



Coimisiún na Scrúduithe Stáit
State Examinations Commission

Leaving Certificate 2018

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.

LEAVING CERTIFICATE, 2018

MARKING SCHEME

**ECONOMICS
HIGHER LEVEL**

In considering the marking scheme and the support notes the following points should be noted:

- The support notes presented are neither exclusive nor complete and **further relevant points of information presented by candidates are rewarded on their merits.**
- They are not model answers but rather a sample of possible responses.
- The support notes in many cases may contain key phrases which must appear in the candidate's answer in order to merit the assigned marks.
- 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.
- Words, expressions or phrases must be correctly used in context and not contradicted, and where there is evidence of incorrect use or contradictions the marks may not be awarded.

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Summary of Mark Allocations

SECTION A (100 marks)

Question	Marks
1	(a) 8: 4 + 4 (b) 2 @ 4 (2+2)
2	2 @ 8 (4+ 4)
3	12+4
4	(a) 10 (b) 6 (2 + 4)
5	2 @ 6 and 2 @ 2
6	1 @ 5 and 3 @ 4
7	(a) 2 @ 6 (3 + 3) (b) 5
8	6 (3 + 3), 6 (3 + 3), 5 (3 +2)
9	(a) 8 (b) 3 @ 3

Section B

1 (a)	(i) 2@5 (ii) Diagram: 9 Explanation: 6	5 (a)	(i) 2 @ 5 (ii) 2 @ 5 (2+3)
1 (b)	(i) Diagram: 13 (ii) 6 (iii) 2 @ 6 (iv) 2 @ 2	5 (b)	(i) 5 (ii) 3 @ 5 (iii) 1 @ 5 (2+3)
1 (c)	(i) 6 (ii) 9	5 (c)	(i) 6 (ii) 2 @ 6 (3+3) (iii) 2 @ 6 (3+3)
2 (a)	(i) 6 (ii) 4 @ 6 (3+3)	6 (a)	(i) 3 @ 5 (2+3) (ii) 3 @ 5 (2+3)
2 (b)	(i) Diagram: 9 Explanation: 8 (4 @ 2) (ii) 8 graded	6 (b)	1@ 7 (3+4) and 3 @ 6 (3+3)
2 (c)	(i) 2 @ 5 (2+3) (ii) 2 @ 5 (2+3)	6 (c)	4 @5 (2+3)
3 (a)	(i) 5 (ii) 8 (iii) 2@4 (iv) 4	7 (a)	4 @ 5 (2+1+2)
3 (b)	(i) 5 (ii) 10 (iii) 2 @ 5 (2+3)	7 (b)	1@ 7 (3+4) and 3 @ 6 (3+3)
3 (c)	(i) 7 (ii) 2 @ 9	7 (c)	(i) 3 @ 6 (3+3) (ii) 2 @ 6 (3+3)
4 (a)	(i) 8 (ii) 2 @ 6 (3+3)	8 (a)	(i) 5 (ii) 6 (iii) 3 (iv) 6
4 (b)	(i) 9 (ii) 2 @ 7(3+4) (iii) 1 @ 7(3+4)	8 (b)	1@ 7 (3+4) and 3 @ 6 (3+3)
4 (c)	(i) 10 (ii) 2 @ 5 (2+3) (iii) 1 @ 5 (2+3)	8 (c)	(i) 3 @ 5 (2+3) (ii) 3 @ 5 (2+3)

Q	Possible responses	Marks
2	<p><i>Raising interest rates before the end of the decade could threaten the long sought-after economic recovery in the Eurozone, the OECD has warned.</i></p> <p>Outline two possible economic effects of an increase in interest rates on the Irish economy.</p> <ul style="list-style-type: none"> • Borrowing discouraged / disincentive to invest as borrowing is more expensive. • Savings encouraged as the return on savings will increase / consumers' real disposable incomes will fall which will lead to a reduction in spending in the economy and demand for firms' products may fall/firms' profits fall. • Increased mortgage interest repayments impact on families having high debt already. • Government finances affected as cost of servicing the national debt increases / tax revenues down due to less spending or increased tax revenue from DIRT. • Contraction in spending and investment leading to a fall in GDP / economic growth. • Costs of production increase / reduced competitiveness / less likely to borrow or expand limiting growth potential / fall in profits / price increases to maintain profit margins. • Fewer sales and less revenue will result in fewer employees or lay off of existing employees / unemployment. • International trade could be affected as high interest rates increase the value of the euro. A stronger euro makes Irish exports less competitive, thereby reducing exports and increasing imports. • Could lead to an increase in non-performing loans (NPLs) – private indebtedness already a problem. 	<p>2 x 8 (4 + 4)</p>
3	<p>The EU is an example of a customs union. Explain the term customs union</p> <p>A Customs Union exists where the member countries agree to remove all trade barriers between them and impose a common external tariff on imports (from non-member countries).</p> <p>(a) State the Law of Diminishing Marginal Returns.</p>	<p>12 + 4</p>
4	<p>The law of diminishing marginal returns states:</p> <p>If increasing quantities of a variable factor of production are added to a given quantity of a fixed factor of production then a stage will eventually be reached where the addition to the total output begins to decline.</p> <p>(b) Does this apply in the short run or the long run? Explain your answer.</p> <p>It applies in the short run only. Why? It is only in the short run that at least one input is fixed. In the long run all inputs are variable.</p>	<p>10</p> <p>6 (2 + 4)</p>

Q	Possible responses	Marks															
5	<p>Indicate by means of a tick (✓) which of the following statements is TRUE or FALSE.</p> <table border="1" data-bbox="181 282 1329 741"> <thead> <tr> <th data-bbox="181 282 943 331">STATEMENT</th> <th data-bbox="943 282 1136 331">TRUE</th> <th data-bbox="1136 282 1329 331">FALSE</th> </tr> </thead> <tbody> <tr> <td data-bbox="181 331 943 443">‘Double counting’ could occur when economic activity is measured using the expenditure method.</td> <td data-bbox="943 331 1136 443"></td> <td data-bbox="1136 331 1329 443">✓</td> </tr> <tr> <td data-bbox="181 443 943 555">Exports represent an injection into the circular flow of income.</td> <td data-bbox="943 443 1136 555">✓</td> <td data-bbox="1136 443 1329 555"></td> </tr> <tr> <td data-bbox="181 555 943 667">Gross Domestic Product (GDP) includes a provision for depreciation.</td> <td data-bbox="943 555 1136 667"></td> <td data-bbox="1136 555 1329 667">✓</td> </tr> <tr> <td data-bbox="181 667 943 741">Primary school teacher salaries are categorised as transfer payments in Ireland.</td> <td data-bbox="943 667 1136 741"></td> <td data-bbox="1136 667 1329 741">✓</td> </tr> </tbody> </table>	STATEMENT	TRUE	FALSE	‘Double counting’ could occur when economic activity is measured using the expenditure method.		✓	Exports represent an injection into the circular flow of income.	✓		Gross Domestic Product (GDP) includes a provision for depreciation.		✓	Primary school teacher salaries are categorised as transfer payments in Ireland.		✓	<p>2 x 6 2 x 2</p>
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Gross Domestic Product (GDP) includes a provision for depreciation.		✓															
Primary school teacher salaries are categorised as transfer payments in Ireland.		✓															
6	<p>State and explain Adam Smith’s four Canons of Taxation.</p> <ul style="list-style-type: none"> • Equity The more you earn the greater proportion of tax you should pay. Taxes should be progressive i.e. take a higher proportion of income in tax as income rises/Persons should contribute taxes in proportion to their ability to pay. • Economy The revenue collected should exceed the costs of collection. Raising revenue is the main purpose of taxation. • Certainty The amount paid should be clear and certain. The taxpayer should know how much they are paying, the manner of payment and time of payment. The government should know how much revenue it will receive. • Convenience The tax should be collected in a way and at a time which suits the taxpayer. It is more convenient when it is deducted at source e.g. PAYE, VAT 	<p>1 x 5 3 x 4</p>															
7	<p>(a) Outline two policies a government could consider to reduce income inequality.</p> <ul style="list-style-type: none"> • Welfare benefits could be increased or maintained: This means that those on low incomes would be supported. • Tax changes: make direct taxes more progressive e.g. PAYE / take the lower income groups outside the tax net. • Wealth taxes: Similar to France the government could introduce a wealth tax and then lower the income taxes for low paid. • Target universal entitlements / means testing child benefit or targeting parents in receipt of welfare payments or on low incomes. • Increase the minimum wage /introduce the living wage / discourage a bonus culture. 	<p>2 x 6 (3 + 3)</p>															

Q	Possible responses	Marks
7	<ul style="list-style-type: none"> • Access to health care and educational benefits can make a considerable impact on final income, increasing it considerably for the poorest, thereby narrowing the gap between rich and poor. • Greater equity in access to and participation in education to higher levels of attainment can have a positive social benefit for society by lowering income inequality in the economy. • Narrow the gender pay gap by: <ul style="list-style-type: none"> ➤ Encouraging employers to offer greater flexibility in the workplace to entice women back into the workplace ➤ Higher spending on family benefits to encourage more women to join or rejoin the workforce ➤ Granting shared parental leave. • Build assets for working families: <ul style="list-style-type: none"> ➤ Retirement Plans ➤ Savings credit ➤ Access to fair, low-cost financial services and home ownership. <p>(b) Outline one possible challenge for the Irish economy of reducing income inequality.</p> <ul style="list-style-type: none"> • Possible increase in costs to businesses which would affect competitiveness. • If increased cost is passed onto the consumer it could be inflationary. • Possible increase in government expenditure and /or reduction in revenue. • Increase in unemployment if demand for goods and services falls as a result. • Opportunity cost: cost of foregone alternatives. 	<p>1 x 5</p>
8	<p>Outline three economic consequences of raising the retirement age for public sector workers to 70 years.</p> <ul style="list-style-type: none"> • As people work longer they will be contributing to government revenue as they continue to pay taxes / increased earning potential /more secure retirement / boost retirement income. • More demand for goods and services as salaries higher than pensions so more jobs could be created leading to economic growth. • Reduction in government spending on pensions so more revenue available to provide for other services. • Could enhance the quality of life and health of workers so society benefits. • May be considered anti-worker and unjust as wealthy will still have the means to slow down and retire at an earlier age/hit minority and low-income workers most. 	<p>6 + 6 + 5</p> <p>6: 3+3 6: 3+3 5: 3+2</p>

Q	Possible responses	Marks
9	<p>(a) Define the term price discrimination.</p> <p>Selling the same product at different prices to different consumers or groups of consumers (in different markets) at varying ratios between marginal cost and price /the difference in price does not reflect cost differences.</p> <p>(b) Outline three conditions necessary for price discrimination to occur.</p> <p>Some monopoly / market power Firms must have some ability to alter the market price by exercising control over its demand, supply or both.</p> <p>Separation of markets / limited ability to sell the product This ensures that the good bought in the low-priced market cannot be offered for resale in the higher priced market. The consumer must be unable to resell the product e.g. dental appointments cannot be resold.</p> <p>Different consumer price elasticities of demand / different demand curves Different consumers display different sensitivities to price i.e. they have different price elasticities of demand. The price discriminator charges higher prices to consumers with inelastic demand and the lower prices to consumers with elastic demand.</p>	<p>8</p> <p>3 x 3</p>

Q1 Demand, Market Equilibrium, Consumer surplus

	Possible responses	Max Mark
<p>(a) (i)</p>	<p>Distinguish between a movement along a demand curve and a shift in a demand curve.</p> <p>Movement along a demand curve: A change in the price of the good itself will cause a movement along the demand curve (all other things being equal) and this is referred to as a change in the quantity demanded.</p> <p>A shift in a demand curve: A change in any of the factors other than price will cause the demand curve to shift and this is referred to as a change in demand, at any given price.</p> <p>(ii) Explain, using a supply and demand diagram how a market would return to equilibrium following a surplus (excess supply) in the market.</p> <div data-bbox="359 891 1257 1512" data-label="Figure"> </div> <p>An excess supply (surplus) in the market implies that the price is greater than the market price as shown in the diagram above.</p> <ul style="list-style-type: none"> • When there is a surplus or excess supply for a good, suppliers are unable to sell all they want at the going price. Sellers find stocks increasing so they respond to the surplus by cutting their prices/Some sellers in the market respond to the falling price by reducing the amount they are willing to offer for sale. • As the prices falls, some consumers are persuaded to buy more and so there is a movement along the demand curve. • Prices continue to fall until the market reaches equilibrium where $Q_d = Q_s$ 	<p>5</p> <p>5</p> <p>9 (9 x 1)</p> <p>6</p> <p>25</p>

	Possible responses	Max Mark
(b)	The owners of a music venue, with a maximum capacity of 400 people, conducted market research into consumer demand for tickets at different prices. The information they obtained is shown in the table below.	
(i)		

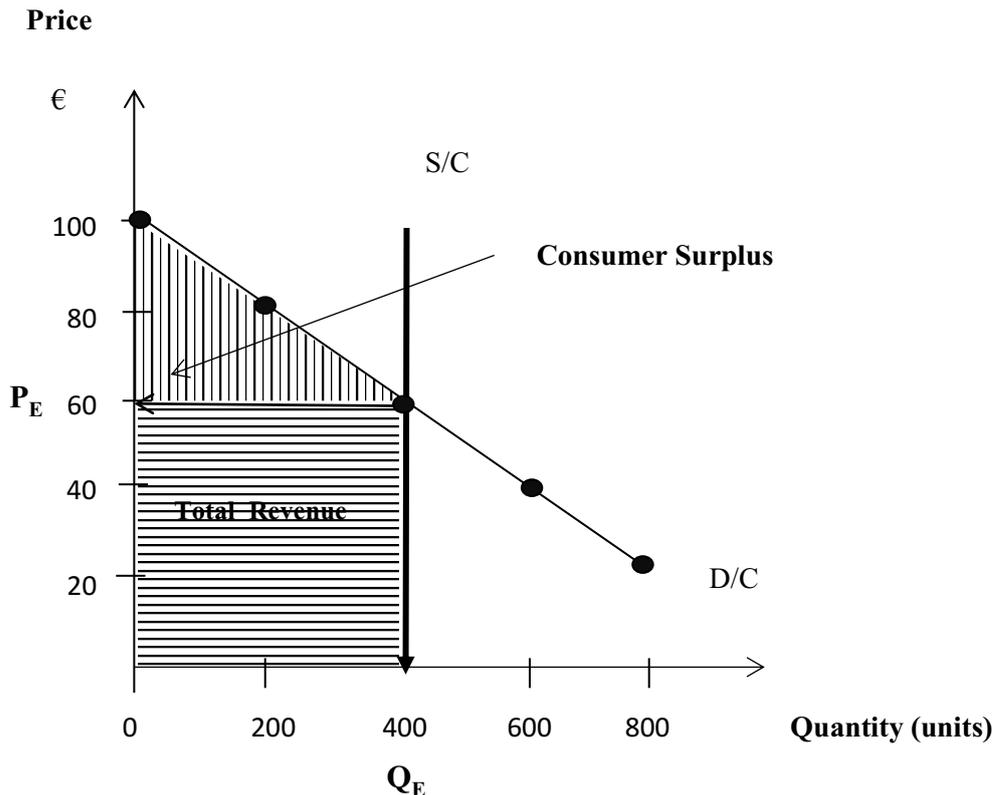


Diagram: 13 marks

Labels: P, Q, D/C, S/C, P_E , Q_E : 6 x 1 marks

Vertical S/C at 400 units: 2 marks

5 points along D/C (5 x 1) = 5 marks

	Possible responses	Max Mark
(ii)	<p>Explain the reason for the shape of the supply curve for this music venue.</p> <p>Regardless of price the quantity supplied will be fixed at 400 / even if price goes to €100 the venue can only accommodate 400 attendees.</p> <p>It is perfectly inelastic / vertical, reflecting the fact that venue has a maximum / fixed capacity of 400.</p>	6

If 400 is not referred to: -1m

	Possible responses	Max Mark
(iii)	<p>Explain the terms consumer surplus and total revenue.</p> <p>Consumer surplus is the difference between what the consumer paid for the product and the maximum price s/he was willing to pay for it rather than go without the product.</p> <p>Total Revenue: is the total revenue received from sales i.e. Price x Quantity sold.</p>	<p>6</p> <p>6</p>
(iv)	Show clearly on the diagram you have drawn in part (i) above, the areas of consumer surplus and total revenue at equilibrium.	2 + 2
		35

	Possible responses	Max Mark
(c)		
(i)	<p>Calculate the total revenue from the ticket sales for the above venue, assuming there is a full house. Show your workings.</p> <p>400 x €60 = €24,000</p>	6
(ii)	<p>Explain how a knowledge of the concept of consumer surplus could benefit the owners of the music venue.</p> <p>The owners of the venue know that some consumers will be willing to pay higher prices than other consumers to attend the venue. By offering slightly different choices the firm is able to separate consumers who are willing to pay higher prices.</p> <p>The owners could charge higher prices and extract this surplus. Offer something extra to some consumers – tickets closer to the stage; seated vs standing; advance ticket purchase; meeting with the bands/performers; seasonal tickets etc.</p> <p>If the consumer was charged the highest price they were willing to pay then the owners of the music venue could turn the consumer's surplus into revenue and as a result they could increase their profits.</p> <p>For small firms an understanding of the consumer surplus can aid better decision making about setting prices. Consumers that derive large benefits i.e. a large consumer surplus, from buying products or services are likely to purchase them again in the future.</p>	<p>9</p> <p>graded</p> <p>15</p>

Q2 Oligopoly and the Motor Insurance Industry

	Possible responses	Max Mark
(a) (i)	<p>Describe how firms in this market structure compete with each other.</p> <p>Non-price competition: Because products are close substitutes firms may compete on quality of product; after-sales service; guarantees; sales promotions e.g. 'buy one get one free'; loyalty schemes. Firms may focus on convenience, packaging, advertising, promotion, advertising and branding/ Even though products are similar firms try to distinguish them in some way (product differentiation) e.g. engage in heavy "product loyalty" promotions / their focus is on brand recognition and loyalty.</p> <p style="text-align: center;">-2m if no reference made to product differentiation</p>	6
(ii)	<p>Discuss the advantages and disadvantages of oligopoly as a market structure.</p> <p>Possible advantages include:</p> <p>Stability in prices / price comparability If firms engage in non-price competition, then prices tend to remain stable and this enables the consumer to plan ahead and stabilise their expenditure. It is easy to compare prices as there are few firms which forces firms to set prices competitively, which is good for consumers.</p> <p>Profit levels Firms may have to sacrifice some of their profits to keep customers or undercut rivals / the existence of high profits may mean that the government benefits through higher taxation revenue/ firms may be able to afford to engage in R&D.</p> <p>Quality of product /service Firms may improve the quality of products so as to attract and retain consumers. Firms provide higher quality, more frequent services and other upgrades to maintain consumer loyalty.</p> <p>Benefits of advertising With advertising consumers may be better informed. This may save consumers time and money in searching for and learning about goods and services. Advertising may encourage innovation, technological development leading to improved products and services.</p> <p>Possibility of lower prices Economies of scale may be passed onto the consumer in the form of lower prices. If firms adopt a highly competitive strategy they can generate similar benefits to more competitive market structures, such as lower prices.</p> <p>More secure employment As there is little competition between firms, jobs may be more secure with the industry.</p>	2 x 6 (3+3)

	Possible responses	Max Mark
<p>(b) (i)</p>	<p>Explain, using a clearly labelled diagram, the long-run equilibrium of a firm operating under oligopoly conditions.</p> <p>Diagram:</p> <p>Price axis / Quantity axis / Kinked D/C / Distinct MR / MC / AC / P_1 / Q_1 / Point G</p> <p>Explanation:</p> <ol style="list-style-type: none"> Equilibrium occurs where (a) $MC = MR$ & (b) MC is rising. The firm will produce Q_1 and sell this output at price P_1 The firm's cost of production is shown at point G. Should costs rise between points E and D then market price tends to remain constant at P_1. <p style="text-align: center;"><i>or</i></p> <ol style="list-style-type: none"> This firm is earning SNPs because AR exceeds AC or barriers to entry exist. ($AR > AC$) <p>(ii) With reference to the 'kinked' demand curve drawn in part (i) above, explain the rationale for 'price rigidity'.</p> <p>The firm above would fear increasing its price above P_1 as other firms will leave their prices unchanged, so this firm will lose many customers / fall in total revenue.</p> <p>The firm would fear lowering its price below P_1 as it believes others will match this price decrease, so this firm will gain few additional customers / the proportionate increase in demand is less than the reduction in price and total revenue falls.</p> <p>This results in the kinked D/C and no incentive to change price from P_1.</p>	<p>9 (9 x 1)</p> <p>8 (4 x 2)</p> <p>8 graded</p> <p>25</p>

	Possible responses	Max Mark
<p>(c)</p> <p>(i)</p>	<p><i>'Motor insurance providers in Ireland targeted in anti-cartel inquiry.'</i> (Source: <i>The Irish Times</i>, July 2017)</p> <p>Explain the likely effects on consumers if collusion (e.g. cartel agreement) existed in the motor insurance industry.</p> <p>Higher / less competitive prices Collusion may mean that these firms agree not to lower prices and so consumers pay higher prices and cannot seek more competitive quotes as the firms agree to act in this agreed way.</p> <p>Restricted choice Because of the agreement of firms not to compete, consumers may have less choice on the types of insurance available; extent of cover available; the benefits possible under policies etc.</p> <p>Supernormal profits earned The aim of the firms who collude (restrict output/control price) is to maximise profits or earn monopoly profits. If successful such agreements allow oligopolistic firms to earn monopoly profits for the industry as a whole / make supernormal profits at the expense of the consumer.</p>	<p>2 x 5 (2+3)</p>
<p>(ii)</p>	<p>Suggest two measures the government could consider to discourage anti-competitive practices in industry. Explain your answer.</p> <p>Improved consumer protection / education / awareness Promote better consumer education and awareness. Encourage more reporting of anti-competitive practices as experienced by consumers. They could encourage consumers to shop around and to look at their options e.g. switching provider/ use 'Bonkers'. The Central Bank requires insurers to provide correct information to consumers when selling and renewing policies.</p> <p>Improved regulation of the industry Better regulation may discourage anti-competitive practices in the industry. The Competition Authority could make further efforts to encourage competition in markets and so protect the interests of consumers. The government could introduce tough anticompetitive legislation. Require insurers to explain how policies are priced. Extend the period of renewal to allow consumers time to shop around.</p> <p>Improved investigation of alleged lack of competition The Competition Authority could investigate breaches of competition law and take appropriate action. Advise the government on how to protect and improve competition in the economy. The EU Competition Commission might introduce greater fines / longer jail sentences for offenders.</p> <p>Deregulation of the industry The government could attempt to deregulate the industry. Lower barriers to entry / encourage the growth of small firms so as to eliminate inefficiency and to encourage better resource allocation.</p>	<p>2 x 5 (2+3)</p> <p>20</p>

Q3 Costs, Price Elasticity of Supply, Impact of fall in the value of sterling

	Possible responses								Max Mark																										
(a)	The table below shows the output and total cost for a firm. The selling price for its product is fixed at €30 regardless of output. <table border="1" style="margin: 10px auto;"> <thead> <tr> <th>Output (units)</th> <th>0</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> <th>6</th> <th>7</th> </tr> </thead> <tbody> <tr> <th>Total Cost (€)</th> <td>20</td> <td>40</td> <td>50</td> <td>65</td> <td>85</td> <td>115</td> <td>160</td> <td>210</td> </tr> </tbody> </table>								Output (units)	0	1	2	3	4	5	6	7	Total Cost (€)	20	40	50	65	85	115	160	210	5								
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(i)	Define the term marginal cost . The change / addition to total cost as a result of producing one extra unit of output .																																		
(ii)	Draw and clearly label a graph to illustrate the marginal cost at each level of output. <table border="1" style="margin: 10px auto;"> <thead> <tr> <th>Output (units)</th> <th>0</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> <th>6</th> <th>7</th> </tr> </thead> <tbody> <tr> <th>Total Cost (€)</th> <td>20</td> <td>40</td> <td>50</td> <td>65</td> <td>85</td> <td>115</td> <td>160</td> <td>210</td> </tr> <tr> <th>MC (€)</th> <td></td> <td>20</td> <td>10</td> <td>15</td> <td>20</td> <td>30</td> <td>45</td> <td>50</td> </tr> </tbody> </table>								Output (units)	0	1	2	3	4	5	6	7	Total Cost (€)	20	40	50	65	85	115	160	210	MC (€)		20	10	15	20	30	45	50
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MC (€)		20	10	15	20	30	45	50																											

Costs/Revenue

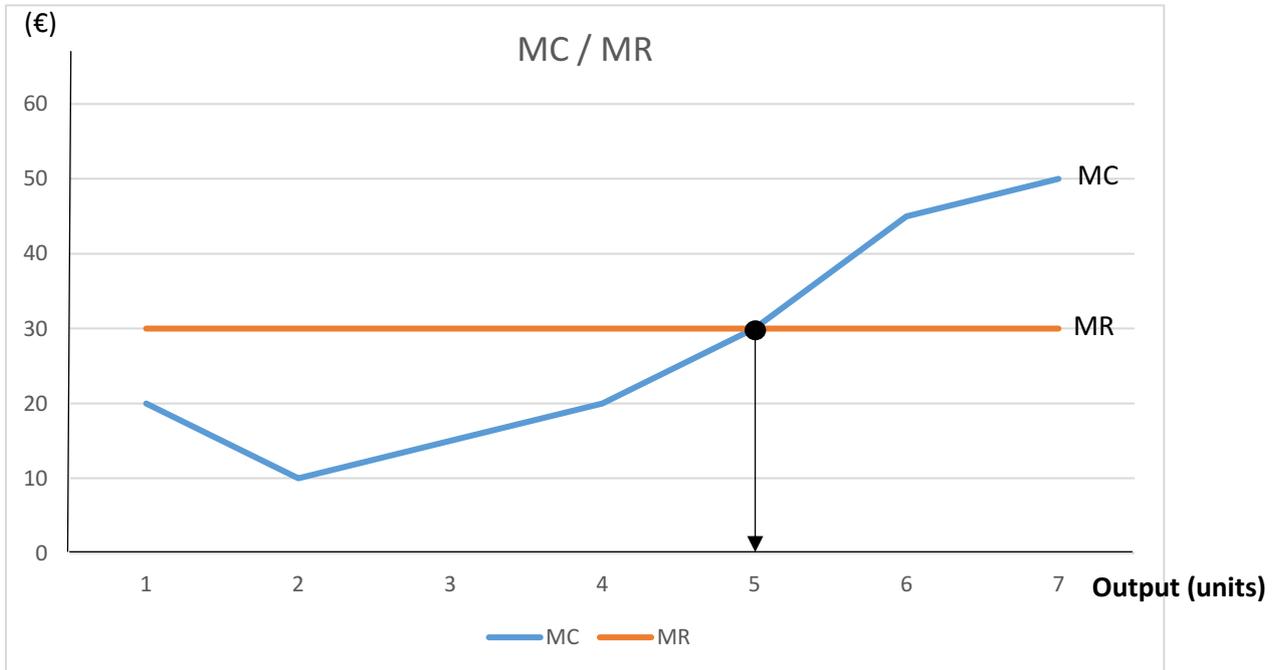


Diagram: 8

MC: 7 points x 1 marks

Label: 1 mark

	Possible responses	Max Mark
(iii)	<p>Indicate on the graph that you have drawn the profit-maximising level of output and explain your answer.</p> <p>Explanation: Profit maximisation occurs when $MC = MR$. The MR for this product is €30. Profit maximisation occurs at an output level of 5 units.</p> <p>As long as marginal revenue exceeds marginal cost, increasing the quantity adds to profit. At $MC = MR$ profit is neither increased or decreased.</p>	<p>2+2</p> <p>4</p>
(iv)	<p>Calculate the profit earned at this profit-maximising level of output.</p> <p style="text-align: center;"> $TR - TC$ $(P \times Q) = €30 \times 5 = €150$ $€150 - €115 = €35$ </p>	<p>4</p> <p>25</p>

	Possible responses	Max Mark
(b)		
(i)	<p>Define the term price elasticity of supply (PES).</p> <p>It is the percentage change in quantity supplied caused / divided by the percentage change in price. Price elasticity of supply measures the degree of sensitivity / responsiveness of quantity supplied to changes in price.</p>	<p>5</p>
(ii)	<p>Explain, by means of an example, why the PES might be different in the long run than in the short run.</p> <p>In the short run, the quantity supplied is not very responsive to the price. Firms may find it difficult to respond to a change in price by changing output. Firms cannot easily change the size of their factories or productive capacity in the short run to make more of the goods but may have some flexibility. (-1m if example not given)</p> <p>Supply is usually more elastic in the long run than in the short run due to the ability to change capacity in the long run. With more time to adjust, the supply response becomes larger. Over longer periods, firms have more time and can build new factories, hire new staff and invest in capital and equipment. (-1m if example not given)</p> <p>It takes time to respond to a price change. In the long run a firm can increase the scale of production by employing more factors of production. In a competitive industry with not too many barriers it will be possible for more firms to enter the industry in the long run.</p>	<p>10 graded</p>

	Possible responses	Max Mark
(iii)	<p>Discuss two factors, other than time period, that influence the PES of a product.</p> <ul style="list-style-type: none"> • The nature of the product / ease of storing stock Some firms can build up a stock of the product to respond more flexibly to changes in prices. In such cases price elasticity of supply is more elastic than in industries where it is difficult to do this. Many products are perishable, fixed in supply or take a long time to produce. These products cannot respond to price changes i.e. their supply is inelastic e.g. crops. • Is the firm operating at full productive capacity If a firm is capable of producing more goods with its present resources, supply will be elastic as the firm can easily increase its production. However, if it was operating at full capacity it could not react quickly to an increase in market price so supply may be inelastic. If labour and raw materials are readily available, it is easier to increase production. • Mobility of the factors of production Firms allocate their resources to the most profitable use. Thus, if factors are mobile the elasticity of supply will be elastic for goods whose prices have increased, as the firms can switch its resources to the production of those goods. • Degree of specialised labour or capital used in production The production of some goods requires the use of highly specialised labour/ machinery. If extra units of these forms of labour and machinery are not immediately available, then it is difficult for a firm to react to a change in the market price – supply would be inelastic. • Ease of switching between alternative means of production If firms can quickly change the way they produce goods, supply tends to be more elastic. • Production cost conditions If, at the prevailing output, production can be increased without incurring an increase in unit cost then the quantity supplied may increase significantly when market price rises i.e. supply is elastic. But if increased production means an increase in unit costs then quantity supplied will not increase significantly when the market price rises. • Products in joint supply When a firm is producing two products, the supply of either will be more elastic than if the firm was only producing one. If the price of one of the products rises, the factors of production can be switched fairly quickly to produce more of the product which has risen in price. <p style="text-align: center;">Must refer to elastic / inelastic: -1 mark</p>	<p style="text-align: center;">2 x 5 (2+3)</p> <p style="text-align: center;">25</p>

	Possible responses	Max Mark
<p>(c) (i)</p>	<p>Outline the potential impact a fall in the value of Sterling (£) against the Euro (€) would have on the price UK consumers pay for Irish products.</p> <p>A fall in the value of sterling means that Irish goods will be more expensive in UK markets. UK consumers will have to pay more for Irish goods. Persistently lower sterling will, and has, fed into higher prices for Irish goods in the UK economy. Some sellers in the UK may choose not to pass on the higher prices in order to keep market share.</p> <p>(ii) Explain how knowledge of price elasticity of demand (PED) might be helpful to Irish exporters who wish to maximise their total revenue in the UK market.</p> <p>If the product has an inelastic demand then there is scope for the firm to increase price by a large amount as they know that the quantity demanded won't change very much and, overall, total sales revenue will increase. (When demand for a product is inelastic an increase in price should increase total sales revenue). If PED is inelastic in the UK market they may decide to increase price.</p> <p>If demand for their product is elastic then the firm might be wary of raising price. This is because the quantity demanded will fall by a greater proportion, thus lowering total sales revenue. (When demand for a product is elastic an increase in price should reduce total sales revenue). If PED is elastic in the UK market they may decide not to increase price.</p> <p style="text-align: center;">Or If response is linked to part (i)</p> <p>A fall in the value of sterling means that Irish exporters will have to raise the sterling price of their product in the UK market if they wish earn the same amount of revenue in euros. However, a knowledge of PED (elastic/inelastic) will be useful as to whether or not to proceed with the passing on of an increase in price to the consumer as a result of the fall in value of sterling.</p> <p style="text-align: center;">Elastic-Inelastic / Explanation / reference to UK market</p>	<p style="text-align: center;">7</p> <p style="text-align: center;">2 x 9 graded</p> <p style="text-align: center;">25</p>

Q4 Labour productivity, economies of scale & mobility of labour

	Possible responses	Max Mark
(a)		
(i)	<p>Define the term labour productivity.</p> <p>The output produced per worker per period of time e.g. per hour / week / year.</p>	8
(ii)	<p>Explain how a firm could increase the productivity of labour.</p> <ul style="list-style-type: none"> • Education / training/retraining Skill levels will increase /allows workers to complete tasks more efficiently. Productivity improves directly and may also encourage the growth in economic activities, requiring higher skill levels. • Introduce incentive schemes / improved working conditions Reward workers who increase their production. Increase the minimum wage. Such rewards improve morale and make the workplace conducive to greater productive effort. • Improve the quality of the other factors of production / technological progress/ expand the size of capital stock If management can improve these factors of production, then workers may become more productive, as they become more efficient. If the production process is made more effective this may assist workers to become more productive. Increased investment in newer more efficient equipment/Investment in R & D. • Introduce new work practices / improve management expertise Introduce job rotation which introduces variety and may increase motivation. Allow for increased specialisation which may further motivate workers to increase their production. If management expertise in motivating the workforce improves, then productivity may increase. 	2 x 6 (3 + 3)
		20

	Possible responses	Max Mark
<p>(b) <i>Globalisation allows firms to exploit economies of scale.</i></p> <p>(i) Explain the term economies of scale.</p> <p>(ii) Discuss how a firm might benefit from economies of scale, providing examples to support your answer.</p>	<p>Economies of scale arise when average cost / unit cost of production falls as output rises/as firm expands its scale of operations.</p> <p>Technical economies of scale Higher production levels allow for the possibility of increased use of technology in production. Cost is spread over a larger quantity of output e.g. A new machine which produces greater output is purchased.</p> <p>Labour economies Higher production levels allow for specialisation among workers. Each worker could specialise on a specific task and become very skilled at it. As a result, the output per worker could increase and the cost per unit could be reduced.</p> <p>Economies in the use of raw materials / reduction in waste Large firms with more lines of production, may reduce waste costs/less wastage of materials.</p> <p>Financial economies Larger firms may have access to a greater range of finance options than a small firm and are more likely to be able to borrow at lower rates of interest hence reducing production costs. Some capital investment is only suitable for high levels of output.</p> <p>Purchasing economies A large firm may be able to avail of discounts in the purchase of raw materials / lower supply costs when buying in bulk (can buy in larger quantities and can agree discounts from suppliers).</p> <p>Economies in distribution With a larger volume of production, a firm may be able to organise a more efficient transport and distribution system e.g. Tesco uses a centralised distribution system.</p> <p>Marketing / advertising economies This may include savings in advertising as these costs can be spread over a greater number of units of output/the advertising message is directed at more customers so unit costs fall. e.g. Nike's advertising during the World Cup.</p> <p>Managerial economies As a firm expands in size it will be able to hire staff with specialised skills to look after certain aspects of the business e.g. HR. As a firm grows in size management costs may not grow in proportion to the growth of the firm.</p> <p style="text-align: center;">-1m if example is not given</p>	<p style="text-align: center;">9</p> <p style="text-align: center;">2 x 7 (3 + 4)</p>

	Possible responses	Max Mark
(b) (iii)	<p>Better infrastructure. As roads / communications etc. improve these will benefit all firms as costs may fall. Example of how the road infrastructure improvements help reduce costs for firms e.g. delays and bottlenecks are reduced.</p> <p>Development of specialist firms Some of the jobs, which a firm once performed may be contracted out to specialist firms at reduced costs e.g. the supply of linen to hotels.</p> <p>Development of separate R & D units / Provision of specialist courses As industry becomes very large R&D agencies may set up to provide facilities for individual firms / The costs of research may be shared between firms or with a public body like Teagasc. If education institutes provide specialist courses it will help provide qualified workers to firms and reduce costs.</p> <p>Can firms become 'too big'? Explain your answer.</p> <p>Yes, as there are disadvantages associated 'big firms'.</p> <p>Possible responses include:</p> <ul style="list-style-type: none"> • Managerial diseconomies As a firm continues to grow, additional layers of management may be needed to cope with the increasing complexity of operations, especially if firm is spread between many locations. • Lack of worker motivation / staff morale As firms get bigger it may result in poor staff morale—workers may lack motivation if they are working for a large company. Workers may feel that they are just a 'number' and this may result in increased workplace conflict, leading to rising costs/ increased absenteeism. • Shortages of skilled labour / Scarcity in the of factors of production Increased production might lead to shortages of key inputs e.g., skilled labour. Labour costs could increase as higher wage rates may be needed to recruit sufficient labour /As demand for factors of production increase they may become scarce and their price will increase. • Increase in bureaucracy / administration costs A bigger firm might lead to more complex and bureaucratic management systems. Communication difficulties may slow down the effectiveness of business operations as the business expands, leading to higher costs. Decision making may be slower. Administration costs may increase disproportionately as output increases. 	<p>1 x 7 (3 + 4)</p> <p>30</p>

	Possible responses	Max Mark
(c)	<i>Restrictions placed on workers' mobility can impact on economic growth.</i>	
(i)	<p>Distinguish between occupational mobility of labour and geographic mobility of labour.</p> <p>Occupational mobility of labour is the ease with which workers can move from one job to another.</p> <p>Geographic mobility of labour is the ease with which workers can move from one area to another for work purposes.</p>	<p>5</p> <p>5</p>
(ii)	<p>Discuss the factors that limit the geographic mobility of labour.</p> <ul style="list-style-type: none"> • Accommodation/ high cost of renting property The cost of accommodation in some areas acts as a deterrent to geographic mobility. Differences in house prices in different regions and/or the unpredictability of house prices means that some people are reluctant to move. Accommodation problems exist in the cities in particular. • Transport / Communications Limited access to good public transport; bottlenecks in cities and access from commuter belt into cities may also act as a deterrent. The lack of accessible broadband in certain areas act as a deterrent. • Financial costs The financial costs involved in moving home such as the increased costs of selling the house, removal expenses and settlement costs may be considered prohibitive. • Family and social ties/Upheaval of moving to a new environment Moving means disrupting family; leaving friends or uprooting children from schools. Disruption to children's education and to existing social connections in an area / family and social ties – all may act as a deterrent to the mobility of labour. • Migration controls Countries may have in place controls on migration and this will limit workers entering a country. Cap on inward migration/ work permits / visas may not be readily available. • Cultural and language barriers The existence of different language / cultural mores may limit the geographic mobility of labour. 	<p>2 x 5 (2+3)</p>

	Possible responses	Max Mark
(iii)	<p>Suggest one measure which could be considered to address any factor identified in (ii) above. Explain your answer.</p> <ul style="list-style-type: none"> • Reform of the housing market Increase the supply of affordable housing. - Provision of readily available and affordable accommodation to rent or to buy, particularly in those areas where there are shortages. • Transport / communication options Improve availability of good transport links to cities and airports; provision of improved broadband in those regions where it is not available. • Supports from the government / firms The government could offer relocation subsidies to address geographic immobility and to encourage workers to move to where they are needed / assist with the cost of moving / grants for city living. Firms could support workers in relocation by assisting with relocation costs. • Access to education Ensure there is easy access to educational facilities to ease the concerns of parents. • Specific subsidies to encourage people to move into areas where there are shortages of labour – for example teachers in Dublin and nurses and doctors throughout the country. • Access to knowledge regarding the existence of vacancies Availability of information and support - provide up-to-date information on the opportunities that are available and on the possibilities of moving. • Social infrastructure provision The improved provision of social infrastructure may make areas more appealing by providing shops, leisure facilities, parks etc. • Immigration policy A change in regulations in relation to work permits, visas etc. may encourage workers to locate in Ireland, particularly in those areas where shortages exist. 	<p>5 (2+3)</p> <p>25</p>

Q5 Fiscal & Monetary Policy; Indirect taxation; Budget deficits

	Possible responses	Max Mark
(a) (i)	<p>Explain the terms fiscal policy and monetary policy.</p> <p>Fiscal policy Any action taken by the government which influences the timing, magnitude and structure of or alterations in revenue and expenditure./Is any change in government spending and taxation that is designed to change overall spending in an economy / The use of government spending and taxation to influence economic growth.</p> <p>Monetary policy Any action taken by the ECB which influences the money supply, interest rates and the availability of credit.</p>	<p>5</p> <p>5</p>
(ii)	<p>Outline how Ireland’s membership of the Eurozone affects the operation of the Government’s monetary policy or fiscal policy in Ireland.</p> <p style="text-align: center;">Monetary Policy</p> <p>ECB controls monetary policy Membership of the Eurozone means that Ireland does not operate its own monetary policy. It is under the control of the European Central Bank (ECB). The mandate of the ECB is fixed by treaty. Interest rates must be close to the EU average.</p> <p>Decisions by ECB may not suit Ireland Ireland’s economy represents 2% of the euro area so decisions taken by the ECB regarding interest rate changes may not always suit the Irish economy. A “one size fits all” monetary policy may be a source of instability if business cycles are not correlated across member countries e.g. if the Irish economy is booming the appropriate policy response from the central bank is to raise interest rates. However, the ECB cannot increase interest rates just to suit Ireland.</p> <p>Central Bank of Ireland has imposed rules re: mortgage availability Devaluation of a national currency is not available in adjusting to macroeconomic shocks. The Central Bank of Ireland is the national macro-prudential authority. Since 2015, it has imposed limits on the size of mortgages relative to house values and relative to incomes.</p>	<p>2 x 5 (2+3)</p>

	Possible responses	Max Mark
	<p style="text-align: center;">OR</p> <p style="text-align: center;">Fiscal Policy</p> <p>Fiscal restraint required by Irish government Membership of the Eurozone requires some fiscal constraint while some elements of sovereignty in relation to fiscal policy have been relinquished. Membership affects fiscal policy due to the existence of fiscal rules. Ireland can set its own tax rates and government expenditure levels.</p> <p>EU rules re budget deficits / national debt The EU Growth and Stability Pact specified a debt ceiling of 60% and a budget deficit ceiling of 3% of GDP and it also requires governments to make an annual report regarding the state of public finances.</p> <p>Budget pre-approved by EU Budget plans must be pre-approved at EU level, so there is less risk of inappropriate budgets being implemented. IFAC (Irish Fiscal Advisory Council) was established in 2011 to provide objective opinion on the sustainability of the national budget plan and macro-economic forecasts that underpin budget plans.</p>	20

	Possible responses	Max Mark
<p>(b)</p> <p>(i)</p> <p>(ii)</p>	<p><i>Indirect taxes are frequently used as a government policy instrument to change certain consumer behaviour.</i></p> <p>Explain the term indirect tax.</p> <p>An indirect tax is a tax on the consumption of goods and services e.g. VAT</p> <p>Explain how indirect taxes could be used to change certain consumer behaviour, using examples to support your answer.</p> <p>Possible responses include:</p> <p>Increased VAT on sunbed services In Budget 2018 the VAT rate applying to sunbed services increased from 13.5% to the standard rate of 23% from January 1st, 2018 to deter sunbed use, due to clear evidence of a link between sunbed use and skin cancer. This is in line with the Government’s National Cancer Strategy.</p> <p>Tax on sugar sweetened drinks introduced in April 2018 This tax was introduced to have a positive effect on nutrition and was designed to encourage healthy eating and shift consumption towards a healthier diet. It is hoped that consumers would be more responsible and make healthier choices. It is hoped that a reduction in consumption would tackle obesity, diabetes etc.</p> <p>Environmental levy on plastic bags Ireland was a pioneer in reducing the usage of plastic shopping bags. The small levy, introduced in 2002 aimed to discourage the purchase of plastic bags, ultimately reducing litter. This levy has converted most of the population to the use of re-usable bags. Consumers now seek alternatives to the use of these plastic bags. Plastic bags now account for only 0.14% of total litter compared to 5% in 2002.</p> <p>Tobacco products tax / tax on alcohol The excise duty on a packet of 20 cigarettes increased by 50 cents (including VAT) with a pro-rata increase on the other tobacco products, and an additional 25c on roll your own tobacco in Budget 2018. VAT and excise duties on alcohol and tobacco discourage the consumption of these products and reduce their negative health effects.</p> <p>Introduction of Carbon taxes in 2010 / environmental taxes Carbon taxes, imposed in a similar way to excise duties, change the relative price of fuels, deterring the use of fossil fuels that lead to higher carbon emissions and ultimately to climate change. These taxes are imposed to reduce carbon emissions on fuel and utility bills. Such environmental taxes aim to encourage consumers to change their patterns of consumer behaviour.</p> <p>-1m if example omitted</p>	<p></p> <p>5</p> <p>3 x 5</p>

	Possible responses	Max Mark
(iii)	<p>Reduced VAT rate for the tourism sector The 9% reduced VAT rate for the tourist sector was introduced a number of years ago to promote tourism in Ireland. It is acknowledged that this reduction in VAT resulted in an increase in services in this sector resulting in increased employment and allowed for expansion in the industry and encouraged Irish residents to holiday in Ireland.</p> <p>VRT Since 2008 the VRT on the initial purchase price of a vehicle is based on CO₂ so the lower the CO₂ emissions, the lower the tax. The charging of the VRT and the motor tax in Ireland on the basis of CO₂ emissions resulted in a significant switch towards diesel-powered cars.</p> <p>Outline one intervention, other than taxation, that a government could consider to change consumer behaviour.</p> <p>National Advertising Campaigns The government could raise awareness of the damage certain products can cause to a person's health and wellbeing in order to change their behaviour. They could run national advertising campaigns to raise awareness.</p> <p>Education Programmes could be introduced into schools in order to attempt to change consumer behaviour.</p> <p>Legislation Passing of laws to change consumer behaviour e.g. the introduction of the smoking ban. Introduce fines for offences e.g. littering/ pay-by-weight schemes.</p> <p>Government grants The government could provide grants for retrofitting of houses / encouraging better energy use etc.</p>	<p>5 (2+3)</p> <p>25</p>

	Possible responses	Max Mark
<p>(c)</p> <p>(i)</p> <p>(ii)</p>	<p><i>In 2016, the Government [budget] deficit was €1.8 billion, an improvement on the 2015 deficit of €5.0 billion. (Source: CSO, July 2017)</i></p> <p>Define the term budget deficit.</p> <p>A budget deficit arises when government current expenditure is greater than government current income.</p> <p>Discuss the possible economic consequences of a reduction in the budget deficit for the Irish economy.</p> <ul style="list-style-type: none"> • Less borrowing for the Irish economy With the deficit falling it will mean reduced borrowing resulting in reduced debt repayment and interest repayments. • Less burden on future generations of taxpayers Inheriting a reduced national debt may improve living standards for future generations. • Improved image of country abroad The ability to manage the national finances may improve Ireland’s international credit-rating. Our debt rating is rated as investment grade by all the main credit rating agencies • Less money may be spent in public services /reduction in public sector numbers Some public services may be discontinued; the standard of services may deteriorate (e.g. health services) while the charges for some state services may be increased. The reduction in the deficit could be achieved by reducing the numbers employed in the public sector; reducing wage rates in the sector; out-sourcing to the private companies. • Effects on economic activity / growth In the short term a reduction in spending could result in reduced demand. In the longer term an improvement in the state finances may, through increased confidence, stimulate demand and result in an increase in economic activity. • Effects on standard of living In the short term reducing the deficit could be achieved by increased taxation / reduced spending – this would reduce the standard of living. These actions may have a greater effect on lower income groups (widening the gap between rich and poor). <p>Other: More people may engage in the black economy. The actions of the government to reduce the deficit may result in public unrest e.g. the protests against the introduction of water charges etc.</p>	<p>6</p> <p>2 x 6 (3+3)</p>

	Possible responses	Max Mark
(c) (iii)	<p>Is a budget deficit always bad for an economy? Outline two reasons for your answer.</p> <p style="text-align: center;">No</p> <p>Stimulates demand If the increase in government expenditure will increase the demand for goods and service i.e. stimulate aggregate demand within the economy this may stimulate economic growth.</p> <p>Job creation The increase in demand may lead to the creation of jobs and further increases in spending. The increase in consumer spending may lead to increased business confidence and further stimulate economic growth.</p> <p>Self-financing deficit With economic growth and increased consumer spending, government revenues may increase, and the deficit may be self-financing. Some people may consider it reasonable to allow a budget deficit during a temporary downturn in economic activity.</p> <p style="text-align: center;">Yes</p> <p>Unsustainable debt levels If the deficit is being financed by increasing the National Debt to unsustainable levels or to a level in breach of the EU fiscal pact. As a share of GDP Irish government debt is currently over 60% while the Maastricht ceiling is 60%.</p> <p>High future taxation levels Budget deficits will ensure that taxation levels for future generations will remain high.</p> <p>Deadweight debt If the deficit is used and no extra tax revenue is earned as a result of the spending then it may be considered not good for the economy/not self-liquidating.</p>	<p>2 x 6 (3+3)</p> <p style="text-align: right;">30</p>

Q6 Migration; Membership of the SEM; ODA for LDCs

	Possible responses	Max Mark
<p>(a) (i)</p>	<p><i>Ireland's net inward migration in 2017, according to CSO, was +19,800 the highest net inward migration since 2008.</i></p> <p>Describe the factors that drive migration between countries.</p> <p>Lack of jobs opportunities / Ireland's economy recovery Economic downturns in a country encourages people to look for opportunities in other countries. The lack of opportunities for promotion may result in workers seeking such promotional opportunities abroad. Ireland's economic performance has improved with increased job opportunities / economic growth – an expanding economy etc.</p> <p>Low rates of pay / standard of living Low wage rates will encourage workers to seek work abroad. Similarly, if the standard of living in another country is perceived to be better this makes moving more attractive. Higher rates of social welfare available.</p> <p>Existence of high taxes High tax rates can encourage people to look elsewhere to countries where they will have higher take home pay and a higher standard of living.</p> <p>Valuable work experience and skills available abroad Some workers, as part of their professional development, may seek opportunities abroad so as to gain experience and improve their skills.</p> <p>Political or religious persecution The existence of persecution forces people to leave their own country and seek refuge in countries free from such persecution.</p>	<p>3 x 5 (2+3)</p>

	Possible responses	Max Mark
(ii)	<p>Discuss the economic consequences of increased immigration for the Irish economy.</p> <ul style="list-style-type: none"> • Effect on state services Greater need for / pressure on schools, hospitals, roads and housing. May result in a better utilisation of state services. • Larger domestic market Level of demand for consumer goods and services will increase / returning emigrants and immigrants will add to the pool of potential customers. • Effect on wage levels Increased immigration may help sustain the boom by moderating pay growth / downward pressure on wages. • Increases the supply of labour Immigrants may bring new education and skills into the economy/ fill vital gaps in the labour market at all skill levels, resulting in greater flexibility in the labour market. • Effect on state finances The economy may benefit from the investment in state funded education if Irish emigrants who were the beneficiaries of state funded education return. The effect on the state finances depends on whether the contribution to tax revenues is greater than the costs to the state of the new immigrants – child benefits, unemployment benefits etc. • Effect on firms Firms may benefit from economies of scale; the availability of more skilled / educated workforce resulting in increased productive capacity. Investment opportunities may increase. Immigrants may bring new products, businesses and markets to Ireland. • Effect on Irish society Economy may benefit from new skills and traditions; society becomes more multi-cultural enhancing the quality of life / standard of living. There may be a negative impact on the quality of life - traffic congestion; pollution; longer commuting times; lower standard of living. • Effect on dependency ratio This increase in immigration may increase the numbers in the labour force and this may lower the dependency ratio and lead to increased tax revenue for the state. • Increase in property prices With the increase in immigration the demand for housing increases which may further fuel increases in property prices in Ireland. 	<p>3 x 5 (2+3)</p> <p>30</p>

	Possible responses	Max Mark
(b)	<p>Discuss the economic arguments for and against Ireland being a member of the Single European Market.</p> <p style="text-align: center;">Arguments for</p> <ul style="list-style-type: none"> • Larger market / encourages trade expansion Increased opportunities for Irish firms to expand into new markets, increase profits, reduced costs and benefits of large scale production. Ease of access to raw materials. The removal of barriers to trade, allows for reduced transaction costs which may lead to increased sales. • Irish firms can bid for public sector contracts within the EU Irish firms can now bid for those contracts which were previously awarded to domestic firms. • Benefits for consumers More trade means more choice for consumers and/or lower prices. Harmonisation of product standards to allow free trade in services such as insurance. • Ease of trade Reduction in paper work needed to trade saves time and money; fewer delays waiting to get exports through customs posts/ greater ease of doing business between member states. Harmonisation of laws have made it easier for Irish firms to trade. • Free movement of capital The liberalisation of financial markets may encourage a better flow of investment funds. • Free movement of labour Access to new sources of labour supply may lead to reduced costs / work opportunities across a wide area. Increased job opportunities promote higher living standards. • Legislative / funding benefits The EU has attempted to harmonise many aspects of Irish law and rights for citizens and workers (minimum working time directive) / standardisation of national regulations. Firms can avail of grant aid from the EU. • Social benefits The EU provides benefits through regeneration grants, education grants for students and other social enterprise projects (e.g. Erasmus funding/scholarships for higher education students). • Profitable investment opportunities Attracts FDI into the country in particular US firms who want access to the EU market. 	<p>7+6+6+6 7 (3+4) 6 (3+3)</p> <p>Two points in favour and two against</p>

	Possible responses	Max Mark
	<p style="text-align: center;">Arguments against</p> <ul style="list-style-type: none"> <p>● Increased / intensified competition Irish firms will be under greater pressure if they are not able to compete on a cost basis/Increased competition may drive Irish firms out of business.</p> <p>● Loss of sovereignty / reduced autonomy Considerable reduction in national sovereignty as Ireland’s economic policies have to be consistent with other policies being pursued in other member states. Ireland faces reduced autonomy in national and competition policies as EU directly influences competition policies.</p> <p>● Reduced availability of EU funding With accession of new member states there is less funding allocated to Ireland and this may hinder economic development in Ireland.</p> <p>● Public procurement of large public contracts There is a common policy on government procurement (Ireland is obliged to consider submissions of bids for government contracts from any member country). Large public contracts must be advertised at an EU wide level.</p> <p>● EU monitoring / EU wide policies EU level of monitoring in state markets is now common place and this does not allow the state a free hand in implementing policies. Policies decided at EU level may not always suit Ireland.</p> <p>● Isolation from EU decisions Some citizens may feel that decisions made at EU level are too far removed from them – the ‘democratic deficit’.</p> 	25

	Possible responses	Max Mark
(c)	<p><i>For 2018, the Irish government has allocated just over €707 million for Official Development Assistance (ODA) to Less Developed Countries (LDCs).</i></p> <p>Discuss the benefits and challenges of Official Development Assistance for LDCs.</p> <p style="text-align: center;">Benefits:</p> <ul style="list-style-type: none"> • Lives saved • Helps builds infrastructure (which promotes industrial development) • Improvement in health services • Aid for agriculture • Clean water and sanitation • Support education / training • Reduction in poverty levels etc. 	<p>2 x 5 (2+3)</p>

	Possible responses	Max Mark
(c)	<p style="text-align: center;">Challenges</p> <ul style="list-style-type: none"> • Aid may not ‘trickle down’ The increased wealth may not trickle down to the people who need it most and economic growth may not result. In the case of some LDCs, the provision of foreign aid may end up in the hands of a ruling elite and not result in economic growth as the money doesn’t trickle down to the people who really need it. • Develop a culture of dependency In some LDCs a culture of dependency may exist, and this aid may re-enforce this dependency. This may limit economic growth and development. • High profile projects / control of projects In some LDCs, instead of using the aid provided for the provision of adequate infrastructure it is used for ‘high profile’ projects. Governments need to prioritise those projects which will ultimately lead to economic self-sufficiency and increase the productive capacity of the LDC. Some projects may be controlled by foreign countries or a proportion of the profits made may have to be sent abroad. • Implications of aid Difficulty may arise when the aid must be repaid. Will the aid add to some LDCs already high national debt and result in difficulties when repaying, thereby hindering economic growth? Have conditions been attached to the aid which may limit the economic choices of future governments? • Political Corruption / poor governance Some of the aid may be spent on military regimes which can lead to civil unrest, restricting economic growth and discouraging FDI. Corruption may occur with some governments using the aid for own means rather than promoting economic growth. • Type / use of aid The projects may focus exclusively on food aid. In order for economic growth to be sustained, economic projects must be undertaken that focus on developing the secondary and tertiary sectors so as to aid economic growth. Maybe countries should consider trade as a better way to promote economic growth. 	<p style="text-align: center;">2 x 5 (2+3)</p> <p style="text-align: right;">20</p>

Q7 Irish economy, banking regulation & Government capital spending

	Possible responses	Max Mark
(a)	<p>Assess the performance of the Irish economy in the past 12 months in each of the following areas: Economic growth; Employment / unemployment; Inflation; The size of the National Debt.</p> <p style="text-align: center;">Economic growth</p> <p style="text-align: center;">GDP rate of growth over approx. 4% (3% - 5%)</p> <ul style="list-style-type: none"> • Central Bank predict GDP of 4.4% for 2018 and 3.9% for 2019. • In 2018, GDP is expected to grow by 4.8% (ESRI Spring '18 Quarterly Economic Comment) • Strong domestic consumption and investment along with international conditions are the main factors underpinning this growth. (ESRI) • Allows the living standards of the citizens to progressively improve over time. • Fastest growing economy in EU/ growing faster than in previous years. <p style="text-align: center;">Employment/ unemployment</p> <p>Unemployment rate below 6%. / Employment 2.24 million (in the first quarter of 2018)</p> <ul style="list-style-type: none"> • Seasonally adjusted unemployment rate Dec 2017 was 6.2% down from 7.5% twelve months previously. • Fall in male unemployment/Fall in Youth unemployment • Unemployment averaged 6.7% in 2017 and is expected to decline to 5.4% in 2018 and 4.5% in 2019. (ESRI Spring 2018 Quarterly Economic Comment). • Unemployment currently at 5% (132,900), almost consistent with full employment while youth unemployment is at 11.9% and underemployment is high. • CSO figures indicate the economy has recorded 23 consecutive quarters of employment growth since 2012 • Employment grew by 2.9% or 62,100 in the year to the first quarter of 2018 • Move from part-time to full-time employment <p style="text-align: center;">Inflation/Price level</p> <p style="text-align: center;">Rate of inflation below 1%.</p> <ul style="list-style-type: none"> • CPI 0.5% higher in Feb compared with Feb 2017 (CSO March 2018) • As the labour market tightens, wage pressure will continue to be strong and is projected to feed into higher inflation. (OECD Vol 17 Issue 2 Ireland) • Key role in maintaining competitiveness / limiting demands for wage increases. 	<p style="text-align: center;">4 x 5 (2+1+2)</p>

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	<p style="text-align: center;">The size of the National Debt</p> <p style="text-align: center;">Ireland's national debt at approx. €200 bn.</p> <ul style="list-style-type: none"> • Ireland's National Debt stood at €198 bn at the end of last year up 1% from the previous year. (Irish Times Feb 20, 2018) • General Government Debt in June 2017 was €211.2bn • Ireland's National Debt stood at €198 bn at the end of last year up 1% from the previous year. (Irish Times Feb 20, 2018) • As a % of GDP, Ireland's debt was about 75% last year • The debt/GDP ratio is set to fall to 69% by the end of 2018 (NTMA) • Though debt is falling as a % of GDP, overall debt has fluctuated in tandem with government borrowing. <p style="text-align: center;">2 marks + 1 mark + 2 marks</p> <p style="text-align: center;">3 points: approximate figure + accurate trend + comment</p>	20
(b)	<p>Outline the economic advantages of effective regulation of the banking sector. Your answer should include advantages for citizens and advantages for the banking industry.</p> <p style="text-align: center;">Citizens</p> <ul style="list-style-type: none"> • Provide protection to depositors / consumers To ensure sound and solvent financial institutions giving depositors confidence that their deposits and investments are safe. /customers have confidence in the financial system. Avoid consumers being over-charged e.g. trackers mortgage scandal. • May help consumers make better financial decisions Some consumers can make poor financial choices e.g. take on too much debt or choose products that do not match their needs. Therefore, they need protection through regulation. • Confidence in banking sector / economic growth By regulating the banking sector consumers will have confidence in the banking sector. It may encourage greater savings. A stable banking sector will facilitate economic growth. • Secure employment By ensuring that the banking sector is secure it may mean stability in this sector and thus ensure that jobs are secure. • Benefits for taxpayers/less need for government intervention If banks are stable and promote savings and investment, then they become more profitable, providing more funds for government services. It also means that there is reduced risk of taxpayer funds being needed (for possible bailouts). 	<p style="text-align: center;">7+6+6+6 7 (3+4) 6 (3+3)</p> <p style="text-align: center;">Minimum of two of each</p>

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(b)	<p style="text-align: center;">Banking sector</p> <ul style="list-style-type: none"> • To avoid reckless lending Proper regulation should ensure that banks, which engaged in excessive risk-taking and reckless property-related lending, which resulted in Irish borrowers borrowed too much in the past, should not re-occur. • To maintain stability in the financial system / provide investor confidence To foster a stable / healthy financial system. Regulation will ensure the financial sector will operate efficiently and public confidence will be restored. • Less prone to shocks / need for government intervention and decision making It will help to ensure that what happened in 2008 should not re-occur and therefore there will be less shocks to the financial system reducing the need for government intervention. • To reduce macro-economic instability When banks were left to their own devices they loaned excessively in good times and little in bad times. Regulation ensures that this boom/bust cycle is controlled. Strong financial institutions are necessary for an economy. 	25

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(c)	<p><i>The Government’s Summer Economic Statement has confirmed that it will increase capital spending by €500m each year from 2019 to 2021. (Source: www.rte.ie, 2017)</i></p>	
(i)	<p>Explain three economic arguments in favour of an increase in government capital expenditure in the Irish economy.</p> <ul style="list-style-type: none"> <p>• Increased demand for housing Faster than expected economic recovery has boosted the demand for housing, both public and private. A priority is to ensure the delivery of 25,000 new houses per annum by the end of this decade so as to better align demand and supply in the market.</p> <p>• Promote balanced regional development The government’s aim is to spread economic growth more evenly and hence address some of the regional imbalances that have emerged in recent years i.e. achieving a more equal regional distribution of economic activity.</p> <p>• Build on the productivity of the economy / attract FDI Investment in public infrastructure is vital for improved competitiveness / to enhance the capacity of the economy/ to sustain the long- term growth potential of the Irish Economy. By improving infrastructure, it may ensure that Ireland continues to attract mobile FDI.</p> <p>• Population / return to previous levels of capital spending Existing provision is too low to keep up with economic demands and demographic pressures. Capital investment fell during the crisis years and the government is conscious of the need to boost the supply of critical infrastructure now. They must also prepare for growing population needs to address the shortage of schools, hospitals, railways, roads, water etc.</p> <p>• Improve the quality of life – need for social infrastructure To provide public amenities that improve the quality of life and are valued by communities. To protect the environment/ modern technologies to reduce pollution and carbon emissions thereby improving the health and well-being of individuals/ the “green” economy. To develop sustainable energy supply into the future e.g. more electric car charging points; investment in alternative energy sources.</p> <p>• Create employment The construction sector is a labour-intensive activity. Employment in this sector currently stands at 7% of total employment and is expected to increase to 10% where it was during the last boom period of 2004 to 2007.</p> <p>• To protect the economy against economic shocks By investing in infrastructure, Ireland will become more resilient to external events over which it has limited, if any, control/ To protect the economy from the economic uncertainty it is currently facing e.g. post Brexit.</p> 	<p>3 x 6 (3 + 3)</p>

Q8 National income, FDI & Protection of the environment

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(a)	<p>The table shows National Income (Y), Consumption (C), Investment (I), Exports (X) and Imports (M) for 2016 and 2017.</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th></th> <th>Y</th> <th>C</th> <th>I</th> <th>X</th> <th>M</th> </tr> </thead> <tbody> <tr> <td style="background-color: #cccccc;">2016</td> <td style="text-align: center;">?</td> <td style="text-align: center;">80,000</td> <td style="text-align: center;">20,000</td> <td style="text-align: center;">90,000</td> <td style="text-align: center;">90,000</td> </tr> <tr> <td style="background-color: #cccccc;">2017</td> <td style="text-align: center;">150,000</td> <td style="text-align: center;">100,000</td> <td style="text-align: center;">30,000</td> <td style="text-align: center;">120,000</td> <td style="text-align: center;">?</td> </tr> </tbody> </table> <p>Calculate the following, showing all your workings:</p> <p>(i) The value of National Income in 2016.</p> <p>$Y = C + I + G + X - M$</p> <p>$80,000 + 20,000 + 90,000 - 90,000 = 100,000$</p> <p>(ii) The value of Net Exports in 2017.</p> <p>Net exports = exports minus imports First find the level of M, using equation above.</p> <p>$150,000 = 100\ 000 + 30\ 000 + (120\ 000 - M)$ $M = 100\ 000$ Net exports: $120\ 000 - 100\ 000 = 20,000$</p> <p>(iii) The level of Savings in the economy in 2017.</p> <p>$S = Y - C$</p> <p>$150,000 - 100\ 000 = 50\ 000$</p> <p>(iv) The size of the Multiplier.</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse; width: 100%;"> <tr> <td style="padding: 5px;">$MPC = \frac{\Delta C}{\Delta Y} = \frac{20,000}{50,000} = 0.4$</td> <td style="padding: 5px;">$MPM = \frac{\Delta M}{\Delta Y} = \frac{10,000}{50,000} = 0.2$</td> <td style="padding: 5px;">$MPS = 1 - MPC = 1 - 0.4 = 0.6$</td> </tr> </table> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse; width: 100%; text-align: center;"> <thead> <tr> <th style="width: 50%;">Method 1</th> <th style="width: 50%;">Method 2</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">$\frac{1}{MPS + MPM}$</td> <td style="padding: 5px;">$\frac{1}{1 - (MPC - MPM)}$</td> </tr> <tr> <td style="padding: 5px;">$\frac{1}{0.6 + 0.2}$</td> <td style="padding: 5px;">$\frac{1}{1 - (0.4 - 0.2)}$</td> </tr> <tr> <td style="padding: 5px;">$\frac{1}{0.8}$</td> <td style="padding: 5px;">$\frac{1}{0.8}$</td> </tr> <tr> <td style="padding: 5px;">1.25</td> <td style="padding: 5px;">1.25</td> </tr> <tr> <td colspan="2" style="padding: 5px;"> $MUL = \frac{\text{Increase in Income}}{\text{Increase in injections}} = \frac{50,000}{10,000 + 30,000} = 1.25$ </td> </tr> </tbody> </table>		Y	C	I	X	M	2016	?	80,000	20,000	90,000	90,000	2017	150,000	100,000	30,000	120,000	?	$MPC = \frac{\Delta C}{\Delta Y} = \frac{20,000}{50,000} = 0.4$	$MPM = \frac{\Delta M}{\Delta Y} = \frac{10,000}{50,000} = 0.2$	$MPS = 1 - MPC = 1 - 0.4 = 0.6$	Method 1	Method 2	$\frac{1}{MPS + MPM}$	$\frac{1}{1 - (MPC - MPM)}$	$\frac{1}{0.6 + 0.2}$	$\frac{1}{1 - (0.4 - 0.2)}$	$\frac{1}{0.8}$	$\frac{1}{0.8}$	1.25	1.25	$MUL = \frac{\text{Increase in Income}}{\text{Increase in injections}} = \frac{50,000}{10,000 + 30,000} = 1.25$		<p>5</p> <p>6</p> <p>3</p> <p>6</p> <p style="font-size: 24pt; font-weight: bold; margin-top: 20px;">20</p>
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(b)	<p>Discuss the benefits and challenges of Foreign Direct Investment (FDI) for the Irish economy.</p> <p style="text-align: center;">Benefits</p> <ul style="list-style-type: none"> • Creates employment (direct and indirect employment) 9 of the top 10 global companies have operations in Ireland in ICT, life sciences, financial services, engineering and business services. Jobs are also created in local firms. • Exports / effect on balance of trade The flow of foreign payments into Ireland for the goods and services exported from these companies increases. Contributes to the expansion and diversification of Irish exports as well as the gains to society. • Effect on government revenue MNCs have contributed €2.8bn in Corporation Tax; help reduce social welfare spending; boost local communities. Government expenditure increases in order to attract these companies into Ireland. • Economic growth By increasing output GNP increases. They encourage other firms to increase output and boost economic growth within the country. • Benefits to workers' productivity Irish workers benefit from knowledge, technology and acquisition of skills. The productivity of workers increases due to this additional knowledge. • Increases the attractiveness of Ireland as location FDI benefits Ireland's skill base, human capital and business culture and this may encourage other businesses to choose Ireland as a location / attract more FDI. 	<p>7+6+6+6 7 (3+4) 6 (3+3)</p> <p>Two benefits and Two challenges</p>

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(b)	<p style="text-align: center;">Challenges</p> <ul style="list-style-type: none"> <p>• Taxation issues Some citizens question the effective rate of tax which some MNCs contribute. Multinationals pay most of Ireland’s Corporation Tax which is hugely volatile and represents over 16% of the state’s revenue. Taxation of intangibles presents a problem globally.</p> <p>• Effects on Ireland if they re-locate If they decide to move out of Ireland, then the effects on the local and national economy can be significant. Over 1,100 foreign companies have decided to place Ireland at the hub of their European operations employing 174 000 people. 122 000 people employed indirectly as a result of FDI.</p> <p>• Repatriation of profits Some citizens question the amount of profits repatriated and the negative effect this can have on the Irish economy. Some suggest that more measures should be introduced to limit the repatriation of profits.</p> <p>• Current uncertainties re the location of FDI The rise of developing economies may mean that they become more attractive as destinations for FDI. Current uncertainty concerning Brexit and Trump; growing geopolitical tensions and economic uncertainty means that Ireland’s ability to attract FDI is becoming more difficult.</p> <p>• Distribution of benefits / linkages with Irish firms How can the benefits of FDI be evenly spread throughout the country? How can better linkages and more collaboration between indigenous companies and FDI be established? Some MNCs may dominate the market, driving out locally-based business enterprises. Are Irish companies losing out on attracting graduates / experiencing wage demands to meet the graduate expectations in MNCs?</p> 	25

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<p>(c)</p> <p>(i)</p>	<p><i>'Official greenhouse gas emission projections indicate that Ireland will fail to meet the EU 2020 targets by a substantial margin.'</i> (Source: Climate Change Advisory Council)</p> <p>Outline three economic reasons why protection of the environment is an increasing concern for governments.</p> <ul style="list-style-type: none"> • Protection of a valuable asset The environment is a strategic and valuable asset and as such must be protected and proactively managed to ensure it forms the basis of economic welfare. A growing population is putting pressure on existing resources. Natural resources are shrinking so protection is needed. • Help create a healthy society Pollution of environment tends to affect many people and it is difficult for individuals on their own to address it. Damage to the environment is affecting future generations and Ireland needs to protect future generations. Ireland is currently experiencing difficulties in disposing of its waste. • Pressure to meet international targets Huge international / EU focus exists on climate change and directives and regulations are issued re targets to help curb global emissions. Governments are under pressure to meet international targets. Ireland also fears being fined for not meeting targets set in international agreements. • Increased public awareness / demands by public for improvements Citizens are more aware now of the need to protect the environment hence pressure is being applied to governments to fulfil their social responsibility to protect its citizens. The emergence of 'green politics' is also increasing the pressure on political parties. • Cost to the government of coping with environmental damage Citizens want the government to provide flood barriers / promote better energy use etc which involve significant costs for governments. 	<p>3 x 5 (2 + 3)</p>

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