

## **Leaving Certificate Examination, 2002**

# **Ordinary Level Economics**

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### **MARKING SCHEME**

**and**

### **NOTES**

**for use with the Marking Scheme**

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



1.		<p><b><u>SECTION A: (100 marks)</u></b></p> <p>What do the following initials stand for:</p> <p>(i) WTO World Trade Organisation</p> <p>(ii) ECB European Central Bank</p> <p>(iii) EU European Union</p> <p><u>Eight</u> words at 2m each</p>		Total 16m
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2.		<p>Complete the following sentence: The methods used to calculate National Income are</p> <p>(i) Income Method</p> <p>(ii) EXPENDITURE method</p> <p>(iii) OUTPUT Method</p>	8m 8m	Total 16m
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3.		<p>Identify two factors which would cause the shift in the supply curve illustrated on the diagram below:</p>			
		<p><b><u>FACTOR</u></b></p> <ul style="list-style-type: none"> <li>• Costs of production</li> <li>• State of technology</li> <li>• The price of related goods</li> <li>• Unplanned events (weather, disease, strikes)</li> <li>• <u>Government action</u> <ul style="list-style-type: none"> <li>taxation on raw material</li> <li>or Subsidy on raw material</li> <li>or Number of licences</li> <li>or Direct interference on supply</li> </ul> </li> <li>• Number of sellers in the market</li> <li>• Change in objective of firm / industry</li> </ul>	<p><b><u>CHANGE</u></b></p> <ul style="list-style-type: none"> <li>Increase</li> <li>Disimproves</li> <li>Increase</li> <li>Reduce supply</li> <li>Increase</li> <li>Reduced / removed</li> <li>Reduced</li> <li>quota / embargo</li> <li>decrease</li> <li>cut supply e.g. O.P.E.C.</li> </ul>		
		<p><u>Marking</u></p> <p>1<sup>st</sup> Answer</p> <p>2<sup>nd</sup> Answer</p>	<p><u>Factor</u></p> <p>6m</p> <p>4m</p>	<p><u>Change</u></p> <p>4m</p> <p>2m</p>	<p>10m</p> <p>6m</p> <p>Total 16m</p>

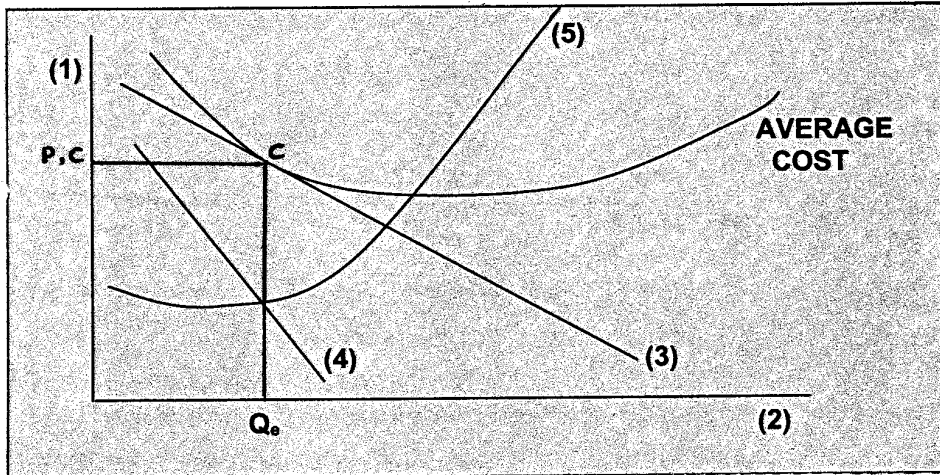




## SECTION B (300 marks)

### Q1. IMPERFECT COMPETITION

Imperfect Competition: long run equilibrium



(a) (i) Copy the diagram into your answer book. Clearly label each of the lines numbered 1 to 5

- 1) Price
- 2) Quantity
- 3) Average revenue/ AR / Demand curve
- 4) Marginal revenue / MR
- 5) Marginal cost / MC

2m  
2m  
2m  
2m  
2m    10m

(ii) The firm produces at point  $Q_e$ . Show your diagram:

- The price the firm will charge for this output (use label P)  
Answer : P on the above graph
- The average cost of producing this (use label C)  
Answer : C on the above graph

5m  
  
5m    10m

(iii) In economics, what is meant by ‘the long run’?

- A period of time sufficiently long to permit an alteration in the quantity used of all the factors of production

10m  
Total (a)  
30Marks

(b)		<p>State and explain <u>THREE</u> assumptions, which apply in an imperfectly competitive market structure.</p> <ol style="list-style-type: none"> <li>1. Product differentiation / close substitutes / goods not homogeneous</li> <li>2. Freedom of entry</li> <li>3. Freedom of exit</li> <li>4. Relatively large numbers of sellers / many sellers</li> <li>5. Many buyers</li> <li>6. Perfect knowledge of profits and/ or prices</li> <li>7. Objective is profit maximisation</li> <li>8. In certain circumstances collusion is possible</li> <li>9. Elastic supply of factors of production</li> </ol> <p style="text-align: right;">STATE 3 assumptions at 4m, 4m, 3m EXPLAIN 3 assumptions 3m each.</p>	<p>11m 9m</p>	<p>Total (b) 20 Marks</p>
(c)	(i)	<p>Explain what is meant by ‘competitive advertising’?</p> <p>Competitive advertising involves highlighting the <u>advantages of a product</u> or service over those supplied by competitors</p> <p style="text-align: center;"><u>or</u></p> <p>A form of advertising in which the <u>brand name</u> of the good or service involved or the <u>trademark</u> of the firm producing it is the focus of the advertising campaign</p>	<p>10m</p>	



(ii) State ONE advantage and ONE disadvantage of advertising to:

- Consumers
- Sellers

CONSUMERS

Advantages

- Enhances the consumers' knowledge of products available, their prices and their characteristics / informs the public
- Advertising increases the intensity of competition in the market, leading to more competitive prices
- A successful advertising campaign results in increased output for the firm or industry. If economies of scale apply producers have more scope to decrease prices
- Advertising tends to accelerate the pace at which innovation / product development takes place

or

More variety / better quality goods and services available

- Sponsorship of local and national events is of mutual benefit to producers and the general public / it may represent a subsidy for prices which consumers pay

Disadvantages

- Prices may increase due to higher costs
- Exaggerated or false claims can mislead consumers
- Advertising increases the incidence of 'impulse buying'
- Consumers may be encouraged to buy potentially harmful products e.g. cigarettes or alcohol
- Advertising can act as a barrier to entry, reducing both choice and competition
- Advertising can impact negatively on the appearance of towns and cities
- The consumer does not have a choice as regards exposure to advertising



**SELLERS**

**Advantages**

- Increased sales and/ or profits
- Economies of scale achieved as output expands
- A successful advertising campaign may be self financing as increased sales cover the cost of the campaign
- A business can increase goodwill through sponsorship (e.g. Eircom and the Irish football team)
- Advertising can act as a barrier to entry protecting the market share of existing firms

**Disadvantages**

- Advertising increases costs of production
- Advertising can act as a barrier to entry to potential new entrants
- A firm may not obtain any significant increase in sales from advertising if competitors retaliate with their own campaigns
- A firm may face legal action / censure if advertisements are deemed misleading or offensive
- Expenditure on advertising needs to be maintained / repeated as the impact of many advertisements is short lived
- As the pace of product development accelerates / competition intensifies / new advertising media emerge, firms are forced to increase their advertising budget

**Marking**

1st 3 correct answers at 4m each	12m
4th correct answer	3m

15m

Total (c)  
25 Marks  
[75 Marks]

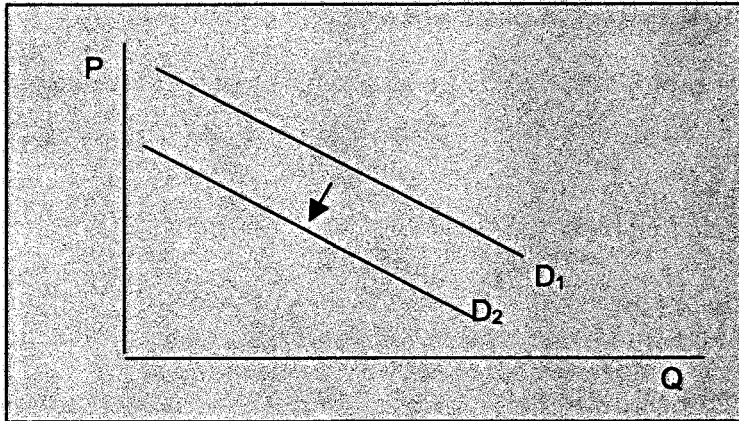




(a)

## Q2. DEMAND

The diagram below represents a change in demand for a particular product:



Explain TWO factors, which could have caused the change shown above.

<u>FACTOR</u>	<u>CHANGE</u>
• Price of substitute	decreases
• Price of complement	increases
• Income levels (normal good) decrease Income levels (inferior good) increase	
• Change in taste / fashion	resulting in a fall in demand
• <u>Expectations</u> that future prices	will fall
• Government action	which discourages demand e.g.: anti-smoking campaign
• Unplanned changes	which discourage demand e.g.: BSE
• Number of consumers in the market	decreases

Marking :

TWO factors analysed at 10m each

(In each case:

identify the factor 6m, correct change 4m.)

Total (a)  
20 Marks

<p>(b)</p>	<p>(i)</p>	<p>The demand for new cars has increased in Ireland in recent years.</p> <p>State ONE economic reason for this development.</p> <ul style="list-style-type: none"> <li>• The recent <u>boom</u> in the Irish economy means more people can afford to buy new cars</li> <li>• Introduction of the <u>N.C.T</u></li> <li>• The recent <u>scrappage schemes</u> encouraged motorists to buy new cars</li> <li>• <u>Demographic</u> changes: rising population / return of emigrants / increased immigration</li> <li>• With the tendency now for <u>both partners</u> to work many households have bought a second car</li> <li>• Failure of <u>alternative systems</u> to provide a viable alternative to transport by car</li> <li>• More <u>intense competition</u> in the industry / high levels of advertising and promotion of cars / reasonably competitive prices / innovative changes in design / improved safety features</li> <li>• Recent improvements in Irelands <u>road network</u> have increased the attractiveness of travelling by car</li> <li>• Lower interest rates / easier availability of credit</li> </ul> <p>State ONE reason:</p>	<p>5m</p>	
	<p>(ii)</p>	<p>Explain ONE economic advantage and ONE economic disadvantage of this development.</p> <p><u>ADVANTAGES</u></p> <ul style="list-style-type: none"> <li>• More <u>employment</u> in the car distribution sector</li> <li>• More <u>revenue</u> for the government</li> <li>• Improved <u>road safety</u></li> <li>• New cars are less damaging to the <u>environment</u></li> <li>• Geographical <u>mobility</u> of the workforce is improved (it is easier for workers to move to areas where job vacancies exist or where affordable housing is available)</li> </ul>		



(c)	(i)	<p>State TWO characteristics of an economic good.</p> <ul style="list-style-type: none"> <li>• it must be <u>scarce</u> in relation to demand</li> <li>• it must provide <u>utility</u> / give satisfaction / provide benefit to the consumer / convey a feeling of well being</li> <li>• it must be transferable / have the capability of being bought and sold / being given by one person to another</li> </ul> <p>TWO characteristics at 6m each</p>	12m	Total (c) <u>30 Marks</u> [75 Marks]
	(ii)	<p>Explain why the following items would <u>not</u> be considered economic goods:</p> <p>FRESH AIR                      This is not scarce in relation to demand</p> <p>GOODHEALTH                    This is not transferable / not capable of transmission from one person to another</p> <p><u>Marking:</u> TWO exceptions at 9m each</p>	18m	



**Q3. FACTORS OF PRODUCTION AND  
PRIVATISATION**

<b>(a)</b>	<b>(i)</b>	<p>State the FOUR factors of production.</p> <p style="text-align: center;"> <span style="margin-right: 100px;">LAND</span> <span>CAPITAL</span>  <span>LABOUR</span> <span>ENTERPRISE</span> </p> <p>Four factors of production at 4m each</p>	16m	
	<b>(ii)</b>	<p>In the case of each of the following state which factor of production it represents</p> <ul style="list-style-type: none"> <li>• Machinery                      Capital</li> <li>• Carpenters                      Labour</li> <li>• Ordinary shareholders      Enterprise</li> <li>• Forests                          Land</li> <li>• Factory buildings              Capital</li> </ul> <p>Five answers at 3m, 3m, 3m, 3m, 2m.</p>	14m	Total (a) 30 Marks





(c)	(i)	<p>Explain the term 'privatisation'</p> <p>Privatisation is the sale of a state owned company to private shareholders</p>	<p>4m 2m</p>	6m																			
	(i)	<p>Name ONE company, which has been privatised in Ireland in recent times.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;"><u>PRE-PRIVATISATION</u></td> <td style="width: 50%;"><u>POST-PRIVATISATION</u></td> </tr> <tr> <td>Telecom Eireann</td> <td>Eircom</td> </tr> <tr> <td>N.E.T</td> <td>I.F.I.</td> </tr> <tr> <td>Irish Steel</td> <td>Irish Steel</td> </tr> <tr> <td>Irish Life</td> <td>Irish Life</td> </tr> <tr> <td>B&amp;I</td> <td>Irish Ferries</td> </tr> <tr> <td>Irish Sugar Company / CSET</td> <td>Greencore</td> </tr> <tr> <td>ACC</td> <td>RABO Bank</td> </tr> </table> <p>Name ONE company</p>	<u>PRE-PRIVATISATION</u>			<u>POST-PRIVATISATION</u>	Telecom Eireann	Eircom	N.E.T	I.F.I.	Irish Steel	Irish Steel	Irish Life	Irish Life	B&I	Irish Ferries	Irish Sugar Company / CSET	Greencore	ACC	RABO Bank	4m		
	<u>PRE-PRIVATISATION</u>	<u>POST-PRIVATISATION</u>																					
Telecom Eireann	Eircom																						
N.E.T	I.F.I.																						
Irish Steel	Irish Steel																						
Irish Life	Irish Life																						
B&I	Irish Ferries																						
Irish Sugar Company / CSET	Greencore																						
ACC	RABO Bank																						
(ii)	<p>State ONE economic advantage and ONE economic disadvantage of privatisation for the consumer</p> <p><u>Advantages</u></p> <ul style="list-style-type: none"> <li>• the company is exposed to competition which should lead to more <u>competitive prices</u></li> <li>• <u>improvement in quality</u> of the good or service concerned</li> <li>• privatisation can be structured in such a way that the <u>government retains some control</u> over the company in the interests of the consumers</li> <li>• privatisation <u>increases the choice</u> of goods and services available to consumers</li> <li>• because privatised companies have access to new <u>sources of funds</u> and are not subject to government interference their long term prospects for survival are better which ensures <u>continuity of supply</u> for consumers</li> </ul> <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> <li>• some <u>socially desirable services</u> which are unprofitable may be discontinued</li> <li>• privatisation can result in the development of <u>cartels</u> or collusive practices amongst producers</li> <li>• the <u>quality</u> of the good or service may deteriorate as profit maximisation becomes the objective</li> <li>• the <u>price</u> of the good or service may increase if government subsidies no longer apply or if a high profit level per unit is sought</li> <li>• a significant proportion of profits made are paid out in dividends rather than being used for product development</li> </ul> <p>State ONE advantage</p> <p>State ONE disadvantage</p>	<p>5m 5m</p>	10m	<p>Total (c) 20 Marks [75 Marks]</p>																			

## Q4. SAVING, MONEY & INTEREST RATES

(a) (i)

Define savings.

Saving refers to income which is not spent

Or

Saving is non-consumption

Definition of savings:

8m

(ii)

Explain TWO factors which influence the level of savings in an economy

- The level of income

The greater the level of income the greater the scope for saving

- The age-structure of the population

The greater the proportion of the population in the working age group the higher the level of saving

- Future expectations

Concern for the future of the economy result in a fall in consumer spending and an increase in saving

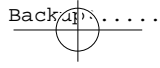
- The rate of interest

The higher the rate of interest the greater the level of saving

- Government policy

- An increase in D.I.R.T. will discourage saving
- Increases in other taxes reduce real income and thus the ability of citizens to save
- Schemes such as SSIA encourage saving





	<ul style="list-style-type: none"> <li>• <u>Inflation</u> <ul style="list-style-type: none"> <li>➤ High level of inflation discourage saving as real incomes fall when prices increase</li> <li>➤ Inflation results in a reduction in real interest rates</li> <li>➤ From a speculative point of view inflation means that the purchase of an asset is preferable to saving</li> </ul> </li> <li>• The level of <u>social welfare payments</u>. High levels of social welfare payments facilitate an increased level of saving.</li> <li>• <u>Quality of financial products and pensions</u> If such items produce reasonable returns, people are more likely to use them as a form of saving.</li> </ul> <p>Two factors affecting savings at 6m each</p>	12m	
(iii)	<p><u>State TWO</u> economic effects of increases in the level of savings.</p> <ul style="list-style-type: none"> <li>• The level of <u>consumption</u> falls / living standards decrease</li> <li>• A fall in the level of <u>economic activity</u> / the rate of economic growth slows / a rise in unemployment.</li> <li>• The <u>tax returns</u> from D.I.R.T. will increase / a fall in revenue from other taxes e.g. P.A.Y.E., V.A.T., and C.P.T.</li> <li>• Demand – pull <u>inflationary</u> pressures are reduced.</li> <li>• Balance of Payments effect: the level of <u>imports</u> will drop as consumption decreases.</li> <li>• <u>Future</u> levels of spending / living standards will be higher.</li> <li>• An increase in the level of saving results in more <u>opportunities for investment</u> in the economy.</li> <li>• An increase in savings at present can result in a fall in National Income in the future, which in turn can result in a reduction in future levels of saving (<u>the Paradox of Thrift</u>)</li> <li>• Pressures on <u>interest rates</u> are eased, as the level of demand in the economy is curtailed and more funds flow into financial institutions.</li> </ul> <p>State TWO effects at 5m each.</p>	10m	Total (a) 30 Marks



(b)	(i)	<p>Define 'money'.</p> <p>Money is anything which is <b>GENERALLY ACCEPTABLE</b> in payment for goods and services</p>	6m	
	(ii)	<p>State and explain <b>TWO</b> functions of money.</p> <ul style="list-style-type: none"> <li>• State: <u>medium of exchange</u>                      Explain: enables transactions to be conducted efficiently                      Or                      Facilitates the purchase and sale of goods and services.</li> <li>• State: <u>a measure of value</u>                      Explain: money acts as a common denominator in valuing items                      Or                      It allows comparisons to be made between the relative value of different goods and services</li> <li>• State: <u>a store of value</u>                      Explain: reference to saving / non-consumption / providing for the future.</li> <li>• State: <u>a standard for deferred payment</u>                      Explain: reference to transactions or contracts which involve payment on dates in the future e.g. Credit buying, borrowing, pensions, life assurance schemes etc.</li> </ul> <p style="text-align: right;">State TWO functions at 3m each = 6m                      Explain TWO functions at 4m each = 8m</p>		



(c)

State and explain the advantages of a decrease in interest rates to each of the following:

- Borrowers  
State: loan repayments cost less.  
Explain: lower interest rates reduce the cost of borrowing / borrowers have more disposable income  
Or  
State: borrowers have scope to acquire additional funds  
Explain: any decrease in the cost of existing loans makes further borrowing more feasible.
  
- Government  
State: the level of current spending falls.  
Explain: the cost of servicing the national debt is reduced when interest rates decrease.  
Or  
State: government revenue increases  
Explain: lower interest rates increase the level of economic activity, resulting in more buoyancy in the revenue from a variety of taxes e.g. P.A.Y.E., V.A.T., C.P.T.  
Or  
State: a general improvement in the governments budgetary situation  
Explain: lower interest rates stimulate investment in the economy, resulting in increases in revenue and reductions in spending for the government.
  
- Employers  
State: costs are reduced / improved competitiveness  
Explain: the cost of borrowing is reduced when interest rates fall  
Or  
State: further investment / expansion is encouraged  
Explain: any further loan capital required is available at cheaper rates / or profitability of investment increases  
Or  
State: higher sales and/or profits  
Explain: lower interest rates boost economy activity in general and consumer spending in particular

Or

State: share values improve / new issues are more successful

Explain: markets react positively to decrease in interest rates / a higher level of confidence amongst investors

Marking

State one effect on THREE groups at 5m, 4m, 4m

Explain the effect on THREE groups at 4m each

13m

12m

Total (c)  
25 Marks  
[75 Marks]

<b><u>Q5. INTERNATIONAL TRADE</u></b>			
<b>(a)</b>	Use the figures given to calculate:		
<b>(i)</b>	<b><u>The Balance of Trade</u></b>	<b>€b</b>	
	Visible exports	50 (2m)	
	- Visible imports	<u>40 (2m)</u>	
	<b>Balance of Trade SURPLUS (2m)</b>	<u>10 (2m)</u>	8m
<b>(ii)</b>	<b><u>The Balance of Invisible Trade</u></b>	<b>€b</b>	
	Invisible exports	10 (2m)	
	- Invisible imports	<u>12 (2m)</u>	
	<b>Balance of Invisible Trade Deficit (2m)</b>	<u>2 (2m)</u>	8m
<b>(iii)</b>	<b>The Balance Of Payments (on current account)</b>		
	<b>BOP current account SURPLUS (2m)</b>	<u>8 (2m)</u>	4m
			<b>Total (a) 20 Marks</b>
<b>(b)</b>	Which category of imports or exports (visible or invisible) does each of the following represent?		
<b>(i)</b>	Aer Lingus ensures its planes with the London insurance company Answer: INVISIBLE IMPORT		5m
<b>(ii)</b>	An Irish company sells beef to Egypt Answer: VISIBLE EXPORT		5m
<b>(iii)</b>	An Irish car dealer buys German cars Answer: VISIBLE IMPORT		5m
<b>(iv)</b>	A group of French tourists holiday in Ireland Answer: INVISIBLE EXPORT		5m
			<b>Total (b) 20 Marks</b>



(c)	<p>Outline TWO reasons why the level of imports in an economy increases during a period of economic growth</p> <ul style="list-style-type: none"><li>• As <u>income levels</u> rise, the demand for all consumer goods will increase, including imports</li><li>• Industry will require additional <u>capital goods</u> as the economy expands, many which are manufactured abroad</li><li>• As output increases so does the demand for <u>raw materials</u>, a significant proportion of which Ireland obtains from other countries</li><li>• The demand for some <u>invisible imports</u> tends to increase during a period of economic growth eg. Foreign holidays</li></ul> <p><u>Marking</u> Two answers required at 8m &amp; 7m</p>		Total (c) 15 Marks
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(d)	(i)	<p>“Ireland is a small open economy”. Explain this statement.</p> <p>This refers to an economy which trades internationally</p> <p style="text-align: center;"><u>Or</u></p> <p>One which is engaged in importing and exporting in the course of its economic activities</p>	6m	
	(ii)	<p>State and explain TWO reasons why foreign companies are important to the Irish economy.</p> <ul style="list-style-type: none"> <li>• They bring new <u>skills and technology</u> into Ireland / improve the quality of goods and services available / enhance consumer choice</li> <li>• These companies can more easily <u>withstand a downturn</u> in the Irish economy / have access to a range of sources of finance / are subsidiaries of strong trans-national corporations</li> <li>• They increase <u>employment</u>, as the majority of their employees are Irish nationals.</li> <li>• Their initial investment represents an addition to a <u>capital</u> section of <u>Balance Of Payments</u> account</li> <li>• Any <u>losses</u> made by foreign companies are borne <u>outside the state</u></li> <li>• Many of these companies are <u>export-oriented</u> and thus improve our Balance Of Trade</li> <li>• Such investment increases <u>National Income</u> / the level of wealth in the economy / is subject to a multiplier effect / represents an addition to the circular flow of income</li> <li>• The capacity of the economy is increased without recourse to <u>domestic sources of capital</u></li> <li>• <u>Government revenue</u> from a variety of sources is increased</li> </ul> <p><u>Marking</u> Two reasons at 7m each</p>	14m	Total (d) 20 Marks [75 Marks]

**Q6. FISCAL POLICY &  
DEREGULATION**

(a) (i) State TWO examples of Government Current Income and TWO examples of Government Current Expenditure.

**Examples of Income:**

- Income tax (PAYE)
- V.A.T.
- Corporation Profits Tax
- Capital Gains Tax
- Capital Acquisitions Tax
- Excise duties
- Stamp duties
- V.R.T
- National Lottery
- Loan interest
- Prize Bond scheme
- Surpluses of State companies
- Fees charged for services

**Examples of Expenditure:**

- Salaries (of all state employees, ministers, T.D.s etc.)
- Cost of running government departments (stationery, light & heat etc...)
- Social Welfare payments
- Debt service
- Grants to local authorities
- Ireland's contribution to the EU budget
- Running costs of State institutions (prisons, hospitals, schools)
- C.S.O. expenses
- Offices of the Ombudsman

TWO examples of current income at 3m                   = 6m  
 TWO examples of current expenditure 3m               = 6m

12m



	<p>(ii) Explain how the government Budget Surplus would be affected by <u>each</u> of the following:</p> <ul style="list-style-type: none"> <li>• Free health care offered to all citizens over 70yrs of age</li> </ul> <p><u>Effect:</u> surplus would decrease</p> <p><u>Reason:</u> government spending on health will increase / it will now be responsible for financing goods and services which many people in this age group previously paid for, using their own resources / this age group should consume a proportionally larger amount of the health budget than any other</p> <ul style="list-style-type: none"> <li>• Public sector trade unions succeed in obtaining large pay increases for members</li> </ul> <p><u>Effect:</u> surplus would decrease</p> <p><u>Reason:</u> the level of government spending would increase as all public sector employees obtain pay increases</p> <ul style="list-style-type: none"> <li>• Interest rates in the economy fall</li> </ul> <p><u>Effect:</u> surplus will increase</p> <p><u>Reason:</u> lower interest rates increase economic activity in the economy and thus the tax take from a variety of sources / more employment results in an increase in PAYE receipts / additional spending leads to buoyancy in VAT / excise returns / an increase in revenue from corporation taxes/ government spending falls as the cost of servicing the national debt is reduced</p> <p>Three answers required at 6m each</p>	<p>18m</p>	<p>Total (a) 30 Marks</p>
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(b)	(i)	<p>Explain the term “Black Economy” (also known as underground economy)</p> <p>All economic activity which goes unrecorded for tax purposes</p> <p style="text-align: center;"><u>And</u></p> <p>Is not included in national income accounts</p>	10m					
	(ii)	<p>Explain how the governments Budget Surplus would be affected if black economy activities were reduced</p> <p><u>Effect:</u> the surplus will increase</p> <p><u>Reason:</u> as more activities fall within the tax net government revenue will increase / government spending will decrease as abuses such as social welfare fraud, fraudulent claims for health benefits etc are reduced or eliminated</p> <p style="text-align: center;"><u>Or</u></p> <p><u>Effect:</u> the surplus may decrease in the short run</p> <p><u>Reason:</u> efforts to reduce black economy activities may require an initial increase in government expenditure e.g. The employment of more tax inspectors, payment of incentives to informers, higher administration costs</p>	10m					
		<p><u>Marking</u></p> <table style="width: 100%; border: none;"> <tr> <td style="padding-left: 20px;">Effect on surplus</td> <td style="text-align: right; padding-right: 20px;">6m</td> </tr> <tr> <td style="padding-left: 20px;">Reason</td> <td style="text-align: right; padding-right: 20px;">4m</td> </tr> </table>	Effect on surplus	6m	Reason	4m	10m	<p><b>Total (b)</b> <b>20 Marks</b></p>
Effect on surplus	6m							
Reason	4m							

(c)	<p>Deregulation of the markets, that is allowing more suppliers of a good or service into the market, is a recent development in the Irish economy (e.g. the taxi industry)</p> <p>Briefly explain how deregulation could affect <u>each</u> of the following:</p> <p>(i) Consumers of the good or service</p> <p><u>Effect</u>: increased supply of the good or service</p> <p><u>Reason</u>: more providers are allowed to enter the market / more freedom of entry into the industry</p> <p style="text-align: center;"><u>Or</u></p> <p><u>Effect</u>: a fall in the price payable by consumers</p> <p><u>Reason</u>: increased competition in the industry / an increase in supply is usually associated with a decrease in price</p>		
	<p>(ii) The level of employment in the industry</p> <p><u>Effect</u>: this will increase</p> <p><u>Reason</u>: deregulation increases mobility into the industry, resulting in an increase in the level of employment in the sector concerned</p>		
	<p>(iii) The profit levels of existing suppliers</p> <p><u>Effect</u>: these are likely to fall</p> <p><u>Reason</u>: the entry of new suppliers will decrease the market share of those presently in the industry / as supply expands and price falls, the level of profit on each unit of good or service concerned will be reduced</p> <p>Three answers required at 9m 8m &amp; 8m</p>		<p>Total (c) 25 Marks [75 Marks]</p>



<b><u>Q7. GOVERNMENT OBJECTIVES AND EMIGRATION</u></b>			
(a)	(i) State TWO economic objectives of government, other than full employment <ul style="list-style-type: none"> <li>• Low inflation</li> <li>• Improvements in balance of payments</li> <li>• Economic growth</li> <li>• Control of public finances / national debt</li> <li>• Negotiate for interest rates appropriate to Ireland</li> <li>• Equity in relation to taxation, levels of pay etc</li> <li>• Investment in infrastructure</li> <li>• Regional development</li> <li>• Protection of the environment</li> <li>• Achievement of just social policy</li> </ul> <p>State two objectives at 5m</p>	10m	
	(ii) Describe with examples, TWO economic policies which a government may use to achieve its objectives <ul style="list-style-type: none"> <li>• <u>Name: Fiscal Policy</u>   <u>Describe:</u> any reference to government taxation or government spending   <u>Example:</u> any statement in relation to increasing or decreasing a particular tax / any example of changes in spending policies by the government</li> <li>• <u>Name: Monetary Policy</u>   <u>Describe:</u> any statement which refers to interest rates, the money supply or credit creation   <u>Example:</u> interest rates may be increased to control inflation or decreased to boost economic activity / decisions to expand or reduce the money supply / any actions taken which influence the credit creation ability of banks</li> </ul>		



- **Name:** Exchange Rate Policy

**Describe:** any reference to decisions in relation to the rate of exchange of a currency

**Example:** the rate of exchange may be increased to control inflation / may be decreased to boost exports or job creation

- **Name:** Economic Planning/ Indicative Planning

**Describe:** the formulation of economic plans by the social partners / the name of any such plan in Ireland

**Example:** the setting of pay guidelines / planning the development of infrastructure / identification of the present and future needs of the economy / analysis of different sectors

- **Name:** Direct Intervention / Legislation

**Describe:** the government formally intervenes in the economic affairs of a country / passes laws which affect economic activities / makes decisions in relation to semi state companies

**Examples:** any example of particular legislation which affects economic activity / an instance of how a decision by a government department affected the economy / any reference to semi-state companies e.g. as regards privatisation or decisions in relation to employment levels in such companies or the price charged for the good or service

- **Name:** Prices And Incomes Policy

**Describe:** any reference to efforts by government to control either prices or levels of pay in the economy

**Example:** maximum prices / requirement for permission from government to increase prices in some sectors / establishment of agencies to protect consumers / social partnership / machinery for the resolution of disputes / bench marking



		<ul style="list-style-type: none"><li>• <b><u>Name: Regional Policy</u></b></li></ul> <p><b><u>Describe:</u></b> efforts by government to ensure that all areas of the country enjoy a reasonable level of prosperity</p> <p><b><u>Example:</u></b> grants or tax incentives to firms / job training programmes for disadvantaged areas / infrastructural development / decentralisation</p> <p>Two policies to be analysed at 10m each</p>	20m	Total (a) 30 Marks
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(b)	(i)	<p>Define 'full employment'.</p> <p>A situation in which jobs are available for all those who are willing to work At existing wage rates</p>	9m	
	(ii)	<p>If an economy is at full employment, explain briefly how this might affect <u>each</u> of the following:</p> <ul style="list-style-type: none"> <li>• <u>Development of roads</u>  <u>Effect:</u> this will be curtailed  <u>Reason:</u> the additional workers required to construct the new roads are not available in the domestic economy</li> <li>• <u>Immigration levels in the economy</u>  <u>Effect:</u> immigration levels will increase  <u>Reason:</u> all sectors of the economy have to obtain the additional workers required from outside the state / pressure on the government to approve more work permits for immigrants</li> <li>• <u>The demand for child care services in the economy</u>  <u>Effect:</u> the demand for these services will increase  <u>Reason:</u> when an economy is experiencing labour shortages it becomes the norm for both parents to work outside the home. The result is an increase in demand for formal child care services</li> </ul> <p>THREE answers required at 7m each</p>	21m	Total (b) 30 Marks

<p>(c)</p>	<p>State and explain TWO reasons why the numbers emigrating from Ireland in recent years have declined</p> <ul style="list-style-type: none"> <li>● <u>Improved job opportunities</u> The high levels of economic growth experienced in Ireland in recent years have resulted in improved employment prospects for Irish citizens / better living standards</li> <li>● <u>Tax reductions</u> Levels of taxation have fallen in Ireland in recent years, resulting in increases in real income for taxpayers</li> <li>● <u>Wage rates</u> As certain sectors experience labour shortages this results in upward pressure on wage rates which have encouraged some Irish citizens to opt for employment in Ireland rather than in foreign countries</li> <li>● <u>Social / political considerations</u> Ireland is a modern democratic country / has a good record in human rights and civil liberties / is a member of the EU / was listed 18<sup>th</sup> in a list of “Most liveable countries in 2001”</li> <li>● <u>Tighter immigration controls in other countries</u> Some traditional destinations for Irish emigrants have introduced more stringent controls on immigration e.g. US</li> <li>● Economic downturn in other countries If recession occurs abroad, there are fewer employment opportunities for Irish emigrants</li> <li>● <u>The nature of Irish industry</u> Because Irish industry is now technologically advanced, our highly educated young people no longer have to emigrate to find suitable employment / reduction in the ‘brain drain’</li> <li>● <u>Supply of housing</u>  This has increased dramatically in Ireland in recent years and has been a contributory factor in the decision of some citizens to remain in Ireland</li> <li>● <u>Long term outlook / optimism for the future</u>  The Irish economy has performed so well in recent years that many people feel that Ireland offers them the best prospects for the future</li> </ul> <p>TWO reasons at 8m and 7m</p>	<p>15m</p>	<p>Total (c) 15 Marks [75 Marks]</p>
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<u><b>Q8 NATIONAL INCOME</b></u>			
(a)	(i)	<p>What is meant by the term national income?</p> <p>National Income refers to the total income which accrues to the permanent residents from economic activity in a period of one year</p>	9m
		<p>State and explain how <u>each</u> of the following effects National Income</p>	
	(ii)	<ul style="list-style-type: none"> <li>• <u>A decrease in consumer spending</u>   <u>Effect:</u> National Income falls   <u>Reason:</u> as consumers spend less the demand for goods and services will decrease, with a corresponding decrease in production</li>   <li>• <u>An increase in government spending</u>   <u>Effect:</u> National Income increases   <u>Reason:</u> as the government increases its level of expenditure, it creates additional demand for goods and services in the economy / government spending represents an injection into the economy (or into the circular flow of income)</li>   <li>• A decrease in the level of exports  <u>Effect:</u> National Income falls  <u>Reason:</u> a fall in the level of exports will result in a decrease in the level of production from export-orientated companies (or incomes earned by such companies) / the magnitude of the injection from exports is reduced</li> </ul>	
		<p>Three factors effecting the national income at 7m each</p>	21m
			<p><b>Total (a)</b> <b>30 Marks</b></p>



<b>(b)</b>	<p><b>Explain THREE of the terms listed:</b></p> <p><u><b>Income-in-kind</b></u> Income received in a non-monetary form</p> <p><u><b>Transfer Payments</b></u> Money received without the supply of goods or services / payments for which no factor of production is supplied</p> <p><u><b>G.N.P.</b></u> This stands for Gross National Product / it is an official measurement of national income in an economy</p> <p><u><b>Depreciation</b></u> This is the capital used up in production / the loss in value of capital goods (fixed assets) in the production of goods and services in the economy</p> <p><u><b>Subsidy</b></u> A sum of money paid by the government to a producer in order to decrease costs of production and/or price per unit / a payment to exporters to allow them to sell goods more cheaply / a payment by the government to lower a particular cost of production e.g. Insurance, wages, loan interest</p> <p><b>THREE answers at 7m, 7m and 6m.</b></p>		<p><b>Total (b) 20 Marks</b></p>
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(c)	(i)	<p>Define 'investment'</p> <p>Investment is the production of capital goods  <u>Or</u>                      Investment represents an increase in the capital stock in an economy.</p> <p><u>Definition of investment:</u></p> <hr/>	7m	
	(ii)	<p>Briefly explain TWO factors, which affect the level of investment in an economy.</p> <ul style="list-style-type: none"> <li>• <u>the rate of interest</u>                      High interest rates discourage investment / increase the cost of borrowing / dampens consumer spending.</li> <li>• <u>Expectations</u>                      If expectations about the future are optimistic, the level of investment will increase.</li> <li>• <u>Cost of capital</u>                      The higher the cost of capital, the lower the level of investment.</li> <li>• <u>Government policy</u>                      Any reference to efforts by government to encourage investment e.g. use of fiscal policy, creating the right environment for investment etc.</li> <li>• <u>The level of technology</u>                      Investors are more likely to locate their operations in areas where the latest technological advances are evident.</li> <li>• <u>The international economic climate</u>                      If this is buoyant, then the level of investment increases / there is more inward investment / the level of demand for exports increases.</li> <li>• <u>Industrial relations</u>                      Investors are encouraged by a peaceful industrial relations climate.</li> <li>• <u>Quality of the labour force</u>                      A well-educated and skilled labour force ensures high levels of productivity and thus investment is encouraged.</li> </ul> <p>Explain two factors at 7m each.</p>		14m



	<p>(iii)</p>	<p>State ONE way in which a fall in investment could affect future levels of consumer spending in an economy.</p> <p>Future levels of consumption may fall because a decrease in investment means that the <u>capacity of the economy</u> to produce consumer goods in the future is diminished.</p> <p style="text-align: center;"><u>Or</u></p> <p>As investment falls, the rate of unemployment will increase, <u>reducing the income level of households</u>, and consequently their ability to buy goods and services.</p> <p style="text-align: center;"><u>Or</u></p> <p>A fall in investment represents a <u>reduction in an injection</u> into the economy, which decreases national income and thus the quantity of goods and services available</p> <p>State ONE way in which future consumption is affected.</p>	<p>4m</p>	<p>Total (c) 25 Marks [75 Marks]</p>
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