



**Coimisiún na Scrúduithe Stáit**  
**State Examinations Commission**

**Leaving Certificate 2015**

**Marking Scheme**

**Economics**

**Ordinary Level**

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

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

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

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

## **Future Marking Schemes**

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



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*State Examinations Commission*

**LEAVING CERTIFICATE 2015**  
**MARKING SCHEME**

**ECONOMICS**  
**ORDINARY LEVEL**

## Marking Scheme and Support Notes for use with the Marking Scheme

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

- The support notes presented are not exclusive or complete.
- 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.
- **Further relevant points of information presented by candidates are marked and rewarded on their merits.**
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.
- 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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## SECTION A (100 marks)

1. Insert the factor of production **or** an appropriate example of the factor of production into the **four** spaces provided below.

Factor of Production	LAND	(ii) LABOUR	CAPITAL	(iv) ENTERPRISE
Example	(i) AGRICULTURAL LAND oil & gas deposits etc.	TEACHER	(iii) MACHINERY, infrastructure etc.	BUSINESS OWNER

**First correct response: 8 marks**  
**2<sup>nd</sup> correct response: 4 marks**  
**3<sup>rd</sup> & 4<sup>th</sup> correct responses: 2 marks each.** (16 marks)

2. Which of the following characteristics / assumptions listed below refer to Perfect Competition?  
 (Write **True** or **False** after each sentence.) (16 marks)

	SENTENCE	TRUE or FALSE
(i)	The goods are homogenous / identical.	TRUE
(ii)	Barriers to entry exist in this market.	FALSE
(iii)	There are many buyers and sellers in the market.	TRUE
(iv)	The goods are close substitutes.	FALSE

**First correct response: 8 marks**  
**2<sup>nd</sup> correct response: 4 marks**  
**3<sup>rd</sup> & 4<sup>th</sup> correct responses: 2 marks each.** (16 marks)

3. The rate of Corporation Tax in Ireland is currently at 12.5 %.  
 Explain the underlined term **and** outline **one** possible reason why the Irish government retained the rate at 12.5 % in Budget 2015. (16 marks)

**Explanation**

**This is a tax on the profits made by businesses (in Ireland).**

**One reason** why the Irish government retained the rate at 12.5 % in Budget 2015.

- To continue to attract foreign direct investment (FDI) into Ireland.
- To have a competitive tax rate.
- To enable businesses in Ireland re-invest more profits and thereby remain competitive.
- To enable businesses to expand their operations and increase employment.
- To increase economic growth.
- To increase exports: some firms may export the output produced.
- To improve government finances through increased CPT, Income tax and VAT.

**Explanation: 10 marks: 5 marks + 5 marks**  
**One reason: 6 marks** (16 marks)

4. Choose the correct words from the list below to complete the following two statements:

**Sale                  Purchase                  Goods                  Services**

Statement A

**Visible exports** are defined as the **Sale** of Irish **Goods** to foreign countries.

Statement B

**Invisible imports** are defined as the **Purchase** of foreign **Services** by Irish people.

(16 marks)

**First 2 correct responses at 6 marks each.  
3<sup>rd</sup> & 4<sup>th</sup> correct responses: 2 marks each.**

5. (a) State **two** economic characteristics of Less developed Countries (LDCs). (16 marks)

- Low per capita income / low standard of living / widespread poverty
- Inadequate/poor infrastructure
- Large percentage of the population engaged in extractive/primary industries.
- Lack of capital
- Poor provision of state services/low literacy levels/ disease and a poor standard of health
- High National /Foreign Debt
- High levels of unemployment
- Possible exploitation by multinationals: low wage rates for workers / lack of care for the environment / low export prices
- High population growth rates
- Famine/ low life expectancy.

(b) Outline **one** way Ireland (the Irish Government **or** Irish citizens) could support LDCs.

- Citizens could buy goods produced in LDCs / buy Fair Trade products.
- Citizens could campaign for debt reduction / change in government policies.
- Citizens could volunteer to work in LDCs.
- Donations including financial aid by citizens.
- Irish government could increase financial aid to LDCs (in line with UN target).
- Irish government, through the EU, could seek a re-negotiation of the debts of LDCs.

**First 2 correct responses at 6 marks each  
3<sup>rd</sup> correct response at 4 marks**

6. What do the following letters stand for? (Write each answer in the space provided.) (17 marks)

ECB	European Central Bank
CPI	Consumer Price Index
WTO	World Trade Organisation

**First 2 correct responses at 6 marks each (2 + 2 + 2)  
3<sup>rd</sup> correct response at 5 marks (2 + 2 + 1)**

7. Suppose the Apple iPhone 6 has a Price Elasticity of Demand (PED) of – 2.8. (17 marks)

- (i) Explain what is meant by the negative (-) sign.

**This means that as the price of this good rises quantity demanded falls.**

- (ii) Circle the correct answer in each case to complete the following statement.

A 10% decrease in the market price of this Apple iPhone will result in a fall /  rise  
in the quantity demanded by  28% / 2.8%.

**Explanation: 10 marks: 5 marks + 5 marks  
Each correctly circled answer: 4 marks + 3 marks each.**

8. Some economists say that Ireland is experiencing a 'Brain Drain' due to emigration. Explain the underlined term and state **one** other economic problem that Ireland may experience due to emigration. (17 marks)

**Explanation:**

The emigration of many of the most highly educated Irish workers to rich countries.

**One other economic problem:**

Possible higher dependency ratio / increased taxation.

The state loses out on its investment in the education/training of these citizens.

Smaller domestic market and reduced opportunities for investment by businesses / entrepreneurs.

**Explanation: 10 marks  
One other economic problem: 7 marks.**

9. More and more Irish consumers are buying/shopping online (internet). (17 marks)

(a) Outline **two** economic benefits of this development for Irish consumers.

- **Greater choice of goods and services:** More choice than may be available in your local town.
- **More competitive prices:** retailers may offer lower prices online due to increased sales / lower costs / economies of scale / discounts to online buyers.
- **Convenience:** people can buy from their own homes 24/7.
- **Savings:** lower costs of shopping for consumer: no need to travel to shops saving on fuel, parking fees etc.

**2 points at 6 marks each.**

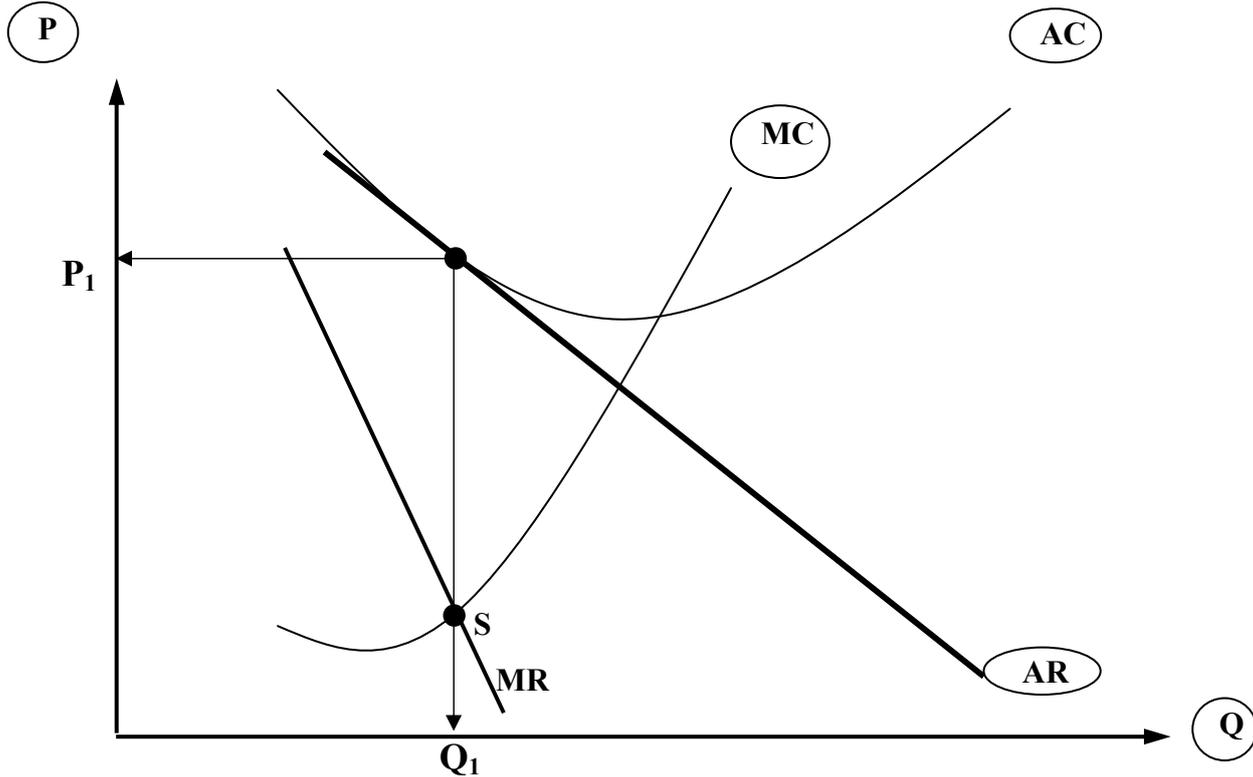
(b) Outline **one** possible economic cost of this development for the Irish economy.

- **Decline in domestic economic activity** due to the possible reduction in people shopping.
- **Job losses:** retailers reduce number of employees due to reduced store sales.
- **Reduction in tax revenues for Government:** reduced VAT takings, possible reduction in CPT, Income tax and USC.
- **Possible increased imports into the economy:** resulting in a leakage from the circular flow of income.

**5 marks**

## Q1 Imperfect Competition and Advertising

The diagram below represents the long run equilibrium of a firm in **Imperfect Competition**.



(a) Copy the diagram into your answer book.

- (i) State what **each** of the 5 labels circled above represent.
- (ii) The firm is in equilibrium at point S. Show on your diagram:
  - The quantity the firm will produce in equilibrium (use label  $Q_1$ )
  - The price the firm will charge for  $Q_1$ . (use label  $P_1$ )

(30 marks)

(i)

Label	Full Title	
P	Price	<b>5 marks</b>
Q	Quantity	<b>5 marks</b>
AC	<b>Average Cost</b>	<b>5 marks (3 + 2)</b>
MC	<b>Marginal Cost</b>	<b>5 marks (3 + 2)</b>
AR	<b>Average Revenue</b>	<b>5 marks (3 + 2)</b>

(ii) Equilibrium occurs at **point S** on the diagram.

Show on your diagram:

- the quantity the firm will produce in equilibrium (use label  $Q_1$ )
- the price firm will charge for this output (use label  $P_1$ )

$Q_1$	<b>the quantity the firm will produce</b>
$P_1$	<b>the price charged for this output</b>

1<sup>st</sup> correct response: **3 marks** / 2<sup>nd</sup> correct response: **2 marks each**.

(b) There are no *barriers to entry* in Imperfect Competition.

- (i) Explain the term *barriers to entry*.
- (ii) State **two** other characteristics of Imperfect Competition.
- (iii) Write brief notes on **each** of these.

(20 marks)

(i) **Barriers to entry**

Are those factors which may prevent other firms from entering a market/ an industry.

**Example:** a single firm may have sole ownership of a factor of production/key resource.

**Explanation: 4 marks.**  
**Example only (2 marks)**

(ii) **Characteristics:**

**There are many buyers.**

- No individual buyer can influence by his/her own actions the market price of the goods.

**There are many sellers.**

- Each seller acts independently.
- An individual seller can influence the quantity sold by the price it charges for its output.

**Differentiated products.**

- There are differences between the goods produced.
- It's possible for firms to use branding / advertising to distinguish their good from that of their competitors.

**Almost Perfect knowledge**

In the market every firm has almost full knowledge as to profits earned by other firms in the industry.

**Each firm tries to maximise profits.**

- The sole aim of each firm is to produce that quantity where  $MC = MR$ .
- Each firm will also try to minimise costs.

**2 at 8 marks each ( 4 + 4 )**

(c) Firms in Imperfect competition advertise to build *brand loyalty*.

- (i) Explain the term *brand loyalty*.
- (ii) State and explain **one** possible advantage of advertising for the consumer and **one** possible advantage for the seller.
- (iii) State and explain **one** possible disadvantage of advertising for the consumer and **one** possible disadvantage for the seller.

(25 marks)

(i) **Brand loyalty**

The desire by customers to stick with one brand and always buy that brand (e.g. always buying Barry's tea instead of Lyons tea).

**5 marks**

(ii) **Advantages of advertising**

<b>To the consumer</b>	<b>To the seller</b>
<b>Provides information / awareness / choice</b> Consumers become more informed of prices, special offers, and the availability of new products / services. Wider choice of goods and services.	<b>Increased Sales / Profits</b> If more consumers are informed then sales/profits may increase.
<b>More competitive prices</b> May lead to increased competition which could decrease prices further.	<b>Bigger share of the market</b> If sales increase the firm may increase its share of the market, leading to an improved corporate image.
<b>Economies of scale</b> If sales increases then firms may increase production and so consumers may benefit from lower prices, due to economies of scale.	<b>New firms</b> Enables new firms to enter a market more easily because it gives entrants a means to attract customers away from existing firms.

**2 points at 5 marks each (3 + 2)**

(iii) **Disadvantages of advertising**

<b>To the consumer</b>	<b>To the seller</b>
<b>Higher prices</b> The firm may increase prices to pay for the increased costs.	<b>Increased costs</b> Advertising increases the costs of the firm.
<b>False / Misleading information</b> Consumers may be receiving inaccurate/incomplete information leading to confusion / incorrect information.	<b>Expectations of consumers</b> The business may not meet the (increased) expectations of consumers and, eventually, image/reputation of the business may be affected.
<b>Impulse buying</b> The advertising may result in customer buying on impulse/ may create a desire that otherwise might not exist.	<b>Legal action</b> If the advertising is false/misleading the firm could face legal action.
<b>Harmful commodities</b> Advertising may encourage the consumption of harmful commodities e.g. alcohol which may endanger the health of the consumer.	<b>Pressure to improve performance</b> Advertising by competitors can put pressure on individual firms to improve quality in order to maintain market share.
<b>May eliminate competition</b> Advertising, if extensive, may act as a barrier to entry into the industry and result in less competition for consumers.	

**2 points at 5 marks each (3 + 2)**

## Q2 Demand and Supply, Markets and Water charges

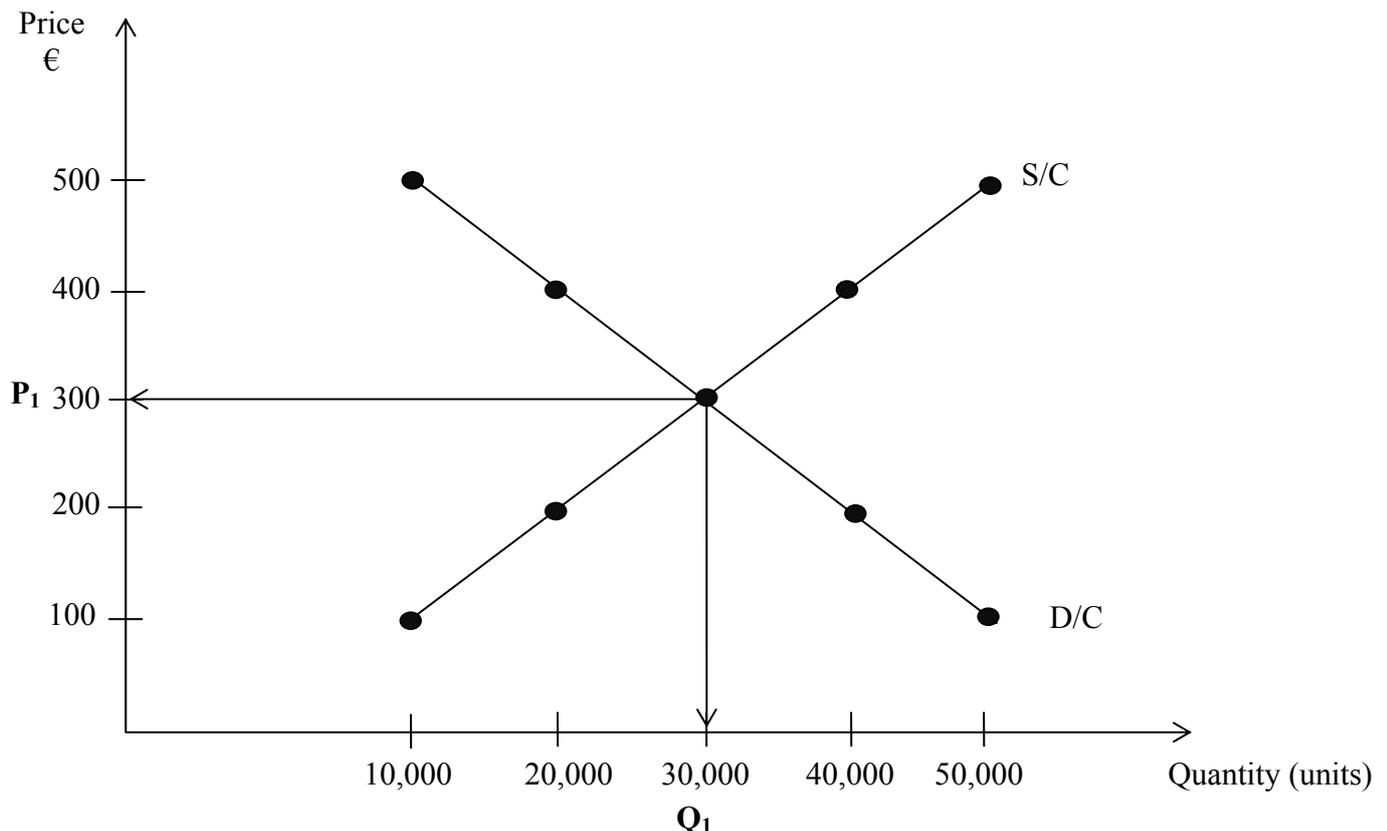
The information below represents the market demand and supply schedules for Smartphones.

Price €	Quantity Demanded (units)	Quantity Supplied (units)
100	50,000	10,000
200	40,000	20,000
300	30,000	30,000
400	20,000	40,000
500	10,000	50,000

Using the above information and **one** diagram:

- (a)
- (i) Draw **and** label the market demand curve for Smartphones.
  - (ii) Draw **and** label the market supply curve for Smartphones.
  - (iii) Show on your diagram:
    - The market equilibrium price for Smartphones (use  $P_1$ )
    - The market equilibrium quantity for Smartphones (use  $Q_1$ ).
 (You may use graph paper if you wish.)

(30 marks)



**Graph: D/C: 5 points at 2 marks each = 10 marks.**

**S/C: 5 points at 2 marks each = 10 marks.**

**Labels: P, Q, D/C and S/C = 4 marks. (4 at 1 mark each).**

**$P_1$  and  $Q_1$ : 2 x 3 marks each = 6 marks.**

**(1 mark each if lines drawn but  $P_1$  and  $Q_1$  are not labelled).**

(b) The demand curve for smartphones **OR** the supply curve for smartphones may shift to the right or to the left due to the following:

- a fault in the manufacturer’s smartphone design is discovered leading to their recall
- a range of new Apps is made available and included with the smartphone.

In relation to **each** development above, answer the following **three** questions:

- state whether the demand curve **or** supply curve will shift
- state whether the curve you mention will shift to the right **or** the left
- explain **why** the curve has shifted in the direction you have stated. (20 marks)

	<b>Fault in the Manufacturer’s design</b>	<b>Mks</b>	<b>A range of new Apps is made available</b>	<b>Mks</b>
D/C or S/C?	<b>Supply Curve</b>	<b>5</b>	<b>Demand Curve</b>	<b>5</b>
Shift to right or left?	<b>Left</b>	<b>3</b>	<b>Right</b>	<b>3</b>
Explain	<b>Less smartphones will be supplied at each price.</b>	<b>2</b>	<b>More smartphones will be demanded due to improvements</b>	<b>2</b>
<b>Alternative Answer</b>				
Other option	<b>Reputational damage may cause Demand Curve to shift to the left.</b>	<b>10</b>	<b>Supply Curve may shift to the right as more companies increase the amount of aps. produced.</b>	<b>10</b>

(c) Domestic users in most European countries pay for the provision of clean water and wastewater service provision.

- Outline **two** economic reasons for the introduction of water charges for households.
- State and explain **one** possible economic effect which these water charges may have for **each** of the following:
  - households who pay these water charges
  - the Irish government. (25 marks)

- (i) Outline **two** economic reasons for the introduction of water charges for households.

**1. Revenue**

These charges will help raise revenue for Irish Water and so pay for the provision of clean water.

**2. Development of infrastructure**

The revenue received will be used to invest in improving water supply infrastructure resulting in less water wastage through damaged pipes.

**3. Water conservation**

If households have to pay for natural resources (water) then they may economise on its use.

**2 at 6 marks (3 + 3)**

- (ii) One possible economic effect of water charges for households and government:

<b>Households</b>	<b>Irish Government</b>
<p><b>Lower standard of living</b> Disposable incomes will fall and this will reduce the standard of living.</p>	<p><b>Reduced consumer spending</b> People will have less disposable incomes to spend so demand in economy may fall and this may reduce economic growth.</p>
<p><b>Opportunity cost</b> This charge involves an opportunity cost in that the income could have been spent on something else.</p>	<p><b>Public unrest</b> People may protest and refuse to pay causing public discontent.</p>
<p><b>Reduce consumption of water</b> Households may reduce their consumption of water and so reduce wastage.</p>	<p><b>Increased employment</b> More people employed installing meters resulting in less social welfare spending and increased tax revenues.</p>
<p><b>7 marks:</b> <b>State: 4 marks. Explain: 3 marks</b></p>	<p><b>6 marks:</b> <b>State: 3 marks. Explain: 3 marks</b></p>

### Q3 Costs, Labour and Entrepreneurship

Emma O'Neill is an entrepreneur and has set up a business designing and creating gardens. The table below shows her estimated costs of production and revenues over a range of output.

Number of units of output	Fixed Costs	Variable Costs	Total Costs	Total Revenue	Total Profit
	€	€	€	€	€
1	2,000	1,000	3,000	3,200	200
2	2,000	1,800	3,800	4,300	500
3	2,000	3,300	<b>A.</b>	6,500	<b>C.</b>
4	2,000	5,000	<b>B.</b>	8,800	<b>D.</b>

- (a)
- Explain the underlined term above.
  - Using the table calculate the total cost at **A** and **B** (show your workings in your answer book) and the total profit at **C** and **D** (show your workings in your answer book).
  - The following are examples of costs incurred by a garden designer:  
**Lawnmower    Plants/shrubs    Truck    Fertiliser**  
 Identify which of the above are fixed costs and which are variable costs.  
 Explain your answer in **each** case. (30 marks)

(i) **Entrepreneur:**

- An entrepreneur undertakes the **risk** in setting up a business.
- An entrepreneur **combines the other factors of production** into a production unit.

**6 marks**

(ii) **Calculate A, B, C and D.**

- A.  $€2,000 + €3,300 = €5,300$   
 B.  $€2,000 + €5,000 = €7,000$   
 C.  $€6,500 - €5,300 = €1,200$   
 D.  $€8,800 - €7,000 = €1,800$

**Marks: 16 marks: (1+1+2) in each case**

(iii)

	Fixed costs	Variable costs
Costs	Lawnmower / Truck	Plants/Shrubs and Fertiliser
Explain	These remain the same irrespective of the number of gardens created/ not determined by the quantity of output produced.	These will increase as more gardens are created/ change in line with the output produced.

**Identify 4 costs: 4 at 1 marks = 4 marks**  
**2 explanations: 2 at 2 marks = 4 marks**

- (b) If the business continues to expand Emma may consider employing additional labour at the National minimum wage rate.
- (i) Explain **each** of the underlined terms.
  - (ii) State and explain **two** factors which may encourage Emma to employ additional workers.
- (24 marks)

(i) **Explanation of terms:**

<b>Labour</b>	<b>National Minimum Wage Rate</b>
Labour is defined as the <b>human</b> effort involved in the <b>production</b> of goods and services / receives a wage in return.	The <b>lowest wage</b> employers must <b>by law</b> pay their employees.
<b>6 marks: 4 + 2</b>	<b>7 marks: 4 + 2</b>

(ii) **State and explain two factors which may encourage Emma to employ additional workers.**

**Increased demand for output**

If there is an increase in the demand for Emma’s services this may lead to an increase in demand for extra workers.

**Government policies**

If the government were to make it less expensive to employ workers then Emma may employ extra workers e.g. a reduction in employer’s PRSI; reduced corporation tax; incentives for employing a long-term unemployed person etc.

**Reduction in the national minimum wage**

If the national minimum wage rate was reduced, costs of production may fall and profitability may rise. This may result in Emma being able to hire additional workers.

**2 factors at 6 marks (3 marks + 3 marks).**

- (c)
- (i) Outline **two** reasons why entrepreneurship is important for the Irish economy, other than creating employment.
  - (ii) Outline **one** action which **each** of the following could take to encourage more entrepreneurship:
    - the Irish Government
    - Irish consumers.
- (21 marks)

- (i) Outline **two** reasons why entrepreneurship is important for the Irish economy, other than creating jobs.

**Improve the Balance of Payments**

If the goods produced are exported, this will improve the Balance of Payments position.

**Encourage further investment / economic growth (GNP)**

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

**Innovation: new products**

Successful entrepreneurs may invest part of their profits into developing new products which benefit society.

**Helps generate tax revenue for the government / reduce current expenditure**

Entrepreneurs by producing output, providing services and creating employment help generate tax revenue for the government which helps fund state expenditure. The amount of social welfare spending may be reduced.

**2 at 6 marks (3+3)**

- (ii) Outline **one** action **each** of the following could take to encourage more entrepreneurship:

The Irish Government:

**Enterprise education**

Greater emphasis on enterprise education in schools and colleges could be encouraged and more individuals may be willing to undertake the risks involved.

**Government policies**

If government reduced corporation tax then individuals may see the possibility of greater profitability.

A reduction in VAT rates may increase demand for goods and provide greater investment opportunities.

Reduction in regulations involved in setting up a business may encourage more people to become entrepreneurs.

Government grants and other incentives for establishing a business /create a favourable business environment.

**Labour market skills/training**

If the government improved worker skills through increased training / education then this increasingly skilled workforce may become entrepreneurs.

**Develop the country's infrastructure**

Investment in communications technology through broadband access makes it easier for people to start a business. Road transport/ power etc.

**Promoting/maintaining stability in the banking sector**

By stabilising the banks the government may make it possible for the banks to provide credit and so encourage people to borrow and establish a business.

**Increase spending in domestic market**

An increase in consumer spending will increase demand leading to increased business activity.

**Buy Irish**

If Irish consumers buy products manufactured in Ireland this may encourage more people to set up businesses in Ireland.

**Shop local**

If Irish consumers shop in their local towns this will generate increased demand, which may lead to people setting up more businesses.

**Change in attitude towards business failure**

If failure is accepted as part of business it may encourage a more positive attitude towards entrepreneurship and encourage risk taking.

**1<sup>st</sup> correct response at 6 marks ( 3 + 3 )**

**2<sup>nd</sup> correct response at 3 marks ( 2 + 1 )**

## Q4 Money, Savings and Economic Thought

- (a) Medium of exchange and measure of value are functions of money.  
Explain **each** of the underlined terms and state **one** other function of money. (21 marks)

### Medium of exchange

An item that buyers give to sellers when they want to purchase goods and services.

### Measure of Value

The yardstick people use to post prices and record debts.

Money enables a value/price to be put on goods & services.

**2 at 7 marks each**

- **Store of Wealth**
- **Standard for Deferred Payment**

**7 marks**

- (b) The rate of DIRT is one factor which influences the level of personal savings.  
(i) What do the initials **DIRT** stand for?  
(ii) Explain the underlined term.  
(iii) State and explain **two** factors, other than the rate of DIRT, which may influence the level of savings of an individual. (30 marks)

- (i) **Deposit Interest Retention Tax** **8 marks**

- (ii) **Savings:** that part of a person's income which is not spent. **6 marks**

- (iii) State and explain **two** factors, other than the rate of DIRT, which a person may consider when deciding to save.

**Interest rates**

- If the interest rates being offered by the financial institutions are considered low by the potential saver then a person may decide not to save.
- If the rate of interest is higher than the rate of inflation this may encourage people to save.

**Income levels**

- The greater a person's level of income the greater is the ability to save.

**Level of Inflation**

- Inflation results in a reduction in the real rate of return on savings.
- Inflation means that you must spend more to buy goods and services and so your ability to save is diminished.

**Levels of Social Welfare Benefits**

- If the levels of social welfare benefits provided by the state are very good this may dissuade people from saving as they know the state will provide adequately for them.

**Tax levels**

- If rates of income tax decrease then disposable incomes rise this may result in a greater ability to save.
- The introduction of the new water tax will reduce disposable income and may lower savings.

**Future expectations / confidence in the economy**

- If people are concerned about the future of the economy this may result in a loss of consumer confidence and people may be encouraged to save.

**2 at 8 marks each (4 marks + 4 marks ) = 16.**

(c) (i) The economist John Maynard Keynes stated that people have three motives for holding wealth in the form of cash.

- Transactionary
- Precautionary
- Speculative

Explain **any two** of the above motives.

(ii) Name **one** other economist who contributed to economic thought and outline **one** of this person's contributions. (24 marks)

(i)

Reason	Explanation
Transactionary	<b>Cash is needed to buy goods and services</b>
Precautionary	<b>Cash is needed for emergencies / for 'a rainy day'</b>
Speculative	<b>Cash is needed to take advantage of possible profitable investment opportunities.</b>
<b>ANY 2 at 8 marks each</b>	

(ii) One other economist and outline one of this person's contribution.

Name	Statement	Explanation - example
<b>Karl Marx</b>	Labour Theory of Value	<ul style="list-style-type: none"> <li>• The value of an item equals the amount of labour that went into producing that item.</li> </ul>
<b>Adam Smith</b>	Canons of Taxation Perfect Competition Laissez Faire	<ul style="list-style-type: none"> <li>• The principles of a fair taxation system: equitable, economic, convenient and certain.</li> </ul>
<b>Thomas Malthus</b>	Theory of Population	<ul style="list-style-type: none"> <li>• Population grows geometrically while food supply grows arithmetically, resulting in an inadequate food supply.</li> </ul>
<b>David Ricardo</b>	Law of Comparative Advantage	<ul style="list-style-type: none"> <li>• Where one country is most efficient in the production of all commodities it should specialise in the production of the one in which it is relatively most efficient and trade for the rest of its requirements.</li> </ul>
<b>2 marks</b>	<b>3 marks</b>	<b>3 marks</b>

## Q5 International Trade and Exchange Rates

(a) You are given the following information about a country's trade in a year.

Visible Exports €million	Visible Imports €million	Balance of Trade €million	Surplus or Deficit
25,000	24,200	?	?

- (i) Explain the term *Balance of Trade*.  
(ii) Using the above data calculate the Balance of Trade and explain your answer.  
(iii) If the level of visible imports above increased by €1,000m calculate the new Balance of Trade **and** state if it is a surplus or deficit. (Show your workings.)

(26 marks)

(i) *Balance of Trade*:

This is the difference between visible exports and visible imports.

**6 marks: 3+3**

(ii) Using the above data calculate the Balance of Trade and explain your answer.

$$\begin{array}{r} \text{Visible exports} - \text{Visible imports} \\ \text{€25,000 m} - \text{€24,200 m} = \text{€800m} \end{array}$$

**6 marks: 2 + 2 + 2**

It is a **surplus** balance of trade.

Because visible exports are greater than visible imports.

**4 marks: 2 + 2**

(iii) Calculate the new balance of trade:

$$\text{New visible imports: } \text{€24,200 m}^1 + \text{€1,000 m}^1 = \text{€25,200 m}^2$$

$$\text{New Balance of Trade: } \text{€25,000 m}^1 - \text{€25,200 m}^1 = - \text{€200}^2$$

It is a **deficit** <sup>2</sup>.

**10 marks**

- (b) Exports of beef from Ireland should increase due to the ending of a 16-year embargo on European beef imports into the US market.
- (i) Explain the economic term *embargo*.
  - (ii) Is the export of beef from Ireland a visible export **or** invisible export?  
Explain your answer.
  - (iii) State and explain **two** economic benefits of an increase in exports for the Irish economy.
- (25 marks)

- (i) Explain the economic term *embargo*.

This is a total ban on the importation of a good into a country.

**5 marks**

- (ii) Is export of beef from Ireland a visible export **or** invisible export? Explain your answer.

Answer: **Visible export** **3 marks**

Explanation: **It is the purchase of an Irish good by a citizen in the US.** **3 marks**

- (iii) State and explain **two** economic benefits of an increase in exports for the Irish economy.

**Employment creation**

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

**Increased GNP / Economic growth**

The monies received from exports (injection into the circular flow) will lead to increased incomes within the country.

**Increased sales / profits**

Domestic firms can increase their sales/profits by exporting their excess output onto a foreign market / economies of scale/earn foreign currencies.

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

**Attract investment**

Strong exports will increase confidence in the Irish economy and may help attract further investment into Ireland.

**Government finances**

Increased economic activity will generate increased tax revenues for the government e.g. VAT / PAYE etc.

**14 marks: 2 benefits: 7 marks each. State: 4 marks. Explain: 3 marks.**

- (c) You are given the following information regarding the euro (€) and the UK pound sterling (£) exchange rate.

**Year 1: €1 = £1.00**

**Year 2: €1 = £0.80**

The euro (€) has **fallen in value** relative to the UK pound Sterling (£).

Explain the possible effects which this fall in the value of the euro may have on **each** of the following:

- (i) Ireland's **exports to** the UK.
- (ii) Ireland's **imports from** the UK.
- (iii) **Employment** in Ireland.

(24 marks)

	<b>Effect</b>	<b>Explanation</b>
Ireland's exports to the UK	<ul style="list-style-type: none"> <li>• Exports cheaper</li> <li>• Increased demand for Irish exports</li> <li>• Increased sales revenue for Irish exporters</li> </ul>	The prices of Irish exports in pound sterling decreases, resulting in increased demand for Irish exports in the UK.
Ireland's imports from the UK	<ul style="list-style-type: none"> <li>• Imports dearer</li> <li>• Decreased imports</li> </ul>	The prices of UK imports in euro will increase resulting in decreased demand for UK imports.
Employment in Ireland	<ul style="list-style-type: none"> <li>• Increase</li> </ul>	With increased exports to the UK, businesses in the exporting sector may grow, resulting in increased employment.

**1<sup>st</sup> correct answer: 12 marks. State: 6 marks. Explain: 6 marks.**

**2<sup>nd</sup> & 3<sup>rd</sup> correct answers: 2 at 6 marks each. State: 3 marks. Explain: 3 marks.**

## Q6 Government Budgeting and Taxation

(a) The estimated Government current budget for 2015 is as follows:

Government Current Income	€45,255 m	Government Current Expenditure	€48,985 m
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- (i) Calculate the current budget deficit. (Show your workings)
- (ii) Suggest **two** ways the government could reduce this deficit.
- (iii) State **one** example of Government current income and **one** example of Government current expenditure.

(25 marks)

(i) Current budget deficit:

$$€45,255^1 \text{ m} - €48,985^1 \text{ m} = (€ 3,730)^2$$

**3 at 1 mark each and correct answer 2 marks: 5 marks**

(ii) Suggest **two** ways the government could reduce this deficit.

Reduce current government expenditure **or** examples of this e.g. reduce social welfare spending.  
Increase current government income **or** examples of this e.g. increase income tax.

**2 at 5 marks each**

(iii) State **one** example of Government current income and **one** example of Government current expenditure.

Government current income	Government current expenditure
<ol style="list-style-type: none"><li>1. Direct tax revenue (or example)</li><li>2. Indirect tax revenue (or example)</li><li>3. Interest on loans given to semi-states / local authorities</li><li>4. Surpluses of semi-state bodies.</li><li>5. Departmental balances.</li><li>6. Prize Bond scheme.</li><li>7. Fees charged for state services</li></ol>	<ol style="list-style-type: none"><li>1. Salaries of all state employees</li><li>2. Cost of running government departments</li><li>3. Costs of running state institutions. (schools, hospitals, prisons, CSO, Ombudsman)</li><li>4. Social welfare payments</li><li>5. National debt service.</li><li>6. Grants to local authorities.</li><li>7. Ireland's contribution to the EU budget.</li></ol>

**One example in each case: 5 marks each.**

(b) In Budget 2015 the Government reduced the higher rate of income tax from 41% to 40% and reduced the rates of USC.

- (i) What do the initials **USC** stand for?
  - (ii) Is income tax a direct or indirect tax? Explain your answer.
  - (iii) Explain **one** possible economic effect which the reduction in the rate of income tax may have on **any two** of the following:
    - the government’s current budget deficit
    - the level of employment in Ireland
    - the level of emigration from Ireland.
- (24 marks)

(i) **USC: Universal Social Charge** **6 marks**

(ii) Is income tax a direct or indirect tax? Explain your answer.

**Answer:** Direct tax. **3 marks**  
**Explanation:** It is a tax levied on income. **3 marks**

- (iii) Explain **one** possible economic effect which the reduction in the rate of income tax may have on **any two** of the following:
- the government’s current budget deficit
  - the level of employment in Ireland
  - the level of emigration from Ireland.

Category	Statement	Explanation
Government’s current budget deficit	Deficit may increase.  Deficit may decrease.	<ul style="list-style-type: none"> <li>• If there is no increase in employment then the level of income tax revenue will fall.</li> <li>• If there is an increase in employment then the level of income tax revenue may rise.</li> <li>• Level of indirect tax revenues may rise if the level of spending rises.</li> </ul>
Level of employment in Ireland	May increase.	<ul style="list-style-type: none"> <li>• If spending increases this may boost demand and so employment may increase.</li> <li>• As disposable incomes increase employees may moderate wage demands, costs may fall and this may lead to increased demand for employees.</li> </ul>
Level of emigration from Ireland	May fall.	<ul style="list-style-type: none"> <li>• More disposable incomes may encourage workers to remain in Ireland.</li> <li>• If demand rises due to higher disposable incomes further job opportunities may result so less need to emigrate.</li> </ul>
<b>12 marks:</b>	<b>2 at 3 marks</b>	<b>2 at 3 marks</b>

- (c) The tax on a packet of twenty cigarettes was increased by 40c in Budget 2015.
- (i) Outline **one** other measure which could be taken to reduce the consumption of cigarettes.
  - (ii) State and explain **two** economics benefits for **individuals** if they reduce their consumption of cigarettes.
  - (iii) State and explain **two** benefits for **society** if the consumption of cigarettes falls. (26 marks)

- (i) Outline **one** other measure that could be taken to reduce the consumption of cigarettes.

Measure	Explanation
Introduce plain packaging.	This may limit advertising and may reduce demand.
Ban vending machines in pubs.	This will reduce availability and may reduce demand / consumption.
Restrict number of sales outlets.	The sale of cigarettes could be banned in certain outlets e.g. petrol stations, shops which are close to schools and colleges.
Subsidise products available to help people quit smoking.	Subsidising such products reduce the costs for the consumer.
Provide Information on the negative effects of cigarette consumption.	The use of more shocking advertisements on the health effects of cigarette consumption may shock people into quitting smoking.

**State: 3 marks. Explanation: 3 marks.**

- (ii) State and explain **two** benefits for **individuals** if they reduce their consumption of cigarettes.

**Greater disposable incomes:**

If individuals buy fewer cigarettes then they will have more disposable income.

**Healthier lifestyle:** individuals may be healthier with less ill effects from cigarette consumption.

**Reduced spending on healthcare:**

With reduced illnesses individuals will spend less on doctor's visits, healthcare etc.

**Reduced healthcare insurance premiums:** cheaper health insurance premiums.

**Increased life expectancy:** Individuals may live longer if they reduce their consumption of cigarettes.

**10 marks: 2 at 5 marks (3+2).**

- (iii) State and explain **two** benefits for **society** if the consumption of cigarettes falls.

**Greater productivity/reduction in absenteeism:** workers may be absent less frequently / less payments on social welfare / more productive economy.

**Reduction in cancer related deaths / less congested health services:** less social costs to society.

**Population healthier:** resulting in reduced demand for health services / reduced pressure on hospitals.

**Improved environment:** less litter on the streets and reduced cleaning costs.

**10 marks: 2 at 5 marks (3+2).**

## Q7 Social housing, Economic growth and Employment

- (a) Following Budget 2015 the government announced plans to spend €2.2bn on social housing over the next three years.

**Note:** Social Housing refers to housing supplied by the government to people on low incomes which are lower than free market rents.

- (i) Does this spending on social housing represent current expenditure **or** capital expenditure by the government? Explain your answer.
- (ii) Outline **two** advantages of expenditure on social housing for the Irish economy.
- (iii) Explain, using an example, **one** opportunity cost of this investment in social housing. (26 marks)

- (i) Does this spending on social housing represent current expenditure **or** capital expenditure by the government? Explain your answer.

**Answer:** Capital expenditure

**3 marks**

**Explanation:** Citizens will benefit from social housing over a number of years.

This is a once-off / long-term item of expenditure.

**3 marks**

- (ii) Outline **two advantages** of expenditure on social housing for the Irish economy.

Statement	Explanation
Reduced homelessness	With more housing available for those people who are homeless the number sleeping in the streets will decrease.
Improved standard of living	Those people who move from hostels / small rented apartments will experience an improved standard of living / improved security.
Generates employment in construction industry	Demand for workers in the construction industry will increase due to increased building of houses.
Reduced rental prices	With increased supply of housing the prices for rental property may decrease for tenants.
Improved infrastructure	The state's infrastructure improves and this increases the overall welfare in Irish society.
Economic growth	There will be an increase in demand for goods and services associated with the construction industry which will benefit the suppliers of these goods and services.

**14 Marks: 2 at 7 marks. State: 4 marks. Explain: 3 marks.**

- (iii) Explain, using an example, **one** opportunity cost of this investment in social housing.

The government could spend the money on health care.

**Example:**

They could open wards in hospitals / invest in new ambulances.

**Any one example stated and explained: 6 marks (3 + 3)**

(b) “The Irish economy is forecast to grow by 3.7% in 2015, marking a third successive year of growth.”

- (i) State **one** measure of economic growth.
- (ii) State and explain **one** benefit of economic growth for **each** of the following in the Irish economy:
  - Irish citizens
  - Businesses
  - Government finances.

(25 marks)

(i) State one measure of economic growth.

**Gross National Product / GNP**  
**Gross Domestic Product / GDP**

**7 marks**

(ii) State and explain **one** benefit of economic growth to **each** of the following in the Irish economy:  
 Irish citizens / Businesses / Government finances.

	Statement	Explanation
<b>Irish citizens</b>	<b>Employment opportunities</b>  <b>Increased standard of living</b>  <b>Improved state services</b>  <b>Less need to emigrate</b>	<ul style="list-style-type: none"> <li>• If sales increase more workers will be required / existing jobs may be made more secure.</li> <li>• Citizens will have a higher disposable income.</li> <li>• If state revenues improve then the government may improve state services / develop state infrastructure.</li> <li>• If more jobs are created then less citizens may need to emigrate.</li> </ul>
<b>Businesses</b>	<b>Increased sales / profits</b>  <b>Expansion / less risk of closure</b>	<ul style="list-style-type: none"> <li>• Sales increase leading to increased profits.</li> <li>• Increased sales will allow businesses continue in production / to expand.</li> </ul>
<b>Government finances</b>	<b>Tax revenues</b>  <b>Social welfare spending</b>  <b>Reduced borrowing</b>  <b>Ability to repay debt</b>	<ul style="list-style-type: none"> <li>• Increased employment will result in increased tax revenues. CT will increase if profits rise. VAT/ Excise duties should increase.</li> <li>• Expenditure on social welfare should fall if employment rises.</li> <li>• The improvement in the state’s finances may mean that the level of state borrowing will fall / Government could meet its budgetary targets.</li> </ul>
<b>3 points at 6 marks.</b>	<b>State: 3 marks</b>	<b>Explain: 3 marks</b>

(c) Ireland has been a member of the European Union (EU) since 1973.

- (i) Outline **two** reasons why countries may want to become members of the EU.
- (ii) Outline **two** possible economic disadvantages for Ireland of membership of the EU.

(24 marks)

(i) Outline **two** reasons why countries may want to become members of the EU.

- **Assess to a larger market:** businesses will be able to sell to a market of over 500 million consumers.
- **Free trade:** removal of trade barriers will help reduce costs for businesses and help them compete.
- **Economic growth:** with increased trade, the economy will grow (export-led growth).
- **Free movement of people:** members can move freely to live, work and complete their education in EU states.
- **Education:** qualifications are recognised which makes employment easier.
- **Inward investment:** businesses outside the EU may wish to access large EU markets.
- **Access to Social Cohesion Fund:** the EU invests in poorer regions to decrease regional disparities.
- **Consumer benefits:** freedom of shopping, competitive prices and better consumer protection.

**2 points at 6 marks each. State: 3 marks. Explain: 3 marks.**

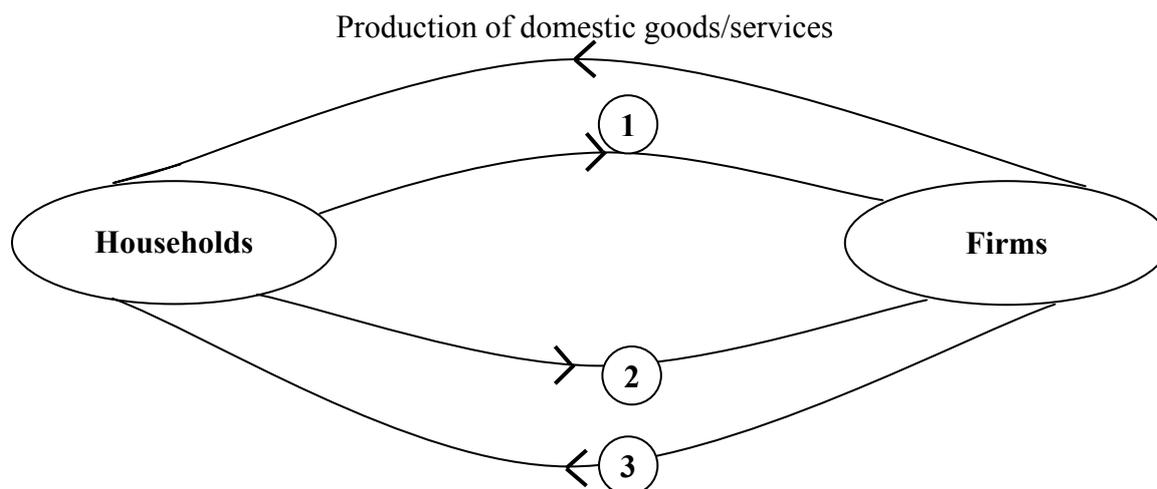
(ii) Outline **two** possible economic disadvantages for Ireland of membership of the EU.

- **Cost to Ireland:** Ireland is now a net contributor to the EU Budget.
- **Pressure to adopt EU policies (austerity/fishing quotas etc.):** since the economic downturn the Irish government has been required to reduce government spending and to meet budget targets set out by the EU (austerity policy).
- **Bureaucracy and red tape:** extra bureaucracy within the EU results in higher costs for businesses and it also takes decision making further away from local communities.

**2 points at 6 marks each. State: 3 marks. Explain: 3 marks.**

## Q8 National Income

- (a) The diagram below represents the Circular Flow of Income in an economy without government or international trade.



- (i) Copy the diagram into your answer book. Clearly label each of the lines 1 to 3.  
(ii) Explain the types of transactions / activities which take place between households and firms.  
(iii) Is Ireland an open economy? Explain your answer.

(25 marks)

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

1. Supply factors of production to firms ( **2 marks + 2 marks** ).
2. Spending / payment for goods and services. ( **3 marks** )
3. Households receive factor income for supplying inputs (factors of production)

(2 marks + 2 marks).

- (ii) Explain briefly the types of transactions / activities which take place between households & firms.

- Households: **supply factors of production** (to firms) and **in return receive an income**.
- Firms: **sell commodities** (goods & services) to households, who **spend their income on these**.

**2 at 4 marks each (2 + 2)**

- (iii) Is Ireland an open economy? Explain your answer.

**Answer:** It is an open economy.

**3 marks**

**Explanation:** it engages in trade i.e. it imports and exports goods and services.

**3 marks**

(b) National Income is calculated using the following formula:

$$\text{National Income} = \text{Consumption} + I + \text{Government Spending} + X - M$$

- (i) Explain the underlined term.
- (ii) State what each of the letters **I**, **X** and **M** stand for.
- (iii) The level of consumer spending (consumption) is beginning to rise in Ireland.  
Outline **two** possible reasons for this increase in consumer spending.

(30 marks)

(i) Explain the underlined term.

**Income earned** *by the permanent residents of a country from* current economic activity in one year.

**4marks**

**1 marks**

(ii) State what each of the letters **I**, **X** and **M** stand for.

**I:** Investment expenditure.

**X:** Exports.

**M:** Imports

**Each letter explained : 5 marks each**

(iii) The level of consumer spending (consumption) is beginning to rise in Ireland.  
Outline **two** possible reasons for this increase in consumer spending.

Statement	Explanation
Increase in employment	Employment is increasing in Ireland and this results in higher disposable income for the newly employed people to spend on goods and services.
Decrease in income tax rate / USC rate	In Budget 2015 the government reduced the top rate of tax from 41% to 40% and so taxpayers have more disposable income.
Increase in consumer confidence	Some consumers are feeling more confident about the future economic prospects and this means that some consumers are beginning to spend increasing amounts of their disposable income.
Competitive credit terms from car dealerships	Some car dealerships are offering 0% finance in order to encourage consumers to buy new cars.

**10 marks: 2 at 5 marks (3 marks +2 marks).**

(c) The Multiplier formula for an open economy is:  $\frac{1}{\text{MPS} + \text{MPM}}$

(i) Explain the terms MPM and MPS.

Assume that MPM is 0.3 and MPS is 0.2.

(ii) Calculate, using the above formula, the size of the Multiplier. (Show all your workings) (20 marks)

(i) Explain the terms MPM and MPS.

**MPM:** Marginal Propensity to Import

The proportion of extra income which is spent on imports.

**6 marks: 3 marks + 3 marks**

**MPS:** Marginal Propensity to Save

The proportion of extra income which is saved.

**6 marks: 3 marks + 3 marks**

(ii) Calculate, using the above formula, the size of the Multiplier. (Show all your workings)

$$\frac{1^*}{0.3^* + 0.2^*}$$

**2\***

**8 marks: each \* figure at 2 marks each.**

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