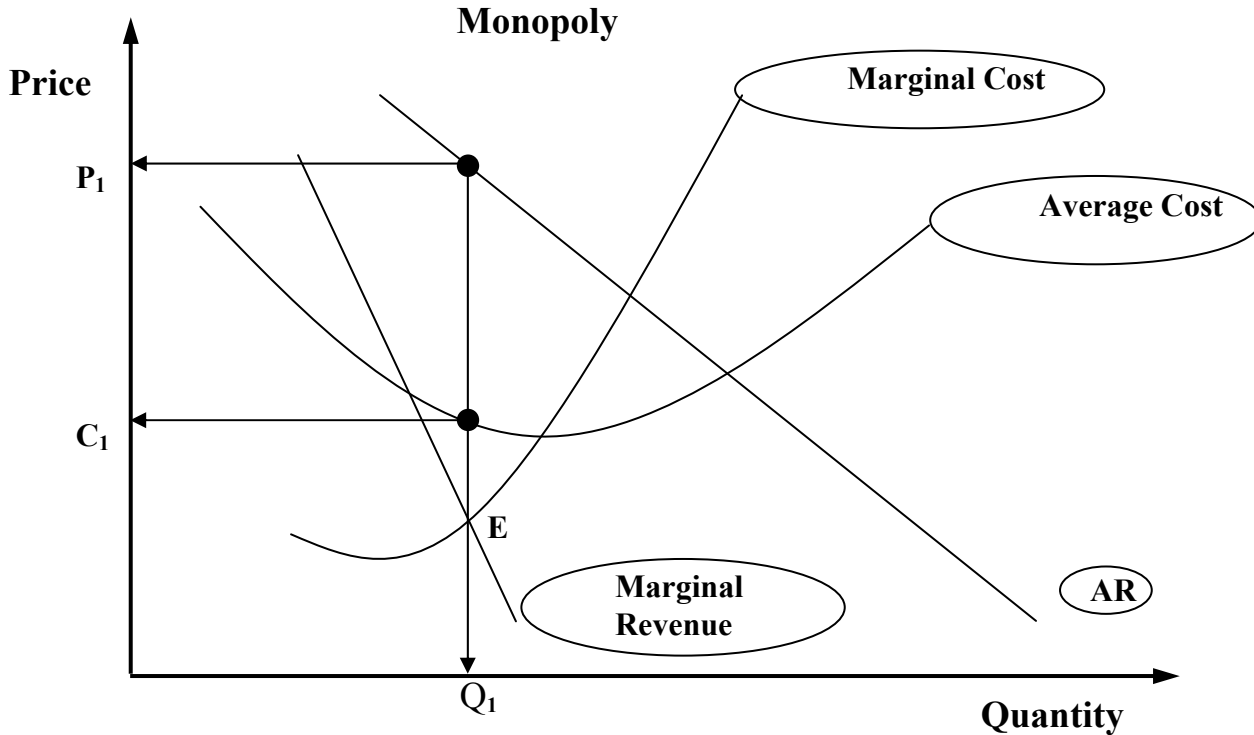
9. State **two** economic effects on the economy of the Republic of Ireland of an increasing number of shoppers travelling to Northern Ireland to shop (cross-border shopping).
1. **Taxation revenue falls** due to reduced VAT / Excise revenues to the Irish government.
 2. **Unemployment**: Job losses in the republic due to reduced spending and closure of some businesses.
 3. **More competitive pricing**: Retailers in the South may reduce prices in order to compete with retailers in Northern Ireland.
 4. **Taxation policy**: The Irish government may consider reducing VAT in the Republic of Ireland to reduce the price difference between North and South.
 5. **Increased imports** into the Republic resulting in an adverse effect on the balance of payments position / reduced circular flow of income within the country.
 6. **Closure of businesses / bankruptcy** due to decreased demand, sales and revenues.
 7. **Pressure to change government policies** by business organisations i.e. IBEC to change economic policies so as to reduce costs in the retail sector.

(17 marks)

17 marks

Q1 Monopoly

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



(a) Copy the diagram into your answerbook.

(i) Clearly label each of the lines numbered 1 to 3.

(ii) The above firm produces Q_1 . Show on your diagram:

- the price the firm will charge for Q_1 . (use label P_1)
- the average cost of producing this output. (use label C_1)

(21 marks)

No	Full Title	
1	Marginal Cost	4 marks (2 + 2)
2	Average Cost	4 marks (2 + 2)
3	Marginal Revenue	4 marks (2 + 2)

(ii) Show on your diagram:

- the price charged for this output (use label P_1)
- the average cost of producing this output (use label C_1)

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

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

- (b) Explain **each** of the following barriers to entry **and** illustrate your answer with an example in each case:
- Patents and Copyrights;
 - Legal monopolies/state monopolies;
 - Economies of scale.
- (24 marks)**

Explanation	Example
Patents and Copyrights	
A patent/ copyright confers the sole right on a business to a particular manufacturing process for a particular commodity.	<ul style="list-style-type: none"> • iPad; • Apple iPhone
Legal monopolies / state monopolies	
The government may grant to a company the sole right to supply a good or service so that there is a legal restriction on competition.	<ul style="list-style-type: none"> • Provision of bus services in Dublin City by Dublin Bus • An Post letter post • Iarnród Eireann
Economies of scale	
Arise where the largest supplier in an industry has a significant cost advantage over competitors because of its large size. It is unlikely that a potential competitor would be willing to make the capital investment needed to enter the monopolist's market.	<ul style="list-style-type: none"> • Gas pipeline. • Eircom: telephone lines. • ESB: Grid lines • Iarnrod Eireann: Train tracks

1st Correct explanation 12 marks
2nd and 3rd at 6 marks each

- (c) **An Post** is a monopoly firm in the delivery of 'letter-post'. The demand for letter-post is falling and some small rural post offices are being closed.
- (i) State and explain **two** advantages of **this** monopoly for consumers.
 - (ii) Explain **two** reasons for the falling demand for letter-post.
 - (iii) Discuss **two** effects of the closure of small rural post offices for the local economy. **(30 marks)**
- (i) State and explain **two** advantages of this monopoly for consumers.

1. Convenience

The post offices are spread throughout the country and are open six days a week which is very convenient for members of the public.

2. Relatively cheap cost of the service/ provision of unprofitable services

The cost of this service is relatively cheap at 55c per standard letter / letter post is delivered to all parts of the country even remote areas where it may be unprofitable to do so.

3. Range of services provided

A post office in a rural area ensures the provision of many essential services e.g. collection of state benefits; bill payments; facilities for savings; money transmission etc.

4. Banking services in areas where no banks operate.

People can use their AIB bank account in the post office where AIB does not have a branch.

5. Social benefits

Delivery of post means that people who are housebound will have contact with an individual thereby ensuring their wellbeing. The local post office provides a meeting place for people.

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

- (ii) Explain two reasons for the falling demand for letter-post.

1. Change in the price of the good.

The increased cost of posting a letter has led to a reduction in demand by consumers.

2. Change in consumer tastes / fashion.

Shift to other forms of communication such as texting, phone calls e-mails & fax messages.

3. Change in price of substitutes.

The price of alternative means of communicating is relatively cheaper hence an increase in the use of texting; e-mails etc.

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

- (iii) Discuss **two** effects of the closure of small rural post offices for the local economy.

1. Loss of essential services.

The provision of essential services like the collection of state benefits; bill payments; facilities for savings; money transmission etc. is lost to the communities served by these post offices.

2. Loss of banking services.

People in these rural areas will no longer be able to avail of An Post banking services.

3. Increase in rural unemployment.

The people who operated these post offices will lose their jobs and other small business may be forced to close also due to lack of business.

4. Decline in rural communities.

The loss of essential services may mean that these communities are no longer viable making them less attractive places to live in. Also, with less economic activity taking place there are less opportunities for new businesses to develop.

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

Q2 Utility, Black Market and Hotel Accommodation

- (a) As consumers consume more units of a good their marginal utility will eventually fall.
- Explain the underlined term.
 - Suggest **one** good a person may consume which may **not** result in a fall in their marginal utility. Explain your answer.
 - Complete the following table in your answerbook. **State** at what point diminishing marginal utility sets in and **explain** your choice.

Number of units consumed	1	2	3	4	5	6
Total utility in units	10	35	75	95	110	115
Marginal utility in units	10	25	40	?	?	?

(25 marks)

- (i) Explain the underlined term:

7 marks

Marginal utility is the **extra utility** /satisfaction gained when you consume **one extra unit** of a good.

5 marks

2 marks

- (ii) Suggest **one** good a person may consume which may **not** result in a fall in their marginal utility. Explain your answer.

Commodity: Cigarettes / Alcohol / Medicines etc.

5 marks

Explanation:

- For addictive goods the consumer may get the same utility from each extra unit consumed.
- Medicine: each additional dose is as important as the previous one.
- For addictive goods larger and larger quantities may be required to 'fulfil the need' of the consumer.

Explanation: 3 marks

- (iii)

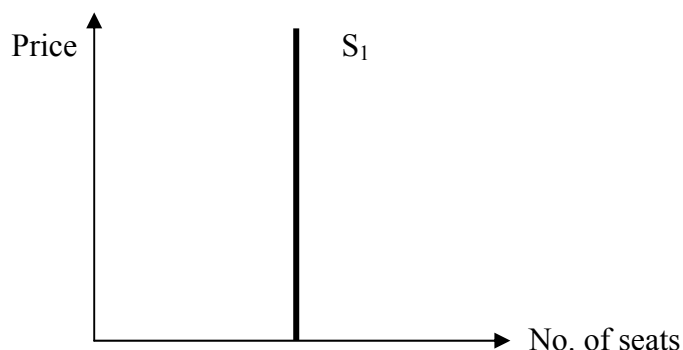
Number of units consumed	1	2	3	4	5	6
Total utility in units	10	35	75	95	110	115
Marginal utility in units	10	25	40	20	15	5

2 marks 2 marks 2 marks

- After the 3rd unit is consumed / on the consumption of the 4th unit**
2 marks
- On the consumption of the 4th unit the consumer's marginal utility has fallen from 40 units to 20 units.

Explanation: 2 marks

- (b) The diagram below represents the supply of seats for the Rihanna concert in the O₂ Stadium. After the tickets for the concert are sold a ‘black market’ may develop for the tickets.



- (i) Explain the underlined term.
 (ii) Explain the relationship between the price of tickets and the supply of seats, as shown in the diagram.
 (iii) Discuss **two** effects for potential ticket buyers if a ‘black market’ develops for the tickets. **(20 marks)**

- (i) Explain the underlined term.

A black market is:

6 marks

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

- (ii) Explain the relationship between the price of tickets and the supply of seats shown in the diagram.

As the price of tickets change the supply of seats remains unchanged / fixed.

6 marks

- (iii) Discuss **two** effects for potential ticket buyers if a ‘black market’ develops for the tickets.

1. It is likely that tickets will sell for a much higher price.
2. There is a possibility that the tickets could be ‘fake’ and so entry is prohibited to the concert.
3. Additional security procedures may be introduced to gain entry into the concert, thus preventing the entry of any holders of forged tickets.
4. Promoters, seeing that demand exceeds supply, may offer an extra date for another concert.

2 effects at 4 marks each = 8 marks.

- (c) The demand for hotel accommodation in Ireland has been decreasing.
- (i) State and explain **two** possible economic reasons for this development.
 - (ii) State and explain **two** economic effects of this development for the hotel industry.
 - (iii) Suggest **two** economic measures which the hotel industry could take to reverse this trend.
Explain **each** measure. **(30 marks)**

- (i) State and explain **two** possible economic reasons for this development.

Drop in incomes/ holidays a luxury item in an economic downturn.

Consumer incomes have fallen, resulting in reduced demand for hotel accommodation (luxury good).

Increase in savings.

Consumers are cautious about spending due to their fear for the future and so have reduced their spending.

Decline in foreign tourists / more expensive euro.

Less foreign tourists visiting Ireland due to the worldwide economic recession/the perceived high cost of living in Ireland and the increase in the value of euro relative to the US \$/£ sterling.

Economic recession

With reduced economic activity business activity is declining and this has resulted in a reduced demand for hotel accommodation for business conferences; meetings etc. Businesses may choose video conferencing rather than travelling to hotel venues for meetings.

Prices of alternatives.

Prices of guest houses, self catering and hostel accommodation may offer better value for money giving a cheaper alternative during a recession.

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

- (ii) State and explain **two** economic effects of this development for the hotel industry.

Lower revenues/ profits: with declining sales profits have fallen for existing hotels.

Closures: some hotels, unable to cover costs, have closed temporarily or permanently. Some hotels are experiencing a decline in their flow of income.

Rising Unemployment: reduced sales means fewer workers are required, resulting in job losses.

Lower prices: hotels are offering lower prices/special offers to attract consumers.

Loss making hotels: continue to trade because they are generating cash inflows to help repay loans borrowed for their development.

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

- (iii) Suggest **two** economic measures which the hotel industry could take to reverse this trend.

Reduce prices / Improve quality of services

By reducing the price of the accommodation packages available more people may consider booking hotel accommodation. Improve quality so that people feel they are getting better value for money.

Advertising / Promotion.

The industry could increase awareness of the available offers within the country. The industry could offer special promotions for different groups e.g. for senior citizens etc.

Broaden the range of services / link with other local amenities

Hotels could provide spa treatments; activities for children; special programmes targeting certain sectors i.e. holidays for single people etc. They could link with cruise providers, theatres etc to attract customers.

Target UK / Northern Irish consumers.

The Irish Tourist Board/Tourism Ireland may offer incentives for senior citizens to holiday in Ireland and so use hotel accommodation.

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

Q3 Demand and Price Elasticity

- (a) State and explain **four** factors which affect the demand for a good or service. **(20 marks)**

$$Q_A = f(P, P_{OG}, Y, T, E, G, U)$$

1. Price of the good itself.

Generally as the price of a good falls consumers will buy more of that good/they are getting better value for their money.

2. Price of complementary good.

If the price of a complementary good rises then demand for this good falls - e.g. an increase in the price of petrol will result in a drop in the demand for large cars.

3. Prices of substitute good.

If the price of a substitute good rises then demand for this good rises, as it has become relatively cheaper e.g. if the price of butter increases the demand for margarine will increase.

4. Income of the consumer.

For most goods as income rises the demand for them increases and vice versa e.g. smaller quantities of goods are bought when a person becomes unemployed.

5. The consumer's tastes / preference for a commodity.

When a commodity comes into fashion or into season there is an increase in the quantity demanded at each price. Advertising attempts to influence taste in favour of the good.

6. Expectations concerning future prices / availability of income.

If a consumer expects that future prices are likely to be greater than they are at present, then there will be an increase in the demand for the good at each price.

7. Government regulations.

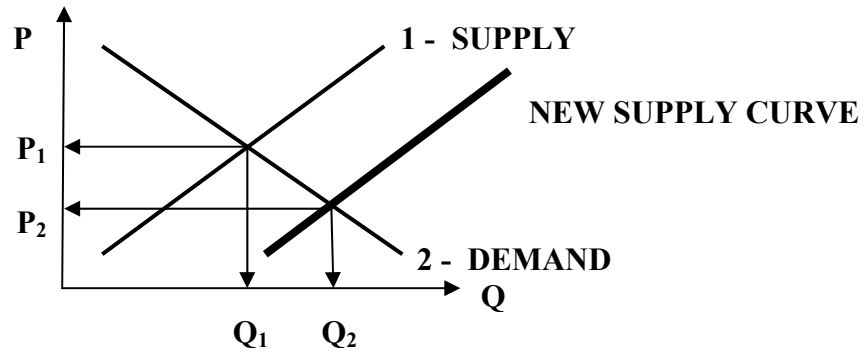
If the government initiates a programme to curtail consumption of a particular product then it may affect the demand for a good e.g. a health education campaign to curtail cigarette consumption.

8. Unplanned factors.

If there was a sudden heatwave this may result in an increase in the demand for suncream / icecream.

4 factors at 5 marks each. State: 2 marks each. Explain: 3 marks each.

(b) The diagram below represents the market demand and market supply for sugar beet.



Copy the diagram into your answerbook.

(i) Label each of the lines numbered 1 and 2. **2 at 3 marks each.**

(ii) Show on your diagram:

- The market equilibrium price (P_1) charged for sugar beet; **3 marks**
- The market equilibrium quantity (Q_1) sold on the market. **3 marks**

(iii) If the sugar beet producers received a subsidy, to encourage production of sugar beet as a bio fuel.

- Show and explain how this would affect the market supply curve;

New Labelled Supply Curve.

6 marks (3 marks + 3 marks)

This subsidy would **lower the costs of production for suppliers** and so **increase supply**

8 marks

- Show the effect this would have on the equilibrium price and equilibrium quantity. (use labels P_2 and Q_2)

New lower P_2 .

2 marks

New higher quantity supplied, Q_2 .

2 marks

(30 marks)

(c) Suppose the Price Elasticity of Demand (PED) for two goods was as follows:

iPhone: PED = - 3.8 Petrol: PED = - 0.5

If the price of each good was to increase by 10%:

(i) Which good will experience the greatest fall in quantity demanded? Explain your answer.

Answer: iPhones will experience the biggest fall in quantity demanded. **8 marks**

Explanation:

iPhone: **Qd will fall by $3.8 \times 10 = 38\%$** while the demand for petrol will only **fall by $0.5 \times 10 = 5\%$**

2 marks

2 marks

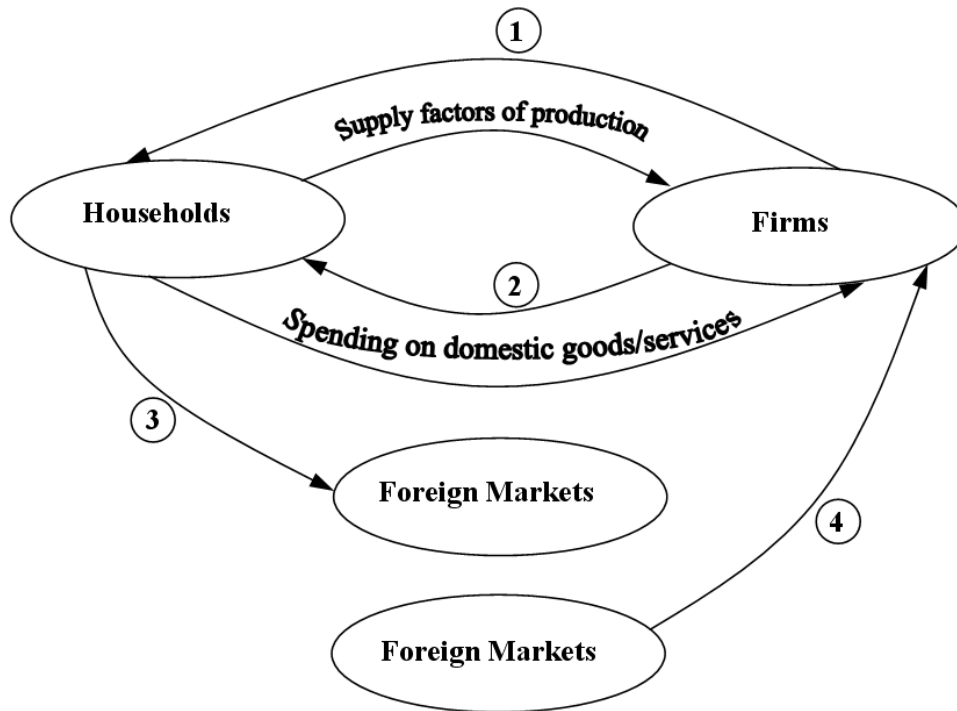
(ii) Which good would you consider a ‘luxury’ good and which would you consider a ‘necessity’? Explain your answers.

	Luxury good:	Necessity:
Answer	iPhone	Petrol
Explanation	<ul style="list-style-type: none"> • Luxury goods tend to be price elastic • When people’s income increase they tend to buy more of this good. 	<ul style="list-style-type: none"> • Necessities tend to be price inelastic • When people’s income fall they still tend to buy the good.

**First correct answer: 8 marks. State 6 marks. Explain 2 marks.
 Second correct answer: 5 marks. State 3 marks. Explain 2 marks.**

Q4 National Income and Emigration

(a) The diagram below represents the Circular Flow of Income in an open economy without Government.



(i) State clearly what each of the lines numbered 1 to 4 represents.

No.	Represents	Marks
1	Payment / for factors of production	3 marks: 2 marks + 1 mark (wages)
2	Supply /commodities or goods & services	3 marks: 2 marks + 1 mark
3	Imports	3 marks
4	Exports	3 marks

(ii) Referring to the diagram above, explain briefly the types of activities which take place between:

- households and firms;
- households and foreign markets;
- firms and foreign markets.

(25 marks)

Households and firms

Households: supply factors of production / labour (to firms) and in return receive an income.

or

Firms: supply commodities (goods & services) to households, who spend their income on these.

5 marks

Households and foreign markets

Households: spend part of their income buying imports (from foreign markets).

4 marks

Firms and foreign markets

Firms export some of their goods (to foreign markets) and receive income for these.

4 marks

(b) Given: **National Income as $Y = C + I + G + (X - M)$.**

(i) If National Income, without imports and exports, is €1,500m calculate national income if exports are €70m and imports are €100m. **Show your workings.**

(i) Calculate the level of National Income. **Show your workings.** **12 marks**

<p>WORKINGS</p> <p>$Y = €1,500m + X - M.$</p> <p>$€\underline{1,500m} + €\underline{70m} - €\underline{100m}$</p> <p>Each correct underlined component 2 mark = 10 marks.</p>	<p>ANSWER</p> <p>€1,470m</p> <p>2 marks</p>
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(ii) The economist John Maynard Keynes developed the concept of the Multiplier to help understand how an economy works. Explain, using an example, the underlined term.

(20 marks)

If the multiplier for an economy is 2 and there is an injection of €10m into the economy then national income will increase by €20m.

8 marks

(c) There is more emigration than immigration in Ireland at present.

- (i) Explain the two underlined terms.
- (ii) State and explain **two** reasons for the above situation.
- (iii) State and explain the possible economic effects which increased emigration may have on **each** of the following:
 - Irish Labour market;
 - Demand for State services.

(30 marks)

(i) Explain the two underlined terms.

Emigration	Immigration
Movement of Irish nationals (3) to reside elsewhere (2)	Movement of foreign nationals (3) to reside in Ireland (2)
5 marks	5 marks

(ii) State and explain **two** reasons for the above situation (emigration more than immigration).

1. Economic recession in Ireland.

This has resulted in increasing unemployment and with fewer job opportunities people are emigrating/ FDI is relocating to low cost economies.

2. Wage rates in Ireland.

Wage rates in Ireland are falling. This means that the standard of living is declining and so people are seeking a better standard of living abroad.

3. Prospects for economic recovery are poor.

Some people are concerned for the future and so are seeking job opportunities elsewhere.

4. Foreign nationals returning to their home countries.

With the decline in the economy many foreign nationals who came to Ireland for work in the boom period are now returning home because of the lack of employment opportunities and the high cost of living in Ireland.

5. Job opportunities abroad.

Those people who can are emigrating to find available jobs in those countries where vacancies exist e.g. Canada; Australia and London (construction jobs in UK in the run up to the 2012 Olympics).

6. Rising levels of taxation in Ireland.

The introduction of the various income levies have resulted in a reduced standard of living. Those people who are mobile may seek a higher standard of living abroad.

2 reasons at 5 marks each. State: 2 marks. Explain: 3 marks.

(iii) State and explain the possible economic effects which increased emigration may have on **each** of the following:

- Irish Labour market;
- Demand for State services.

	Statement	Explanation
Irish Labour market	<ul style="list-style-type: none"> • Decreases in size • Increased dependency ratio • Labour shortages may develop • Loss of skills 	<ul style="list-style-type: none"> • With increasing emigration the size/nature of the labour market will fall/change. • With increased emigration shortages of labour may develop in certain sectors resulting in raising wage levels to fill the shortages.
Demand for State services	<ul style="list-style-type: none"> • May decrease. 	<ul style="list-style-type: none"> • With less people living in Ireland the demand for all services provided by the state will decrease e.g. education, health, housing, state benefits etc.
2 x 5 marks	2 x 2 marks each	2 x 3 marks each.

Q5 Government finances and Taxation

(a) Explain the following terms:

- (i) Direct tax;
- (ii) Government Capital Spending;
- (iii) National debt.

(20 marks)

Term	Explanation
Direct tax	<ul style="list-style-type: none"> • a tax on incomes / property / wealth of people /of firms • a tax paid directly to the government
Government Capital Spending	<ul style="list-style-type: none"> • any outlay by government that provides long-term benefits/infrastructure
National debt	<ul style="list-style-type: none"> • this is the total amount of government borrowing not repaid to date

(7 marks +7 marks +6 marks)

(b) The economist Adam Smith developed the following Canons of Taxation as principles which could ensure a good taxation system.

EQUITY ECONOMY CERTAINTY CONVENIENCE

- (i) Explain **each** of the above canons of taxation.
- (ii) In addition to these canons discuss **one** further principle you would consider important to a good taxation system.

(25 marks)

(i) Explain **each** of the above canons of taxation.

Canon	Explanation
Equity	<p>The ability of each person to pay the tax must be taken into account</p> <p style="text-align: center;">or</p> <p>Takes a higher proportion of income in tax as income rises</p>
Economy	<p>the revenue collected should exceed the costs of collection</p> <p style="text-align: center;">or</p> <p>the costs of assessment and collection should be as low as possible.</p>
Certainty	the taxpayer/collector should know how much tax to pay / is to be collected
Convenience	<p>the tax should be collected in a way / manner which is convenient to the taxpayer.</p> <p style="text-align: center;">or</p> <p>the tax should be collected at a time which is convenient to the taxpayer.</p>
4 at 5 marks each per correct explanation 20 marks	

(ii) In addition to these canons discuss **one** further principle you would consider important to a good taxation system.

Principle	Explanation
Redistribution	The tax should help the government re-distribute the wealth of the country / achieve other economic objectives.
Evasion	It should be impossible to evade paying the tax.
Incentive to work/save	The tax should not act as a disincentive to work, save or invest.
Brain drain.	The tax rate should not be so high as to discourage people from working in Ireland.

5 marks

(c) Discuss the possible economic effects which the following proposals, if implemented, would have on the Irish Economy.

- (i) Introduction of third level college fees;
- (ii) Increase in the statutory retirement age from 65 to 68 years;
- (iii) Introduction of a household property tax.

(30 marks)

Proposal	Economic effects for the Irish economy
Third level college fees	<ul style="list-style-type: none"> • Current expenditure by government will decrease as it now would no longer have to pay for the fees. • As families now pay the fees this will reduce their disposable income and so spending falls resulting in a decrease in indirect tax revenue collected. • Some people may not now be able to attend college and have to rely on state benefits which will result in increased government current expenditure. • Less qualified people available to develop the smart economy. • Opportunity costs: government now has this money available for other uses / reduced borrowing. • Equity: those who can afford to do so can now pay for themselves. • With a reduction in skills the country may become a less attractive location for investment.
Increase in the statutory retirement age	<ul style="list-style-type: none"> • Government finances should improve as people will be paying tax for longer. • Will result in a reduction in the number of people seeking pensions and so reduce government current expenditure. • Less job vacancies for young people may mean that unemployment may increase and so this will increase government current expenditure. • With less job vacancies it may result in an increase in emigration.
Household property tax	<ul style="list-style-type: none"> • This should lead to an increase in government taxation revenue. • Disposable incomes will drop resulting in a reduction in spending and so less indirect tax revenue collected e.g. VAT / Excise duties. • May result in less people buying houses, so reduced demand leading to lower house prices and unemployment in the construction and related sectors. • Inequitable: may be regressive if ability to pay is not taken in to account. • Purchasing / speculation in the property market may decline resulting in Lower prices.

3 x 10 marks each: 2 distinct points at 5 marks each.

Q6 Banking and Interest Rates

(a) Explain the following terms:

- (i) Barter;
- (ii) Interest rate;
- (iii) Creditworthy customer.

(20 marks)

Term	Explanation
Barter	<ul style="list-style-type: none">• Swapping of one item for another.
Interest rate	<ul style="list-style-type: none">• the price of money / the cost of borrowing / the return on savings
Creditworthy customer	<ul style="list-style-type: none">• able to repay loans /other debts on time• showing that one can behave in a financially responsible way

(7 marks +7 marks + 6 marks)

(b) (i) Name **two** commercial banks operating in Ireland.

Allied Irish Banks	Bank of Ireland	Permanent TSB	Ulster Bank
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2 named banks at 3 marks each = 6 marks.

(ii) Discuss **two** main functions of commercial banks.

Savings Facilities

Commercial banks offer security for depositors' funds and pay interest on their savings.

Lending

A range of loans, overdrafts and mortgages are provided by commercial banks.

Operate cheque system/current accounts

They enable the business community and the general public to make payments by cheque/they provide an efficient clearing system for cheques.

24 Hour Banking

This service is operated through a variety of methods including ATM's, telephone banking and internet banking.

Computerised Transfer of Money/Automated Bill Payment

Included in the range of automated fund transfer facilities offered by commercial banks are standing orders, direct debits, credit transfers and pay-path.

Foreign Exchange

Commercial banks have a range of facilities which enable international traders and the public to make or receive payment in foreign currencies e.g. eurocheques, foreign currency.

2 functions at 5 marks each. State: 3 marks. Explain: 2marks.

(iii) Outline **one** economic reason why commercial banks should be regulated.

Protect consumers.

Regulation will ensure that the interests of the banks' consumers are protected and that savers' deposits are secure.

Proper lending policies.

Regulation will ensure that the banks follow correct lending procedures and that excessive/reckless lending is avoided.

Banking system stability.

Regulation will ensure that the banking system should remain stable.

Economic stability / confidence.

Proper regulation may ensure that the banks operate efficiently resulting in public confidence in the banking system / allow for the flow of credit and for economic growth of the economy. Prevent a "run on the banks" developing.

Less need for government intervention.

If the banks are properly regulated then there will be less need for the government to become involved as it has had to do with the guarantees for savers deposits; nationalisation of Anglo Irish Bank and the setting up of NAMA.

1 reason x 4 marks. State: 2 marks. Explain: 2 marks.

(c) The ECB decides the main interest rate within the euro zone.

(i) What do the initials ECB represent?

(ii) If the ECB was to increase interest rates, state and explain the effects this development could have on **each** of the following:

- Borrowers;
- Savers;
- Irish Economy.

(iii) State and explain **two** functions of the Central Bank of Ireland

(35 marks)

European Central Bank

10 marks

(ii)

Group	Statement	Explanation
Borrowers	Higher cost of borrowing	<ul style="list-style-type: none"> • The cost of borrowing would increase so more money is needed to meet repayments. • Disposable income would fall so the standard of living will fall. • Less people may be encouraged to borrow, resulting in a reduced standard of living/decline in business activity.
Savers	Higher returns	<ul style="list-style-type: none"> • Savers would earn a higher rate of return on their savings. • This may encourage people to save more.
Irish Economy	National Debt. Economic growth. Demand for wage increases.	<ul style="list-style-type: none"> • Cost of repaying interest on the National debt increases. • Less spending by consumers may result in reduced tax revenues for the government. With reduced revenue, spending by the government on services may fall. • Workers may demand wage increases to compensate for reduction in the standard of living. • Job losses may result in increased social welfare expenditure.
3 at 5 marks each. State: 3 marks. Explain: 2 marks.		

(iii) State and explain two Functions of the Central Bank of Ireland:

(a) Prints / Issues legal tender.

- The Central Bank has the sole authority to print and mint euro currency in Ireland.
- It distributes the euro through the financial institutions within Ireland.

(b) Governments Bank.

- All government revenues are paid into the central bank.
- All payments made by the government are taken out of the government's account in the bank.
- Keeps the government's accounts.

(c) Bankers' Bank.

- It acts as a Clearing House for the commercial banks who maintain accounts here.
- The Central Bank acts as lender of last resort.

(d) Regulator of Financial sector / Issues licences to financial institutions.

- It regulates the financial sector in Ireland including credit unions, building societies, the IFSC operations, etc.

(e) Official external reserves.

- These are this country's official holdings of gold, foreign currencies and other reserves held as security against the issue of the euro.
- The Central Bank manages these reserves on behalf of the country.

(f) Maintain Price Stability.

The key role which the Central Bank plays is to maintain price stability through the ECBs monetary policy operations so as to ensure competitiveness within the EU.

(g) Provides Consumer Information / Economic Research – Central Bank Reports.

- The Central Bank regularly provides information on all aspects of the economy through its Central Bank reports and provision of statistics relating to the Irish economy.
- It also conducts research on various matters concerning the economy.

(h) Implements EU monetary policy

- The Central Bank, on behalf of the ECB, implements the base interest rate in the economy. It monitors money supply and the availability of credit in Ireland.

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

Q7 Deflation, Savings and Smuggling

Consumer prices fell at an annual rate of 6.6% in October 2009, according to figures issued by the CSO.

- (a) (i) What do the initials CSO represent?
 (ii) State the economic term used for the situation underlined above.
 (iii) Discuss the effects which the above development may have for **each** of the following:
- People in receipt of social welfare;
 - Savers;
 - Employees.
- (25 marks)**

- (i) What do the initials CSO represent?

Central Statistics Office

6 marks

- (ii) State the economic term used for the situation underlined above.

Deflation

4 marks

- (iii) Discuss the effects which the above development may have for **each** of the following:
 - People in receipt of social welfare; - Savers; - Employees.

Group	Statement	Explanation
Social Welfare Recipients	Lower cost of living Improved standard of living	<ul style="list-style-type: none"> • The cost of living would decrease with lower prices. • Purchasing power would increase so the standard of living will rise/ fixed incomes will buy more goods/services. • Government may reduce rates of social welfare in an effort to save money.
Savers	Increased rate of return Increased savings	<ul style="list-style-type: none"> • Savers would earn a higher real rate of return on their savings. • People would have more disposable income and this may encourage people to save more.
Employees	Increased disposable income/ higher standard of living. Reduced wage demands. Discourage spending	<ul style="list-style-type: none"> • Deflation may discourage spending which reduces demand and may result in job losses. • With more disposable income the employees' standard of living may rise. • Employees may now moderate their demands for wage increases / less industrial unrest. • Employees may increase spending and this may lead to increased demand and increased employment.

3 at 5 marks each: 3 marks + 2marks.

- (b) Savings within the Irish economy are increasing.
- (i) Explain the underlined term.
 - (ii) Discuss **one** reason for this development.
 - (iii) State and explain **two** possible economic reasons why an increase in consumer spending, rather than saving, may be better for the Irish economy. **(20 marks)**

- (i) Explain the underlined term.

Savings means not spending part of your income / money

8 marks

- (ii) Discuss **one** reason for this development.

Consumers behaving cautiously

Due to the economic recession people are pessimistic about the future. This pessimism means that consumers are postponing spending.

Lack of confidence in the economy

People are saving more 'for a rainy day' and trying to build up a cushion of savings for the future e.g. saving to enable them pay their mortgage in the future.

Postponing spending

Consumers may save in deflationary periods as they expect the prices to fall further and therefore postpone spending.

More difficult to get credit

Because it is more difficult to get loans consumers must now save in order to buy those goods which they cannot afford.

4 marks. State: 2 marks. Explain: 2 marks.

- (iii) Two economic reasons why an increase in consumer spending may be better for the economy.

Help create jobs / prevents job losses.

Increased spending will increase demand and may lead to an increased demand for labour resulting in reduced unemployment.

Economic growth / stimulate economic activity.

Increased spending will increase income levels within the economy and this should further stimulate economic growth and increase the standard of living.

Restore confidence in economy.

Increased employment; rising income levels and an improving standard of living may help restore consumer confidence in our economy and further boost economic growth.

Improve Government finances.

Indirect tax revenues should increase followed by increased direct tax revenue (from increased employment) and this combined with reduced social welfare payments should improve government finances.

Investment by entrepreneurs.

Improved confidence and increased economic growth may lead to increased investment by entrepreneurs.

2 reasons at 4 marks each. State: 2 marks. Explain: 2 marks.

- (c) The smuggling of cigarettes into Ireland is an example of an activity in the ‘black economy’.
- (i) Explain the underlined term and give **one** other example of such an activity.
 - (ii) State and explain **two** possible reasons for smuggling activity.
 - (iii) Discuss **two** economic effects of this development for the Irish economy. **(30 marks)**

- (i) Explain the underlined term and give **one** other example of such an activity.

Explanation:

4 marks

Activity which takes place which is not recorded and therefore not included in national income accounts.

Example:

6 marks

- **A teacher giving grinds**, without declaring the income for tax purposes.
- **A plumber fixing a washing machine for a cash payment**, and not declaring the income for tax purposes.

- (ii) State and explain **two** possible reasons for smuggling activity.

High price of cigarettes in Ireland / high taxes on cigarettes.

Price of cigarettes is quite high in Ireland due to high indirect tax rates and excise duties so consumers may buy cigarettes which are offered at a lower price illegally.

Inadequate security measures.

As an island nation it is difficult to patrol all borders, seaports and airports and therefore it is considered easy to smuggle cigarettes into Ireland/ Ireland is considered a tobacco smuggling blackspot.

Ease of movement within the EU.

With the enlargement of the EU there is a big increase in travel by EU nationals into Ireland and this facilitates smuggling activities.

Inadequate penalties/excessive leniency in imposing penalties.

Some people are prepared to smuggle as the penalties are not severe enough to act as deterrents.

Illegal goods.

The importation of some goods is banned by law e.g. illegal drugs. The only way of getting these into the country is by smuggling.

Market demand exists.

Some people may be willing to buy smuggled goods at lower prices on the black market because they have reduced incomes in a recession.

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

(iii) Discuss **two** economic effects of this development for the Irish economy.

Opportunity Costs.

All indirect tax revenue on these cigarettes is lost to the exchequer which could have been used by the government for state services (schools and hospitals) / it may have to find additional sources of revenue / or reduce the volume of services which it provides.

Increased health care costs.

The wide availability of smuggled cigarettes may increase smoking and inevitably result in higher future health costs to be borne by the taxpayer.

Decline in legitimate business activity.

Those businesses which sell cigarettes legitimately will suffer a decline in sales, leading to possible job losses and a decline in economic activity / lower national income recorded.

Increased government expenditure.

To curb this activity the government will have to increase spending on policing / security which will lead to further pressure on the state's finances / necessity to raise taxes.

Loss of tax revenues.

The government will suffer from reduced tax revenues because of lower sales in legitimate markets / consumers are buying products on illegal markets and not paying tax, costing the exchequer at least €400m annually

Increase crime levels.

An increase in black economic activities results in increased crime which may instill fear in citizens and further reduce economic activities.

Standards of products

Because of lack of regulation products may be unsafe / harmful to consumers.

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

Q8 Trade

The Irish economy is an open economy which relies on exports to help economic growth.

- (a) (i) Explain **each** of the underlined terms.
(ii) State and explain **three** reasons why exports are so important for the Irish economy. **(25 marks)**

- (i) Explain **each** of the underlined terms.

Open economy: an economy which engages in trade / imports and exports/interdependent on other countries **5 marks**

Economic Growth: an increase in GNP per head. **2 marks**

- (ii) State and explain **three** reasons why exports are so important for the Irish economy.

1. Job creation.

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

2. Increased GNP / Economic growth

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

3. Increased sales / profits.

Domestic firms can increase their sales/profits by exporting their excess output onto a foreign market.

4. Earn foreign currencies.

The receipt of foreign currencies can boost our country's reserves / provide the finance to help pay for imports.

5. Attract investment.

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

18 marks: 1st Correct 10 marks; 2nd /3rd points at 4 marks

- (b) Spending by Irish people attending sporting events abroad would be an example of an invisible import.
- (i) Explain the underlined term.
 - (ii) State **two** other examples of invisible imports.
 - (iii) State and explain **two** reasons why some governments wish to restrict imports. **(25 marks)**

- (i) Explain the underlined term. **7 marks**

The purchase of foreign services by Irish consumers.

5 marks

2 marks

- (ii) State **two** other examples of invisible imports:

6marks

- (i) Irish people using foreign financial services.
- (ii) Foreign rock bands performing in Ireland.
- (iii) Ryanair using maintenance crews in countries outside Ireland.

3 marks + 3 marks each

- (iii) State and explain **two** reasons why some governments wish to restrict imports

Protect domestic industries.

New industries may have difficulty competing with established industries in other countries and so the government may choose to protect them by limiting competitive imports.

2. Protect domestic employment.

Foreign competition costs people their jobs. By limiting imports such jobs may be protected.

3. Protect against ‘Cheap Labour’ economies.

Domestic firms may not be able to compete with those countries who gain their advantage by paying their workers low wages. A government may restrict imports from these countries.

4. National Security.

Free trade may result in the spread of animal diseases i.e. foot and mouth disease. During such crises the government banned the importation of cattle to protect this vital industry.

5. To protect human rights.

Some countries may apply sanctions to those countries in which human rights’ abuses exist.

6. Production of strategic goods.

The production of certain commodities which a country deems essential to the operation of the economy (energy, food) may be safeguarded from competition to ensure continuity of supply.

7. To prevent dumping.

The government may restrict trade to prevent dumping as it may result in undermining domestic firms thereby resulting in their closure.

8. Protect the Balance of Payments

A government may wish to restrict imports so that imports are reduced, thereby protecting our Balance of Payments and preventing it moving towards a deficit.

1st correct 8 marks; 2nd correct 4 marks.

(c) During **2009** the euro (€) **increased in value** relative to the UK pound sterling (£).

Discuss the economic effects of the above development on **each** of the following:

- (i) Irish firms exporting to the UK;
- (ii) Irish imports from the UK;
- (iii) Employment within Ireland.

(25 marks)

	Statement	Explanation
Irish firms exporting to the UK	<ul style="list-style-type: none"> • Exports dearer • Reduced demand/sales • Reduced sales revenue 	<ul style="list-style-type: none"> • The prices of Irish exports in pound sterling have increased. • This may result in a reduced demand for Irish exports in the UK. • Sales revenue may decline resulting in possible job losses / closure of the some firms. • Irish firms may have to change markets to other EU countries.
Irish imports from the UK	<ul style="list-style-type: none"> • Imports cheaper • Increased imports • Decreased inflation 	<ul style="list-style-type: none"> • The prices of UK imports in euro have decreased. • This may result in an increased demand for UK imports into Ireland. • Lower prices may lead to a fall in the inflation rate. • Cheaper raw materials may result in lower costs of production.
Employment within Ireland	<ul style="list-style-type: none"> • Decreases 	<ul style="list-style-type: none"> • With fewer exports to the UK, firms in this exporting sector will decline resulting in unemployment. • If imports are raw materials then the prices of the finished goods could fall leading to increased demand and job opportunities

1st correct answer: 11 marks. State: 6 marks. Explain: 5 marks.

2nd & 3rd correct answers: 2 x 7 marks each. State: 4 marks. Explain: 3 marks.

