



Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2008

MARKING SCHEME

ECONOMICS

ORDINARY LEVEL



Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2008

MARKING SCHEME

ECONOMICS

ORDINARY LEVEL

Ordinary Level Economics

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

INDEX TO QUESTIONS

Number	Topic	Page(s)
	Section A	3 - 6
	Section B	
1	Monopoly	7 - 9
2	Demand, Supply and Oil	10 - 11
3	Costs, Housing & Immigration	12 - 15
4	Money, Competition in Banking & Interest Rates	16 - 18
5	Taxation	19 - 21
6	Economic Aims, Development & Road Safety	22 - 25
7	Trade and Inflation	26 - 29
8	National Income	30 - 32

- There is no suggestion that the enclosed support notes are exhaustive or complete.
- Further relevant points of information presented by candidates will be marked and rewarded on their merits.
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.

Section A – 100 marks

1. Enter the factors of production and / or the payment for the factor in the appropriate spaces below:

Factor	LAND	LABOUR	Capital	ENTERPRISE
Payment	Rent	Wages	INTEREST	Profit / Loss

16 marks graded.

2. Fill in the missing words in the spaces below to complete the names of the international financial institutions:

- (i) ECB: European **CENTRAL BANK**
- (ii) WTO: **WORLD** Trade **ORGANISATION**
- (iii) IMF: **INTERNATIONAL** Monetary **FUND**

16 marks graded.

3. State **two** examples of government current income & **two** examples of government current expenditure.

Government Current Income	Government Current Expenditure
1. Direct tax revenue (or example)	1. Salaries of all state employees
2. Indirect tax revenue (or example)	2. Cost of running government departments
3. National lottery receipts.	3. Costs of running state institutions. (schools, hospitals, prisons, CSO, Ombudsman)
4. Interest on loans given to semi-states / local authorities	4. Social welfare payments (or examples in any of the above)
5. Surpluses of semi-state bodies.	5. National debt service.
6. Departmental balances.	6. Grants to local authorities.
7. Prize Bond scheme.	7. Ireland's contribution to the EU budget.
8. Fees charged for state services (or example)	

16 marks graded.

4. Complete the table to indicate what each symbol in the formula for PED stands for:

ΔQ	Change in quantity demanded.
ΔP	Change in Price.
P_1	<i>Original price of the good</i>
P_2	New / current price of good.
Q_1	Original quantity demanded of the good.
Q_2	New / current quantity demanded of the good.

16 marks graded.

7. State **one** economic advantage and **one** economic disadvantage of the continuing construction of new toll roads throughout Ireland.

Economic Advantages	Economic Disadvantages
<ol style="list-style-type: none"> 1. Reduction in Traffic congestion 2. Stress for travellers will be reduced with reduction in travelling times. 3. With the infrastructure improving, attracting new industry may be easier. 4. If the new toll roads by-pass towns it may allow the towns re-develop and enhance the environment. 5. Toll roads will bring revenue to the government through VAT receipts and eventually ownership may pass to the state. 6. Reduction in accidents / deaths on roads. 	<ol style="list-style-type: none"> 1. Noise and emissions will increase for those who live in close proximity to the new roads. 2. Road users must pay for the use of these toll roads. 3. Land prices adjacent to those routes along which the new roads go may increase in price. 4. The landscape through which the roads are constructed may be disfigured. 5. Opportunity cost of toll roads: the cost of foregone alternatives.

17 marks graded.

8. You are given the following information about a country's trade.

Visible Exports €million	Visible Imports €million	Balance of Trade €million	Surplus or Deficit
18,000	17,800	200	Surplus

If the level of visible exports decreased by €500 million, explain the effect which this would have on the country's Balance of Trade. **Show your workings.**

$$\begin{array}{r}
 \text{Visible Exports: } \text{€}18,000 - \text{€}500 = \text{€}17,500 \\
 \text{Less Visible Imports} \qquad \qquad \qquad \underline{\text{€}17,800} \\
 \qquad \qquad \qquad \qquad \qquad \qquad \text{minus} \quad \text{€}300
 \end{array}$$

The Balance of Trade has now changed to a deficit position.

17 marks graded.

9. Which of the formulas, below, represents the multiplier in an **open economy**?
Choose Option A or Option B and write your answer in the space provided).
Explain your choice.

Option A	Option B	Answer
$\frac{1}{1 - (\text{MPC} - \text{MPM})}$	$\frac{1}{1 - \text{MPC}}$	A

Correct Answer: **Option A**

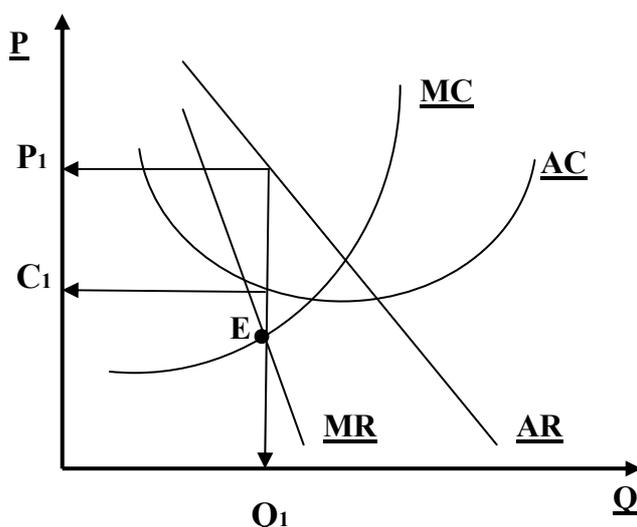
Explanation:

In an open economy there are imports and so this economy has an MPM.

17 marks graded.

Q1 Monopoly

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



- (a) (i) Copy the above diagram into your answer book.
Complete/write each of the six underlined labels in full.
- (ii) Equilibrium occurs at point **E** on the diagram. Show on your diagram:
- the output the firm will produce in equilibrium (use label Q_1)
 - the price charge for this output (use label P_1)
 - the average cost of producing the output (use label C_1)
- (iii) 'A monopoly is described as being very inefficient'.
Explain with reference to your diagram, the meaning of this statement. (30 marks)

(i)

Label	Title
P	Price
Q	Quantity
AC	Average Cost
MC	Marginal Cost
AR	Average Revenue
MR	Marginal Revenue

18 marks graded.

- (ii) Equilibrium occurs at point **E** on the diagram. Show on your diagram:

Q_1	The output the firm will produce
P_1	The price charged for this output
C_1	The average cost of producing this output

10 marks graded.

- (iii) 'A monopoly market is generally described as being inefficient'.
Explain with reference to your diagram, the meaning of this statement.
- This firm does not produce at the lowest point of average cost.
 - The firm wastes some scarce resources.

2 marks.

(b) New firms may wish to enter a monopoly market but they face barriers to entry.

(i) State **three** of these barriers.

(ii) Write brief notes on **each** of these.

(21 marks)

Ownership of a Patent / Copyright
A patent / copyright will confer the sole right on a business to a particular manufacturing process for a particular commodity.
Government Regulation / Legal restriction
The government may grant a company the sole right to supply a good or service so that there is a legal restriction on competition.
Trade Agreements & Collusion.
Firms may enter into trade agreements with other suppliers i.e. collude with them so that no other firm finds it possible to supply the commodity to a particular segment of the market.
Ownership of raw materials
A company may acquire the sole right to the available raw materials thereby becoming a monopoly in that particular market e.g. an oil exploration company.
Industry requires a large investment in capital / Economies of scale
For some industries the capital required to get established in that industry is so large that only the company which can raise the necessary capital can operate in the market e.g. Broadcasting.
Mergers / Takeovers
By merging with a competitor or buying out the competitor a firm may become a monopoly supplier in that industry e.g. Topaz Energy takeover of Shell and Statoil forecourts.
Monopolies based on fear, force or threats
An individual or group of individuals may, by fear, force or threats, stop other individuals competing with the supplier e.g. the supply of illegal drugs.
Limit pricing
A firm may use limit pricing i.e. selling at exceptionally low prices to force new entrants out of the industry so that it retains monopoly power.
Proliferation of brands on the market
By using extensive branding of its products a firm may be able to dominate the market and competitors may find it impossible to compete.

3 at 7 marks each graded.

- (c) (i) State **one** example of a market which you consider to be a monopoly in Ireland.
- (ii) If circumstances change, allowing new firms to enter this market, state and explain **one** economic advantage and **one** economic disadvantage of this development for **each** of the following:
- Consumers;
 - Employees of the monopoly firm. (24 marks)
- ✓ Iarnrod Eireann (Irish Rail) – Rail services in the Republic of Ireland;
 ✓ An Post – post for domestic users;
 ✓ Bord na Mona – processing of turf;
 ✓ Dublin Bus – on some routes in Dublin;
 ✓ ESB – domestic electricity supply.

4 marks.

CONSUMERS

<i>Advantages</i>	<i>Disadvantages</i>
1 at 5 marks graded.	1 at 5 marks graded.
1. Quality / Choice of services. The new firms may improve the quality / efficiency of the service / provide a wider choice of service.	1. Loss of non-profit making routes / services. Certain goods / services which consumers may desire may be discontinued by firms in an effort to reduce costs.
2. Lower prices. The new firms may offer consumers more competitive prices on its goods /services.	2. Standard of service. The quality of the services provided by the firms may dis-improve in an effort to save costs.
	3. Increased prices / Charges for services In a drive to increase profits the new firms may increase prices for some goods /services provided and /or charge for services which were considered 'free'.

EMPLOYEES OF THE MONOPOLY FIRM

<i>Advantages</i>	<i>Disadvantages</i>
1 at 5 marks graded.	1 at 5 marks graded.
1. Reward for employee loyalty. The original firm may increase pay, pensions and offer improved conditions of employment so that they retain their workforce.	1. Loss of job (reduced job security). The biggest risk is the loss of jobs through cutbacks caused by loss of market share due to the increased competition.
2. Employment opportunities. The new firms may offer more attractive pay, pensions or conditions of employment to attract the employees to their firms.	2. Changed working environment / Loss of benefits. The original firm may change its employees' conditions of employment so that it can reduce its costs to meet the increased competition.
	3. Curtailment in Pay / Pensions increases. The original firm may limit the pay / pension increases due to its employees.

Q2 Demand, Supply and Oil

(a) Oil is considered an ‘economic good’ because it is scarce, transferable and provides utility.

(i) Explain each of the underlined terms.

(ii) State **one** example of a ‘free good’. Explain your answer.

(20 marks)

Scarce

There must be less of the good available than is being demanded, otherwise people would not be prepared to pay a price for it.

Transferable

Ownership must be capable of being given from one person to another.

Utility

The commodity must provide the consumer with satisfaction.

Explanations: 3 at 5 marks each graded.

One example of a free good:

Air: it is not scarce. It is in plentiful supply, so it does not command a price.

Beauty: it is not transferable.

Example plus Explanation: 5 marks graded.

(b) The following may cause **either** the demand curve for oil **or** the supply curve of oil to shift to the right or left:

- a **new supply of oil** is discovered off the coast of Ireland;
- the level of indirect taxes on oil is **reduced**;
- an increase in unemployment causes income levels **to fall** within the economy.

In relation to each of the above factors:

(i) state whether the demand curve **or** supply curve will shift.

(ii) state whether the curve you mention will shift to the right or the left.

(iii) explain **why** the curve has shifted in the direction you have stated.

(30 marks)

<i>Factor</i>	D/C or S/C shift	Shift to Right or Left	<i>Reason</i>
Marks	5 marks each.	5marks each graded.	
a new supply of oil is discovered off the coast of Ireland	Supply curve	To the Right	As more oil becomes available on the market, the supply curve will shift to the right.
the level of indirect taxes on oil is reduced	Demand curve	To the Right	Consumers can now buy more oil at each price as price is reduced at all levels of output.
increase in unemployment causes income levels to fall within the economy	Demand curve	To the Left	Consumers have less income to buy the oil so demand falls.

- (c) The consumption of oil worldwide continues to increase.
- (i) State and explain **TWO** economic reasons for this development.
- (ii) State and explain how **each** of the following could help to reduce the consumption of oil:
Consumers; Businesses; Irish Government. (25 marks)

(i) State and explain **TWO** economic reasons for this development.

1) China: economy expanding.

In recent years the economy in China has expanded rapidly resulting in a major increase in oil consumption.

2) Growth in car use.

With economic growth comes greater car ownership and use resulting in increased consumption of petrol.

3) Increase in worldwide air travel.

In recent years there has been a major expansion in airline travel resulting in a growth in worldwide oil consumption.

4) Economic growth worldwide.

As economic growth takes place internationally consumers demand more goods and services, this increased production requires oil, both for production and distribution.

5) Increased domestic / industrial use.

Consumers and producers now use more sophisticated electronic devices, all of which require energy for production and consumption. With improved standard of living we may be less conscious of saving energy e.g. leaving appliances on 'stand-by'.

6) Energy use.

Oil is a major source of energy. Increased demand for energy has resulted in an increase in demand for oil worldwide.

2 points required: 7 marks graded.

(ii) **3 at 6 marks each graded.**

	Statement	Explanation
Consumers	Economise on use. Eliminate wasteful use.	<ul style="list-style-type: none"> • More people could use public transport. • Power of One: reduce energy use e.g. improve insulation / switch to energy efficient appliances. • Eliminate wasteful use of resources / become more aware of limited resources / switch to smaller car engine sizes.
Businesses	Increase efficiency. Eliminate waste.	<ul style="list-style-type: none"> • Improving production technologies through R & D / use renewable sources of energy. • Waste maybe reduced thereby saving scarce resources.
Irish Government	Education policies. Taxation policies.	<ul style="list-style-type: none"> • Pursue public education campaign to inform people as to how to reduce consumption. • Through subsidies / taxation policies encourage reduction in the consumption of certain products e.g. carbon taxes / insulation grants. • Put higher taxes on bigger car engines / subsidise public transport. • Fund research into alternative energy sources.

Q3 Costs, Housing & Immigration

- (a) A construction company needs land for building houses.
It must also purchase raw materials, pay wages to employees and make loan repayments on finance obtained to purchase machinery.
- Explain land as a factor of production.
 - Define the terms **fixed costs** and **variable costs**.
 - State whether each of the three costs **underlined above** are examples of fixed or variable costs.
- (25 marks)

(i) Land:

- Land is anything supplied by nature which helps in production.
- It is fixed in supply and has no cost of production to society as a whole.
- Examples of land include: forests, the sea, mountains etc.

6 marks graded.

(ii)+ (iii)

Fixed Costs	Marks	Variable Costs	Marks
costs which do not change as output changes	5 marks	costs which do change as output changes	5 marks
Loan repayment	3 marks	Raw Materials	3 marks
		Wages	3 marks

(b) The demand for housing in Ireland decreased in 2008.

- State and explain **one** possible economic reason for this development.
 - State and explain how this decrease could affect **each** of the following:
 - employment within the country;
 - taxation revenue;
 - profits within the construction industry.
- (20 marks)

One Reason	Explanation
1 reason at 5 marks graded.	
Higher interest rates	Interest rates have increased and this has led to less people seeking mortgages, leading to decreases in mortgage lending by financial institutions.
Availability of loans	Financial institutions have also tightened lending restrictions recently with many institutions removing their offer of 100% mortgages.
Decline in economic growth	With the rate of economic growth declining and an increase in unemployment, less people are entering the property market, thereby decreasing demand.
Speculation in houses.	Decreases in property prices reduce speculative demand with less people seeking investment opportunities in property, reducing demand for houses.
Expectations re: future prices	Some people may have decided to postpone buying now, hoping that prices for property will continue to fall by an even greater amount in the future.

- (ii) State and explain how this decrease could affect **each** of the following:
- employment within the country;
 - taxation revenue;
 - profits within the construction industry.

Item	Statement	Explanation
Employment within the country	Reduction in employment	<ul style="list-style-type: none"> • In the construction industry as fewer houses are being built less workers required. • Reduced demand for all materials / appliances for homes so less employment in ancillary industries. • With lower spending, overall demand in the economy falls resulting in job losses in services sector.
Taxation revenue	Reduction in taxation revenue.	<ul style="list-style-type: none"> • Reduction in property taxes as sales of houses falls. • With reduced sales of materials, furniture, appliances etc, VAT revenue will fall. • With lower employment income tax receipts will fall. • With lower profits in construction industry receipts from CPT will decline.
Profits within the construction industry	Will decline.	<ul style="list-style-type: none"> • With lower sales of houses profits will fall within the industry.

3 points at 5 marks each graded.

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

- (i) Explain the two underlined terms.
- (ii) State and explain **two** reasons for the above development.
- (iii) State and explain the possible economic effects which increased immigration may have on **each** of the following:
- Irish Labour market;
 - Demand for State services;
 - Firms in the retail / service industry (e.g. banks, supermarkets).
- (30 marks)

(i) Explain the two underlined terms.

Immigration **3 marks**

- Citizens of other countries entering Ireland to live.

Emigration **3 marks**

- Irish citizens leaving Ireland to live abroad.

(ii) Two reasons why immigration is more than emigration in Ireland at present:

1. Economic growth in Ireland above EU average.

This has resulted in employment opportunities, attracting immigrant workers.

2. Member of EU and ease of access.

With the relative prosperity of citizens in Ireland, many EU nationals desire an improvement in their living standards and so come to Ireland.

3. Stricter immigration controls in other countries i.e. US /Australia

The economic downturn in some countries coupled with tighter immigration controls in other countries i.e. Australia / USA makes Ireland more attractive for some immigrants.

4. Recruitment by FAS to fill labour shortages.

During the boom period Ireland experienced significant labour shortages and state / private agencies sought immigrants to fill these vacancies in various sectors e.g. construction; hotels and restaurants.

5. Lower tax rates.

In recent years personal taxation levels have decreased attracting home people who had emigrated in the past due to high tax rates.

6. Better quality of life.

Ireland offers its citizens a better quality of life and many people who had emigrated have returned to rear their children in a safe environment.

7. Wage rates in Ireland / standard of living.

Wage rates in Ireland are among the highest in Europe. This allows people attain a high standard of living and so makes Ireland an attractive destination for immigrants.

2 reasons at 3 marks each graded.

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

	Statement	Explanation
Irish Labour market	<ul style="list-style-type: none"> • Grows in size. • More competitive. • Exploitation of some workers. • Labour shortages eased. 	<ul style="list-style-type: none"> • With more immigrants the size of the labour market will grow. • Increased supply of labour will mean increased competition for jobs resulting in lower wage demands / unemployment in some areas. • Some immigrant workers might be exploited in the form of low wage rates or poor conditions of employment. • During the economic boom immigration eased the labour shortages which existed in certain sectors.
Demand for State services	<ul style="list-style-type: none"> • Will increase. 	<ul style="list-style-type: none"> • With more people living in Ireland the demand for all services provided by the state will increase e.g. education, health, housing, state benefits etc.
Firms in the retail / service industry e.g. Banks, Supermarkets.	<ul style="list-style-type: none"> • Increased demand. • Need for more employees. • Opportunities for expansion. • Increased competition. 	<ul style="list-style-type: none"> • The increase in population will lead to an increased demand for goods/services, and if met, increased profits. • More employees will be needed to meet the demand for more varied services. • More immigrants will mean demand for more varied products and services providing opportunities for new business or existing businesses to expand. • Existing businesses will face more competition as new businesses develop and existing businesses develop new products and services.

3 effects at 6 marks each graded.

Q4 Money, Competition in Banking & Interest Rates

- (a) Medium of exchange is one of the functions of money.
- (i) Explain the underlined term
 - (ii) State **two** other functions of money.
 - (iii) Other than notes and coins state **one** other item which is generally used as money. (20 marks)

Medium of exchange

- Money allows people to get goods and services.
- Allows the buying and selling of goods/services to be broken into two distinct activities.

8 marks

Two other functions:

- Store of Wealth
- Measure of Value (Unit of Account)
- Standard for Deferred Payment

2 at 4 marks each

One item which is used as money (other than notes and coins)

- Cheques
- Credit Cards e.g. Visa / MasterCard
- Debit Cards e.g. Laser
- Bank transactions e.g. Standing Orders / Credit Transfers.
- Store cards e.g. Debenhams / Arnotts cards.
- Charge Cards e.g. Diners Club

1 at 4 marks

- (b) Commercial banks are now facing increasing competition in Ireland.
- (i) Name **two** commercial banks operating in Ireland.
 - (ii) State and explain **two** reasons why competition is increasing.
 - (iii) State and explain how this increased competition may affect **each** of the following:
 - Customers of the banks;
 - Shareholders in the banks.(25 marks)

- (i) Name two commercial banks operating in Ireland. **9 marks graded.**

- Allied Irish Bank
- Bank of Ireland
- Ulster Bank
- Permanent tsb
- Bank of Scotland / Halifax
- First Active Bank

(ii) State and explain **two** reasons why competition is increasing.

2 at 4 marks each graded.

Competition from other financial institutions.

Building Societies have become plc's and changed to banking institutions offering a more complete range of services, including current accounts. They have also offered higher interest rates in order to attract customers from the main banking groups.

Entry of non-Irish banks into Irish financial market.

In the 1990s the Bank of Scotland was one of the first non- Irish banks to come onto the Irish market. It offered lower interest rates on mortgages, which forced the main Irish banks to reduce their interest rates and offer a more competitive range of services.

Growth in internet banking.

Banking via the internet has allowed consumers to become more discerning consumers. They can now bank with Rabo bank online rather than be limited to their nearest local commercial bank.

EU Services Directive.

This directive allows consumers the choice of banking with banks outside the Republic of Ireland, offering more choice and thereby forcing banks within Ireland to become more competitive.

(iii) State and explain how this increased competition may affect each of the following:

Customers of the banks **and** Shareholders in the banks.

2 at 4 marks each graded.

Group	Statement	Explanation
Customers	<ul style="list-style-type: none">• Improved services• More competitive interest rates• Cheaper services• Closure of some branches	<ul style="list-style-type: none">• Customers are now being offered more competitive interest rates e.g. interest bearing current accounts.• Some services are being offered at lower prices e.g. no transaction charges with a minimum balance.• Some banks, in order to reduce costs, have closed unprofitable branches.
Shareholders	<ul style="list-style-type: none">• Lower dividends• Increased dividends• Risk of a takeover• Reduction in share price	<ul style="list-style-type: none">• If a bank is unable to meet the increased competition, business may decline, lowering profits and dividends to shareholders which may result in a drop in the share price. (The reverse may also apply).• If a bank becomes very profitable it may become a target for a takeover bid.

(c) If the ECB were to reduce interest rates, discuss the possible effects which this development may have on **each** of the following:

- level of demand for goods and services in Ireland.
- mortgage holders;
- businesses;
- savers.

(30 marks)

	Statement	Explanation
Level of Demand	Increased demand	<ul style="list-style-type: none"> • Higher disposable income; • Cheaper mortgage repayments; • Reduced pressure to meet debt repayments; • Increased borrowing for other purchases.
Mortgage Holders	Cheaper mortgages	<ul style="list-style-type: none"> • Increased disposable income and/or shorter repayments schedules.
Businesses	Decreased costs Increased profitability Demand for workers Attract mobile investment	<ul style="list-style-type: none"> • Costs of borrowed capital lower so costs are decreased; • Possible increased borrowing / may be encouraged to expand and increase profits. • Increased demand for workers to meet rising demand. • Lower costs and cheaper loans may attract foreign industry / increased competition.
Savers	Discourages savings/ Reduced return	<ul style="list-style-type: none"> • With deposits earning a lower rate of return people are less inclined to save.

1st correct response at 9 marks graded.
2nd, 3rd & 4th correct responses at 7 marks each graded.
Statement and explanation required.

Q5 Taxation

(a) The following taxes in Ireland can be classified as direct taxes or indirect taxes:

VAT PAYE CORPORATION PROFITS TAX

- (i) Explain the two underlined terms.
- (ii) Classify each of the above taxes as a direct tax or indirect tax.
- (iii) State the **item** on which each of the above taxes is levied. (25 marks)

Direct tax	Indirect tax
Is a tax on income	Is a tax on goods and services / spending

2 at 5 marks each.

- Direct Taxes: **PAYE and CORPORATION PROFITS TAX**
- Indirect Tax: **VAT**

3 at 2 marks each.

- **VAT: tax put on goods and services / on spending**
- **PAYE: tax on wages / income**
- **CORPORATION PROFITS TAX: tax on a company's profits.**

3 at 3 marks each.

(b) If the Irish government reduced the rates of income tax:

- State and explain **two** economic benefits of lower rates of income tax to the Irish economy.
- State and explain **two** economic disadvantages of lower rates of income tax to the Irish economy. (20 marks)

1st correct answer at 8 marks graded.
2nd, 3rd & 4th correct answers at 4 marks each graded.

Maintain standards of living during rising inflation.

With rising inflation currently, standards of living are falling.

Government could reduce income tax rates, leading to greater disposable incomes.

Increase participation in the workforce / incentivise the workforce.

By allowing workers to take home more of their income it may act as an incentive for more people to join the labour market or encourage existing workers to increase their level of work.

Encourage continuation of Social Partnership.

It may encourage the social partners to continue with the social partnership and enter new negotiations.

Maintain / Improve competitiveness.

If workers have higher disposable incomes they may moderate their demands for wage increases, reducing the costs for employers and thus maintain / improve the competitiveness of Irish industry.

Economic benefits – continued

Attract foreign industry / encourage investment.

By lowering income tax rates Ireland may continue to be attractive to mobile foreign investment.

Stimulate economic activity.

With lower income tax rates, disposable incomes rise and so should spending, possibly increasing the indirect tax revenues collected. This increased spending may lead to higher employment rates and continued economic growth.

Discourages the black economy.

The reduction in income tax rates may encourage workers to avoid tax avoidance and tax evasion measures and so legitimise their activities.

Economic Disadvantages

Inflation

Higher disposable incomes and increased spending may lead to an increase in inflation within the economy.

Increased imports

Higher disposable incomes and increased spending may lead to an increase in imports within the economy, and possible job losses.

Reduction in tax revenue

With the possible loss of tax revenue to the state, the government may limit the amount of services it provides and/or introduce charges for these services.

Need to increase rates of indirect taxation

The government may increase rates of VAT / Excise duties to raise revenue. This would adversely affect people on lower incomes.

Increase in immigration.

If Ireland is perceived to be a low tax economy it could attract more migrant workers which would put increased pressure on services such as housing, public transport, education, health etc.

(c) The economist Adam Smith developed the following Canons of Taxation:

EQUITY ECONOMY CERTAINTY CONVENIENCE

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

(ii) The Revenue Commissioners attempt to reduce the level of tax evasion in Ireland.

Explain, with the use of an example, the underlined term.

(30 marks)

Canon	Explanation
Equity	The ability of each person to pay the tax must be taken into account. or Takes a higher proportion of income in tax as income rises.
Economy	The revenue collected should exceed the costs of collection. or The costs of assessment and collection should be as low as possible.
Certainty	The taxpayer/collector should know when they will pay/collect. or The taxpayer/collector should know how much tax to pay / is to be collected.
Convenience	The tax should be collected in a way which is convenient to the taxpayer. or The tax should be collected at a time which is convenient to the taxpayer.

4 at 6 marks each graded.

(ii) **Tax evasion**

- Making false tax returns or no tax returns
- An illegal way of reducing the amount of tax you pay
- e.g. a teacher giving grinds and not paying tax.

6 marks graded.

Q6 Economic Aims, Development & Road Safety

(a) The Government, with the help of the National Treasury Management Agency, has been successful in reducing Ireland's national debt, while continuing to invest in infrastructure.

- (i) Explain each of the underlined terms.
- (ii) State **three** other economic aims of the government.
- (iii) Write brief notes on each of these aims.

(25 marks)

(i) National debt:

- this is the total amount of government borrowing.

(i) Infrastructure:

- those goods /services which are essential for the smooth running of an economy.
- those goods /services which industry requires to function properly.

Example: roads / ports / telecommunications / power / water supply / waste disposal / postal service

2 at 5 marks each graded.

(ii) & (iii) State and briefly explain **three** other economic aims of the government

1. Full Employment.

Ensure that we maintain our competitiveness and so maintain jobs in Ireland.

2. Control price inflation.

The government must try to reduce the pressure on rising prices within the economy.

It can try to limit wage increases and through the introduction of competition encourage price competitiveness in services.

3. Achieve moderate economic growth.

While a slowdown is expected the government must try to manage economic activity and ensure that economic growth takes place. It aims to do this through its taxation policies.

4. Encourage exports.

The only measure available is to try to improve competitiveness for Irish exporting industries.

5. Control government finances / reduce borrowing.

While we have become accustomed to increasing tax revenues, this is expected to fall. So pressure exists on the government to control expenditure, in particular the cost of providing public services.

6. Reduce taxation levels / achieve taxation equity.

Current policy is to continue to reduce income tax but this may result in 'stealth taxes' and/or the deterioration in public services.

7. Promote balanced regional development.

This is being pursued by the National Development Plan and focusing on the creation of regional gateways.

8. Improve state services: health/education services / achieve a just social policy.

Increasing emphasis is being placed on the improvement in health services, the provision of further places in primary schools, improvement in school buildings and the development of third level education.

9. Achieve a more equitable distribution of income.

Increasing the levels of pensions and improving social welfare payments are attempts by the government to help re-distribute wealth.

3 at 5 marks each graded.

- (b) There are many problems facing less developed countries (LDCs). One of these problems is the increasing national debt.
- (i) State and explain **three** other economic problems which these countries are experiencing.
 - (ii) State and explain **two** measures which the governments of LDCs could take to help solve these problems. (25 marks)
- (i) State and explain **three** other economic problems which these countries are experiencing

Famine:

Too frequently famine occurs resulting in disease, deaths at early age, high medical costs.

Population growth:

Population growth rates are very high. This puts increasing pressure on resources, and on the need for food, housing, health facilities etc.

Uneven distribution of wealth:

In some LDCs a minority may control a large part of the country's wealth, resulting in widespread poverty.

Dependence on one crop:

Some LDCs are over-dependent on one crop. The country may be subject to crop failure and/or a wide variation in export prices.

Population engaged in extractive/primary industries:

Most workers are engaged in the primary sector and very few work are engaged in the secondary and tertiary sectors. This results in low standards of living.

Terms of trade / Restrictions to free Trade:

These countries may face low export prices and high import prices. LDCs may be prevented from exporting to other countries e.g. EU has established quotas for certain goods.

Poor living conditions / poor infrastructure:

A large percentage of the population live in shanty towns with no water and poor sanitation.

Lack of capital:

LDCs lack the capital which is essential for economic development and employment generation.

Low per capita income for the majority of the population:

This results in a poor standard of living and a low demand for goods and services.

Levels of education/literacy:

These are very low and act as an impediment to economic development, resulting in high unemployment.

War / Political corruption:

Wars in LDCs disrupt the economy and do not allow ordinary economic activity to take place. Some LDCs spending on bureaucratic administration / military spending is excessive, resulting in civil unrest.

Exploitation by multinationals (MNCs):

This may take the form of low wage rates and lack of care for the environment, resulting in damage to the environment.

3 problems at 5 marks each graded.

(ii) State and explain **two** measures which the governments of LDCs could take to help solve these problems.

Promote population control.

The government, through the use of effective economic policies, could encourage a decline in the birth rate. An increase in standard of living may result in a decline in population growth.

An information campaign on family planning may help.

Improve basic infrastructure.

Provision of clean water & proper sanitation. Develop public housing.

Development of roads, power supplies etc.

Promote land/ agricultural reform.

Decrease emphasis on one crop - diversify production.

Try to spread ownership of land.

Improve production methods / modernise the agricultural industry.

Improve education.

Start with a basic literacy programme to improve literacy skills.

Provide primary education.

Incentives for development of enterprise.

Try to foster a movement away from a dependency culture and encourage enterprise.

Use borrowings to encourage enterprise so as to create sustainable employment.

State bureaucracy / corruption / spending on arms.

Try to reduce bureaucracy within state institutions.

Eliminate corruption, so that aid flows to those for whom it was intended.

Divert funds from arms spending to meet more urgent current requirements.

Re-negotiate debt repayments

The government could try to re-negotiate a longer repayment schedule thus lessening annual repayments.

2 measures at 5 marks each graded.

(c) The Government, Gardaí and the Road safety Authority (RSA) aim to reduce the number of deaths and accidents on Irish roads.

(i) State and explain **two** measures which the government could take to achieve this aim.

(ii) If successful and the number of deaths is reduced, discuss the economic effects which this development may have on **each** of the following:

- hospital accident and emergency admissions;
- motor insurance costs.

(25 marks)

(i) Two measures which the government could take to achieve this aim

Stricter legislation / More severe penalties.

The government could enact stricter laws e.g. lower the drink driving limits, reduce speed limits, test for all drugs. Imposition of more severe penalties could deter careless driving / speeding etc.

Stricter enforcement of legislation.

By providing more Gardaí, laws could be strictly enforced and be seen to be enforced which may change driver behaviour.

Increased public awareness of road safety.

By continuing to advertise the hurt caused to families who have suffered from injuries and death due to accidents, it may cause road users to become more aware of road safety and so help reduce the number of accidents.

2 measures at 6 marks each graded.

(ii) Effects on:

	Statement	Explanation
Hospital accident and emergency admissions	<ul style="list-style-type: none">• Less admissions• More efficient use of resources	<ul style="list-style-type: none">• With fewer accidents, admissions to hospital A&E departments should fall.• Staff will now be able to devote more time to other admissions / Resources will not be tied up.
Motor insurance costs	<ul style="list-style-type: none">• Reduced	<ul style="list-style-type: none">• With fewer accidents there will be fewer claims for compensation resulting in lower costs/payouts for the insurance companies and lower premia.

1st correct response at 7 marks graded.

2nd correct response at 6 marks graded.

Q7 Trade and Inflation

(a) The table below illustrates the Law of Comparative Advantage.

	Output	
	Ice-Cream	Chocolate
Italy	800kg per worker	600kg per worker
Belgium	400kg per worker	200kg per worker
Total Output	1200kg for 2 workers	800kg for 2 workers

Although Italy is more efficient in the production of both goods, each country should specialise in the production of one good.

- Which good should Italy produce? Explain your answer briefly.
- Which good should Belgium produce? Explain your answer briefly.
- If each country specialises in the good you have selected, calculate the resulting total output. Show your workings. (20 marks)

Italy

- It should produce **Chocolate**.
- It is three times more efficient than Belgium in the production of chocolate.

5 marks graded.

Belgium

- It should produce **Ice-Cream**.
- It is least inefficient in the production of ice-cream than in chocolate production.

5 marks graded.

Calculate the resulting total output if specialisation takes place. Show your workings.

Country	Output	
	Ice-Cream	Chocolate
Italy	-/0	$600 \times 2 = 1200$
Belgium	$400 \times 2 = 800$	-/0
Total Output	800	1200

10 marks graded.

- (b) Sometimes governments decide to restrict free international trade by imposing barriers such as tariffs.
- (i) Explain the underlined term.
 - (ii) State **two** other methods which the government could use to restrict free trade.
 - (iii) State and explain **two** reasons why governments may wish to restrict free trade. (25 marks)

(i) Tariffs: This is a tax on imported goods.

7 marks

(ii) State two other methods which the government could use to restrict free trade.

2 at 4 marks each.

Quotas

Embargoes

Administrative barriers

(iii) State and explain two reasons why governments may wish to restrict free trade.

1. Protect domestic industries.

Young industries may have a difficult time competing with established industries in other countries and the government may choose to protect them by limiting competitive imports.

2. Protect domestic employment.

Foreign competition may lead to job losses. By limiting imports such jobs may be protected.

3. Protection against Cheap Labour economies.

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

4. National Security.

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

5. Revenue for the government.

Customs duties will result in an increase in taxation revenue for the state.

6. Protection of human rights.

Some countries may apply sanctions on those countries in which human rights' abuses exist.

7. Production of strategic goods.

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

8. Protect the Balance of Payments

A government may wish to restrict imports to protect the Balance of Payments and prevent it moving towards a deficit.

2 reasons at 5 marks each graded.

- (c) The rate of price inflation in Ireland is higher than in other EU countries.
- (i) Explain the underlined term.
 - (ii) State and explain **two** reasons why price inflation in Ireland is generally higher than in the other EU countries.
 - (iii) State and explain the effects which higher price inflation may have on:
 - Ireland's **exports** to the EU;
 - Ireland's **imports** from the EU.
- (30 marks)

- (i) Explain the underlined term.

An increase in prices of goods / services over a period of time

A decrease in the value of money / people buy less for their money

6 marks

- (ii) State and explain two reasons why price inflation is generally higher in Ireland than in the other EU countries.

Labour costs / Wage levels

Employers believe that labour costs in Ireland are higher than in other EU countries. The minimum wage and various legislative requirements are cited as reasons for increased costs of labour in Ireland. Social Partnership Agreements, while maintaining industrial peace, can add to the costs of labour.

Costs of energy

Imported oil is a major source of energy in Ireland. The increasing price of oil coupled with the decrease in the value of the US dollar means that energy costs in Ireland are higher than in other EU countries.

Transport costs

High insurance costs, increasing toll charges and delays in the delivery of an improved road network are increasing transport costs in Ireland and adding to our inflation rate.

Local / Central government policies

Local and Central government Policies can push up the costs for industry. Examples include: increased VAT rates, costs of refuse collection, water charges, and increased rates by local authorities, all have the effect of pushing up prices.

Lower competition on Irish market

Some economists believe that restricted competition in some sectors in the economy force prices upwards. Examples include: energy supply; postal services; transport etc.

High Employment levels

During the past ten years the economy reached almost full employment. With increased incomes people demand more goods and services. This leads to demand pull inflation.

2 reasons 6 marks each graded.

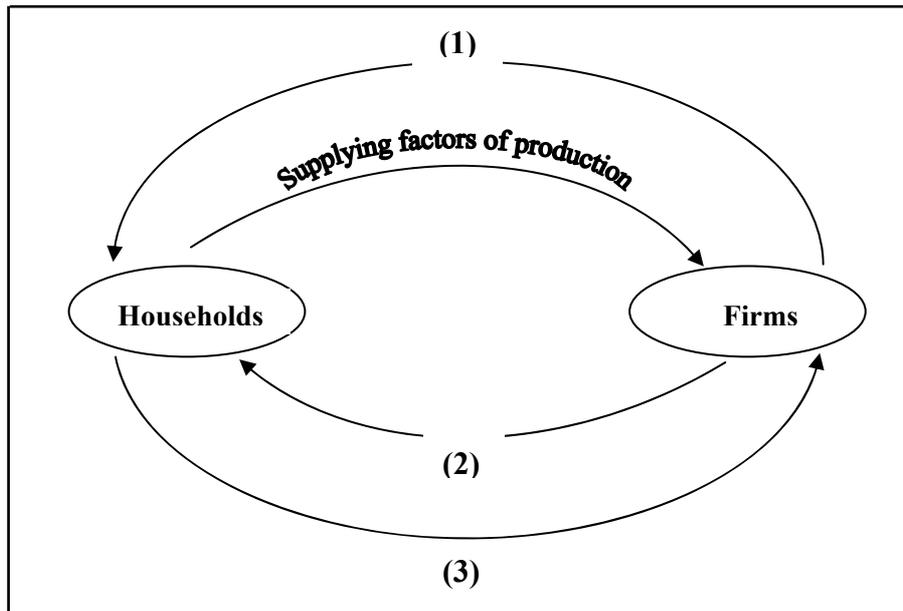
- (iii) State and explain the effects which higher price inflation may have on:
Ireland's **exports** to the EU and Ireland's **imports** from the EU.

Ireland's exports to the EU	<ul style="list-style-type: none"> Exports may decline 	<ul style="list-style-type: none"> As prices for Irish produced goods are relatively higher, this means that they are less competitive abroad, so demand may fall.
Ireland's imports from the EU	<ul style="list-style-type: none"> Imports may increase 	<ul style="list-style-type: none"> As prices for foreign produced goods are lower, this means that they are more competitive here, so demand may rise.

2 effects at 6 marks each graded.

Q8 National Income

- (a) The diagram below represents the Circular Flow of Income in a **closed economy** without Government.



- (i) Explain the meaning of the term 'closed economy'.
- (ii) Copy the diagram into your answer book. Clearly label each of the lines 1 to 3.
- (iii) Explain briefly the types of transactions / activities which take place between households and firms. (25 marks)
- (i) Explain the meaning of the term 'closed economy'.
- An economy without imports/exports.
 - An economy that does not engage in international trade.
- 12 marks graded.**
- (ii) Clearly label each of the lines (1) to (3).
1. Payment / for factors of production.
 2. Supply /commodities or goods & services.
 3. Spending / payment.
- 9 marks graded.**
- (iii) 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: supply commodities i.e. goods & services to households, who spend their incomes on these.

4 marks graded.

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

$$C = \text{€}1,200\text{m} \quad I = \text{€}500\text{m} \quad G = \text{€}300\text{m} \quad X = \text{€}40\text{m} \quad M = \text{€}80\text{m}.$$

- (i) State what each of the letters / symbols in the formula above stands for.
 (ii) Calculate, using the figures provided, the level of National Income. **Show your workings.**

(20 marks)

(i) State what each of the letters / symbols in the formula above stand for

	What this symbol stands for
C	Consumption
I	Investment
G	Government
X	Exports
M	Imports

10 marks graded.

(ii) Calculate the level of National Income. Show your workings.

WORKINGS	ANSWER
$Y = C + I + G + X - M$ $\text{€}1,200\text{m} + \text{€}500\text{m} + \text{€}300\text{m} + \text{€}40\text{m} - \text{€}80\text{m}$	$\text{€}1,960\text{m}$

10 marks graded.

(c) You are given the following information relating to a particular country.

	1998	2008
GNP at market prices	€2,500 million	€2,700 million
Population	5 million	6 million

- (i) What do the initials GNP stand for?
 (ii) Calculate the GNP per person for both years. **Show all your workings.**
 (iii) State and explain **two** possible economic disadvantages to a country of a **decrease** in GNP per person. (30 marks)

(i) What do the initials GNP stand for?

Gross National Product

6 marks

(ii) Calculate the GNP per person for both years. Show all your workings.

1998	2008
<u>Workings</u> €2,500 m 5 million	<u>Workings</u> €2,700 m 6 million
Answer: €500	Answer: €450

12 marks graded.

(iii) State and explain **two** possible economic disadvantages to a country of a **decrease** in GNP per person.

Lower standard of living.

A lower GNP per person will mean that a person will be able to buy less goods and services, resulting in a reduced standard of living.

Reduced savings.

With more disposable income needed for goods and services, a person will not be able to afford to save as much.

Loss of jobs.

With reduced spending, demand falls and so less labour will be needed to produce this lower output.

Reduced Government Finances.

With lower incomes, income tax revenue will decline, as will revenue from Corporation Profits Tax and from DIRT. With lower spending VAT revenue will decline.

Loss of state services / charges introduced for these services

With the loss of revenue to the government, it may now introduce charges for state services or raise the requirements for getting these services.

More difficult to encourage businesses to expand / attract foreign investment.

With lower demand businesses are less likely to expand / invest as there are fewer opportunities available. Similarly, foreign investment is harder to attract because of the reduced investment opportunities.

2 at 6 marks each graded.

