



Coimisiún na Scrúduithe Stáit State Examinations Commission

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Scrúduithe Ardteistiméireachta, 2004

*Eacnamaíocht
Talmhaíochta*

Ardleibhéal

Marking Scheme

Leaving Certificate Examination, 2004

*Agricultural
Economics*

Higher level

State Examinations Commission
Higher Level Agricultural Economics
2004

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

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

- In many instances only key words are given i.e. these words must appear in the correct context in the candidate's answer in order to merit the assigned marks.
- Words, expressions or statements separated by solidus (/) are alternatives, which are equally acceptable.
- The descriptions, methods and definitions in the scheme are **not** exclusive and alternative valid answers are acceptable.
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.

AGRICULTURAL ECONOMICS-HIGHER LEVEL, 2004

STRUCTURE	Two Parts:	1 and 11
	Part 1	20 Questions- 120 Marks
	Part 11	6 Questions- 200 Marks
		Total - 320 Marks

OUTLINE MARKING SCHEME

<u>PART 1</u>	Answer 15 questions				(15x8=120 marks)
(1) 1x 8	(2) 2x 4	(3) 2x 4	(4) 2 x 4	(5)6+2	
(6) 2x4	(7) 2x4	(8)1x8	(9)1x8	(10)2x4	
(11)1x8	(12)2x4	(13)1x8	(14)2x4	(15)1x8	
(16)2x4	(17)2x4	(18)1x8	(19)2x4	(20)2x4	

<u>PART 11</u>	Answer 4 questions				(4x50=200 marks)
Question 1 (a) 10	(b) 12	(c) 8	(d) 10	(e) 10	
Question 2 (a) 10	(b) 10	(c) 10	(d) 20		
Question 3 (a) 16	(b) 24	(c) 10			
Question 4 (a) 10	(b) 10	(c) 30			
Question 5 (a) 10	(b) 20	(c) 20			
Question 6 (a) 8	(b) 6	(c) 8	(d) 16	(e) 12	

STATE EXAMINATIONS COMMISSION
LEAVING CERTIFICATE 2004
AGRICULTURAL ECONOMICS – HIGHER LEVEL
(320 MARKS)

MARKING SCHEME

PART I (120 MARKS)

ALL QUESTIONS CARRY EIGHT MARKS.
TOTAL = FIFTEEN HIGHEST SCORING ANSWERS

Question 1.

Resources	3 marks
Supply of resources	1 mark
Households.	3 marks
Land Rents, Wages and Interest Rates	1 mark
	(8 MARKS)

Question 2.

Farmers are consumers in that they buy goods and services	4 marks
Farmers are producers in that they produce goods e.g. milk	4 marks
	(8 MARKS)

Question 3.

Subsidies	4 marks
Levies or Indirect Taxes.	4 marks
	(8 MARKS)

Question 4.

The ability to service borrowings out of available income	4 marks
after living expenses are deducted from overall income.	4 marks
	(8 MARKS)

Question 5.

Involves linking two or more stages in the food chain to streamline the flow of produce from farmer to consumer.

6 marks

Examples: Provision of capital to farmers by bacon factories

or

Provisions of feed on credit to broiler producers by feed companies

2 marks

(8 MARKS)

Question 6.

(i) Per capita real income trends / increasing purchasing power

4 marks

(ii) Population trends / population growth

4 marks

(8 MARKS)

Question 7.

(i) Technological progress.

4 marks

(ii) Improved husbandry.

4 marks

(8 MARKS)

Question 8.

Imputed costs are the estimated costs of owned factors e.g. value assigned to family labour and capital.

(8 MARKS)

Question 9.

To ensure resources are not used in sub-optimal ways/

To ensure resources are used in optimal ways

(8 MARKS)

Question 10.

Revenue

4 marks

Expenses

4 marks

(8 MARKS)

Question 11.

As price of wheat increases farmers will find it more difficult to switch resources to wheat production from other enterprises with a consequent decrease in elasticity/At low prices supply is highly responsive to price changes but not at high prices.

(8 MARKS)

Question 12.

- (i) Research into farming methods / agri-industry 4 marks
 - (ii) Education of farmers / training/advice 4 marks
- (8 MARKS)

Question 13.

The solvency of the farm/
The extent to which the business has borrowed from others

(8 MARKS)

Question 14.

- (i) Security. 4 marks
 - (ii) Repayment capacity/ financial feasibility 4 marks
- (8 MARKS)

Question 15.

A volume index is constructed by weighting quantity changes over time of various items by the value of the items in a base period/Measures changes in the volume of GDP

(8 MARKS)

Question 16.

- (i) Direct effects – Less income for farmers/ effects the farmers himself / herself
- (ii) Indirect effects – Less incomes for agri-business sector e.g. suppliers of inputs or services / effects on agri-business sector
- (iii) Induced effects – Less demand for goods and services e.g. cars, building, entertainment etc.

(Any 2 x 4 marks)

(8 MARKS)

Question 17.

- (i) Regulation (Law) – Binding in its entire detail. 4 + 4 marks
- (ii) Directive – binding only as to the results to be achieved. 4 + 4 marks
- (iii) Decision – Binding only in relation to a specific issue. 4 + 4 marks

(8 MARKS)

Question 18.

An effective regional policy would try to decentralise employment opportunities into rural areas for farmers, in a part-time or full-time capacity/ By providing employment opportunities locally, it would help the out-migration from farming

(8 MARKS)

Question 19.

- (i) Amount of surpluses or quantity exported 4 marks
 - (ii) Difference between EU price and export price or export losses / refunds 4 marks
- (8 MARKS)

Question 20.

- (i) Population was limited by means of subsistence 4 marks
 - (ii) Population tended to increase faster than the means of subsistence unless prevented by some powerful checks e.g. war, famine. 4 marks
- (8 MARKS)

END OF PART 1

PART II (200 marks)

ALL QUESTIONS CARRY EQUAL MARKS (50 MARKS)

Question I

- (a) Vertical Axis – Price 2 marks
Horizontal Axis – Quantity 2 marks
Demand Curve 2 marks
Supply Curves 2 x 2 marks

(10 MARKS)
- (b) Shape of demand curve
First Part – Steep – Inelastic Demand (2 marks) – Home Market (2marks) closed/
protected market (2 marks)

Second Part – Less Steep – Elastic Demand (2 marks) – Export Market (2marks)
represents smaller proportion of total markets (2 marks)

(12 MARKS)
- (c) As supply expands from S1 to S2 4 marks
Price decreases from P1 to P2 4 marks
(8 MARKS)
- (d) Total revenue increases 5 marks
Because a large expansion of supply causes a relatively small
decrease in price /Proportionate change in the quantity supplied is greater than the
price change 5 marks

(10 MARKS)
- (e) (i) Lower support prices – e.g. lower guaranteed prices or no export refunds 4 marks
or
(ii) Co-responsibility levies – Levies on production to reduce price to farmers 4 marks
(Any 1 x 4 marks)
(iii) Direct supply controls – e.g. quotas, 3 marks
input controls 3 marks
(10 MARKS)
[50 marks]

Question II

(i)	Farm output is defined as		
	sales less purchases	= € 98,000	2 marks
	± Changes in inventories	= - € 10,000	2 marks
	+ Household Consumption	= + € 2,000	2 marks
		<u>€ 90,000</u>	4 marks
			(10 MARKS)

(ii)	Farm gross margin is defined as		
	Farm output	= € 90,000	3 marks
	Less Variable costs	= <u>€ 36,000</u>	3 marks
		€ 54,000	4 marks
			(10 MARKS)

(iii)	Family Farm Income is defined as		
	Farm Gross Margin	= € 54,000	3 marks
	Less total fixed costs	= <u>€ 27,000</u>	3 marks
	(Including depreciation)		
		€ 27,000	4 marks

Or

	Family Farm Income is defined as		
	Farm output	= € 90,000	4 marks
	Less total fixed costs	= € 27,000	2 marks
	Less Variable costs	= <u>€ 36,000</u>	2 marks
		€ 27,000	2 marks
			(10 MARKS)

(vi)	Farm cash income is defined as		
	Family farm income	€ 27,000	4 marks
	Less changes in inventories	€ 10,000	4 marks
	Less household consumption	€ 2,000	4 marks
	Plus depreciation	<u>€ 2,000</u>	4 marks
		€ 37,000	4 marks
			(20 MARKS)

[50marks]

Question III

- (a) Direct supply control applying to:
- (i) Milk – quota assigned to each farmer or at farm level 4 marks
Excess quota attracts penalties/levy 4 marks
 - (ii) Sugar beet – High price for production within quota 4 marks
Excess quota – lower prices 4 marks
 - (iii) Cereals – Area Aid for area sown = set-aside 4 marks
- World prices for remainder 4 marks
(Any 2 x (4+4 marks) (16 MARKS)
- (b) Mac Sharry CAP Reforms:
- (i) Reduction in guaranteed prices for beef and cereals/
Reduction in market price supports 8 marks
 - (ii) Compensation for price reduction by mean of direct payments
e.g. Headage payments, area aid etc. 8 marks
 - (iii) Environmentally friendly measures e.g. REPS, afforestation, set-aside 8 marks
(24 MARKS)
- (c) Ring fencing of quotas – quotas subject to a restriction/quotas are not transferable beyond a certain distance outside the disadvantaged area farm/restricts speculation on quotas. (10 MARKS)

[50marks]

Question IV

- (a) Price-cost squeeze is the tendency for input prices to increase more rapidly over time (or fall more slowly) than product prices. (10 MARKS)

- (b) Price-cost squeeze is an important concept in farming because farmers' incomes are influenced by the prices farmers pay for their inputs as well as by the prices they receive for their produce/ The resources in farming cannot be readily deployed in other sectors

(10 MARKS)

- (c) Forces operating on product market
Product supply is expanding
more rapidly than product demand
downward pressure on prices.

5 marks

5 marks

5 marks

Forces Operating on Factor Markets

- Most input prices are influenced by factors outside farming
which usually cause input prices to rise in line with inflation
while product prices are rising more slowly.

5 marks

5 marks

5 marks

(30 MARKS)

[50marks]

Question V

- (a) Decoupling – Breaking the link between production and direct payments/ farmers are paid an entitlement regardless of the amount produced

(10 MARKS)

- (b) **Likely** effects of decoupling on Irish agriculture

- (i) Reduction in production/cattle and sheep numbers may fall
- (ii) Farm incomes may be enhanced by more market-orientated production
- (iii) Less spending on inputs (e.g. fertilizer, feed, fuel, vet services)
- (iv) Job losses in wider agri-food industry
- (v) Increase in Organic Farming leading to better quality food
- (vi) Some reduction in production: The resulting increase in prices and the reduced input costs should lead to an aggregate increase in farm incomes
- (vii) A more competitive agriculture and food industry

(Any 2 points x10 marks)

(20 MARKS)

(c) **Probable** effects of decoupling on the environment

(i) Less production – less use of fertilizer and other agri-chemicals leading to less pollution of rivers, lakes and groundwater

(ii) Fewer animals – less emissions of methane gas/ Reduction in the contribution made by agriculture to greenhouse gas emissions

(iii) Fewer sheep on mountains and hills/less upland erosion

(Any 2 points x 10 marks)

(20 MARKS)

[50 marks]

Question VI

(a) Fig. 1 – World Market
Fig. 2 – E.U. Market

4 marks

4 marks

(8 MARKS)

(b) The equilibrium price (P_W) on the world market would prevail on the EU market.

(6 MARKS)

(c) Quantity Demand OQ2
Quantity Supplied OQ1

4 marks

4 marks

(8 MARKS)

(d) Advantages of free trade:

(i) Allocation of production and distribution of goods and services by means of the autonomous price system.

4 marks

(ii) Preservation of freedom of both the producer and consumer against the supervision and controls of government bureaucrats and planners.

4 marks

(iii) Allows competition to decide who will prosper and who will perish in a system where the survival of the fittest prevails.

4 marks

(iv) Lower prices to consumers / lower inflation

4 marks

(Any 2 x 4 marks)

Disadvantages of free trade:

(i) Lower prices leading to lower incomes for farmers

4 marks

(ii) Unstable prices and incomes for farmers

4 marks

(iii) Small farmers are pushed out of farming

4 marks

(Any 2 x 4 marks)

(16 MARKS)

(e) (i) Income supports for farmers

6 marks

(ii) Off-farm employment opportunities for farmers

6 marks

(2 x 6 marks)

(12 MARKS)

[50 marks]