



Coimisiún na Scrúduithe Stáit  
State Examinations Commission

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**Eacnamaíocht**

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**Gnáthleibhéal**

Marking Scheme  
**Economics**

Leaving Certificate Examination, 2007  
**Ordinary Level**



**Coimisiún na Scrúduithe Stáit  
State Examinations Commission**

**LEAVING CERTIFICATE ECONOMICS**

**ORDINARY LEVEL**

**MARKING SCHEME**

# Ordinary Level Economics

## MARKING SCHEME

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## SUPPORT NOTES

(for use with the Marking Scheme)

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- The support notes presented here are neither exhaustive nor 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. What do the following initials stand for:

- (i) GNP     **Gross National Product**
- (ii) WTO    **World Trade Organisation**

1<sup>st</sup> correct response: **4 marks** / 2<sup>nd</sup> correct response: **3 marks** / 3<sup>rd</sup> correct response: **1 mark**

2. One of the barriers to entry to a **Monopoly** market is '**Government Regulation**'.  
Explain the underlined term and illustrate your answer with **ONE** example.

**Explanation 12 marks**

The government may grant a company the sole right to supply a good or service so that there is no competition.

**Example: 4 marks**

Provision of bus services in Dublin City by Dublin Bus.

3. (i) An economic good is described as being **transferable**.

Tick ( √ ) the correct statement, below, which explains the underlined term correctly:

(b) It must be possible to pass the good from one person to another.    

(ii) State **ONE** example of a good that is **not** transferable: **Beauty / Good Health / Intelligence**

(i) Correct answer: **12 marks.** (ii) Example: **4 marks**

4. Complete the following statements:

Enterprise, as a factor of production, is defined as that factor which **organises** the other factors into a production unit. It undertakes the **risk** involved in running a business.

The return / payment for enterprise is called **profit / loss**. (16 marks)

1<sup>st</sup> correct response: **8 marks** / 2<sup>nd</sup> correct response: **4 marks** / 3<sup>rd</sup> correct response: **4 mark**

5. Explain what is meant by the term ‘**price inflation**’.

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.

**16 marks graded.**

6. Given: **National Income as  $Y = C + I + G + X - M$ .**

$Y = €1,000m$ ;  $I = €200m$ ;  $G = €300m$ ;  $X = €250m$  and  $M = €100m$ .

Calculate, using the above figures, the level of **consumption (C)**. Show all your workings.

<b>WORKINGS</b>	<b>ANSWER</b>
$Y = C + I + G + X - M$ $€1,000m = C + €200m + €300m + €250m - €100m$	€350m
<b>Each correct component 1 mark = 11 marks.</b>	<b>6 marks</b>

(17 marks)

7. Many banks in Ireland now offer internet banking services. State **ONE** economic advantage of this development for the bank **customer** and state **ONE** economic advantage for the **bank**.

**CUSTOMER: economic advantage**

1. **Less travel:** no need to travel to the bank to conduct business.
2. **Time saved:** less time spent queuing in the bank / parking etc.
3. **Cheaper:** transacting your business via the internet is cheaper than visiting the bank.
4. **Quicker:** transacting your business is quicker – pay bills; transfer monies etc.

**BANK: economic advantage**

1. **Lower costs:** less staff required so costs are reduced.
2. **More efficient** service for those customers who use the bank, as numbers have declined.
3. **Increased profits:** with lower costs banks can improve their profits for shareholders.
4. **Improved variety of service available:** with less staff dealing with customers and more time available the variety of services can be increased e.g. insurance quotes; share dealing.
5. **Increased business:** bank may attract more customers due to easier access / variety of services.

**17 marks graded.**

8. (i) Complete the sentence (17 marks)

**Price Elasticity of Demand** (PED) measures the percentage change in **quantity demanded** for a good caused by a percentage change in the **price** of the good itself.

(ii) 'Price Elasticity of Demand for a normal good is **negative**'. Explain this statement.

This means that **as price increases, demand for the good will decrease.**

**17 marks graded.**

9. In relation to the economic ideas listed below, match the idea with the associated economist.

Economist

Economic Idea

- |                        |   |
|------------------------|---|
| 1. Adam Smith          | A. Theory on Population and Food Supply |
| 2. David Ricardo       | B. Canons of Taxation                   |
| 3. Thomas Malthus      | C. The Multiplier effect                |
| 4. John Maynard Keynes | D. Law of Comparative Advantage         |

Economic Idea	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
Economist	<b>3</b>	<b>1</b>	<b>4</b>	<b>2</b>

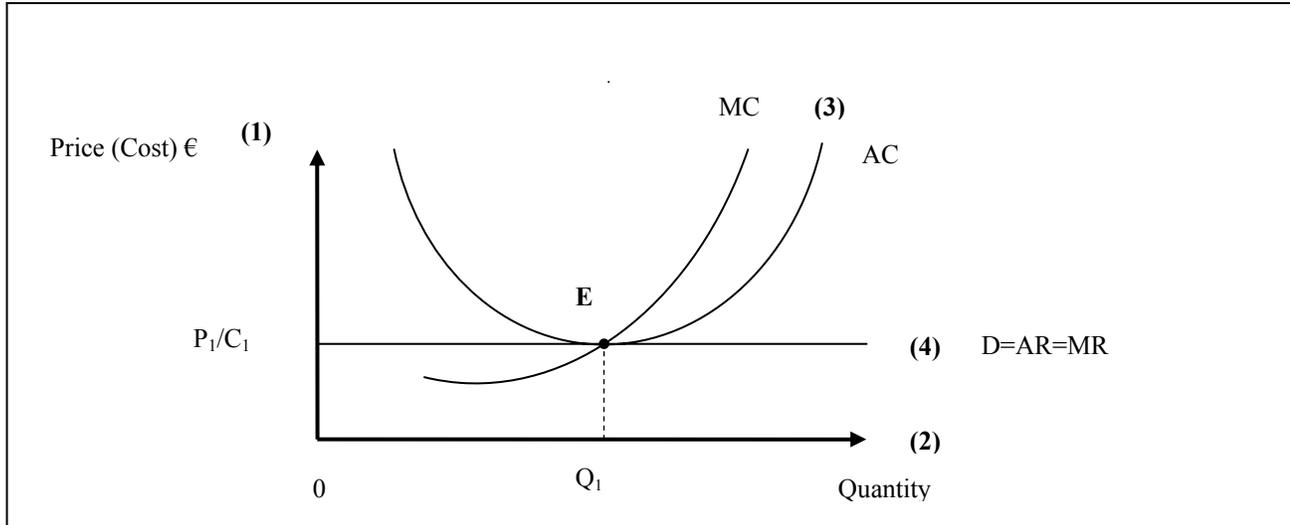
(17 marks)

**1<sup>st</sup> correct response: 8 marks**  
**2<sup>nd</sup>, 3<sup>rd</sup> & 4<sup>th</sup>: 3 marks each.**

**SECTION B 300 Marks**

**Q1 Perfect Competition**

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



(a) (i) Copy the diagram into your answer book. Clearly label each of the lines: 1 to 4.

Line	Label / Title	Marks: 16 marks
1	Price / Cost	4 marks
2	Quantity	4 marks
3	Average Cost	4 marks
4	Marginal / Average Revenue or Demand	4 marks

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

		Marks: 12 marks
<b>Q<sub>1</sub></b>	<b>The output the firm will produce</b>	<b>4 marks</b>
<b>P<sub>1</sub></b>	<b>The price charged for this output</b>	<b>4 marks</b>
<b>C<sub>1</sub></b>	<b>The average cost of producing this output</b>	<b>4 marks</b>

(iii) ‘Perfect Competition is described as being very efficient’.

Explain the meaning of this statement. You may refer to your diagram in your explanation.

- This firm produces at the lowest point of average cost – point E.
- The firm does not waste any scarce resources.

**2 marks**

- (b) (i) State **THREE** characteristics /assumptions of Perfect Competition.  
(ii) Write brief notes on each of these.

(25 marks)

**3 points: 9 marks + 8 marks + 8 marks graded.**

**There are many buyers in the industry.**

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

**There are many sellers within the industry.**

- Each seller acts independently.
- No individual seller can influence, by his/her own actions, the market price of the goods.

**Firms produce homogeneous goods.**

- The goods, which are supplied by the producers, are identical goods.
- Firms will not advertise or use brand names attempting to convince consumers that their product is different.

**There is freedom of entry to and exit from the industry.**

- Firms already in the industry cannot prevent new firms from entering the industry.
- No barriers to entry exist within the industry.
- It's possible for firms to enter or leave the industry as they wish.

**Perfect knowledge.**

- In the market every firm has full knowledge as to profits made by other firms in the industry.
- Consumers are fully aware of the prices being charged for different products.

**Each firm tries to maximise profits.**

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

**Elastic supply of factors of production.**

- Firms can acquire the scarce factors of production at existing prices.
- Scarcity of factors of production will not force prices upwards.

**No collusion in the market.**

- Buyers do not group together with other buyers to influence the price.
- Sellers do not group together with other sellers to influence the price at which the product is sold.

- (c) The Government has recently **privatised** a state company.
- (i) What is meant by the term '**privatisation**'?
  - (ii) Name the company which the government recently privatised.
  - (iii) State & explain **ONE** way in which the following may be affected by this privatisation:
    - the consumers of the service
    - the employees of the privatised firm.
- (20 marks)

(i) Privatisation – **4 marks**

This is the sale of a state owned company to private owners.

(ii) Aer Lingus / Great Southern Hotels – **4 marks**

**CONSUMERS**

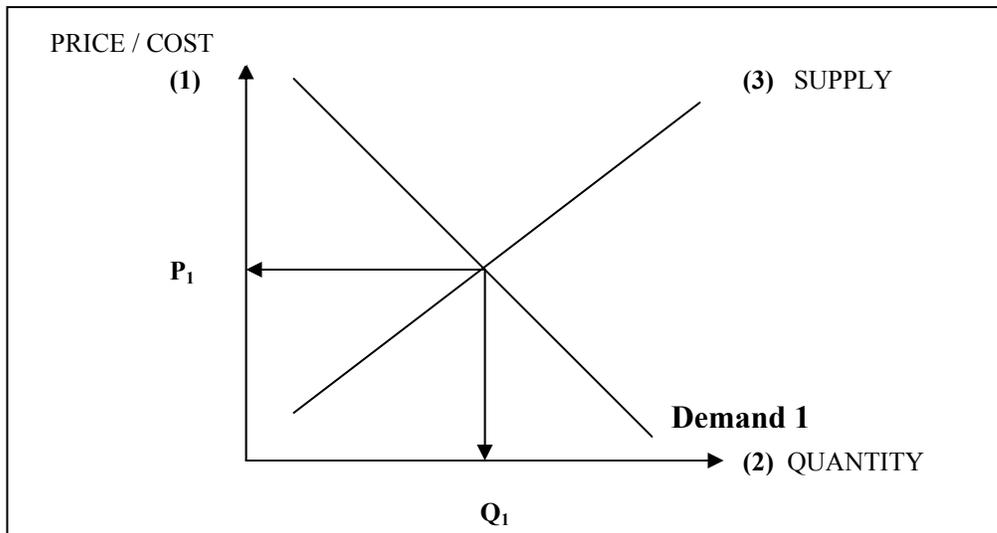
<i>Advantages</i>	<i>Disadvantages</i>
<b>6 marks graded.</b>	
<b>1. Quality / Choice of services.</b> The privatised firm may improve the quality / efficiency / choice of the service provided.	<b>1. Loss of non-profit making routes / services.</b> Non-profit making routes / services may be discontinued by the firm in an effort to reduce costs.
<b>2. More competitive prices.</b> The firm may offer consumers more competitive prices on its various routes / services.	<b>2. Standards of service.</b> The services provided by the firm may deteriorate in quality in an effort to save costs.
<b>3. Continuity of supply.</b> The newly privatised firm will have access to new sources of funds and because it is not subject to government interference the long term prospects for survival may improve, ensuring continuity of supply for consumers.	<b>3. Preference to meet shareholders demands.</b> Greater emphasis might be placed on meeting the expectations of shareholders rather than improving the quality of the service for consumers.
	<b>4. Increased prices / Charges for services.</b> In an effort to increase profits the new firm may increase prices for some services provided / charge for services which were considered 'free'.

**EMPLOYEES**

<i>ADVANTAGES</i>	<i>DISADVANTAGES</i>
<b>6 marks graded.</b>	
<b>1. Reward/Incentive for innovation.</b> Employees may reap more rewards for their innovation i.e. higher bonuses etc.	<b>1. Loss of jobs / reduced job security.</b> The biggest risk is the loss of jobs through rationalisation of services.
<b>2. Employment opportunities</b> If the firm increases its market share then this may result in a growth in employment / additional job security.	<b>2. Changed working environment / Loss of benefits.</b> The firm may change its employees' conditions of employment resulting in a worsening of these.
	<b>3. Curtailment in Pay / Pensions increases.</b> The new owners may limit the pay / pension increases due to employees.

## Q2 Demand

(a) The diagram below shows the demand and supply of iPods in Ireland.



(i) Copy the diagram into your answer book. Clearly label each of the lines marked 1 to 3.

Line	Label / Title	Marks: 12 marks
1	Price / Cost	4 marks
2	Quantity	4 marks
3	Supply	4 marks

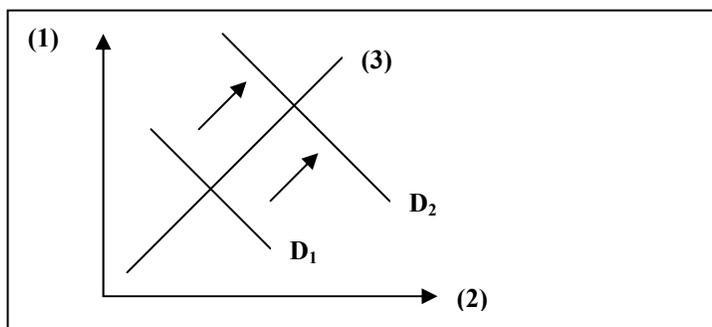
(ii) Show on your diagram

- equilibrium price (use label  $P_1$ )
- equilibrium quantity (use label  $Q_1$ )

(20 marks)

		Marks: 8 marks
$P_1$	equilibrium price	4 marks
$Q_1$	equilibrium output	4 marks

(b) Suppose the demand for iPods shifts to the right, as shown below.



(i) State and explain **TWO** possible reasons why the D/C for iPods has shifted to the right.

(ii) Show on your diagram:

- the new equilibrium price (use label  $P_2$ )
- the new equilibrium quantity (use label  $Q_2$ )

(iii) State **ONE** complementary good for iPods and explain the effect **on the demand for this complimentary** good if the demand for iPods continues to increase.

(25 marks)

(b) (i) State and explain **TWO** possible reasons why the D/C for iPods has shifted to the right.

**1) Increase in consumers' incomes.**

With higher incomes people can now afford to buy iPods.

**2) Improvements in services available – Change in Consumer Taste.**

iPods have become fashionable items. Advertising of iPods influences consumer taste.

**3) Technological advances.**

With improvements in technology, manufacturers are now offering newer models with advanced features, thereby attracting new consumers and existing customers to upgrade.

**4) Greater convenience than available substitute goods.**

People prefer the convenience of the iPod. They are small and light.

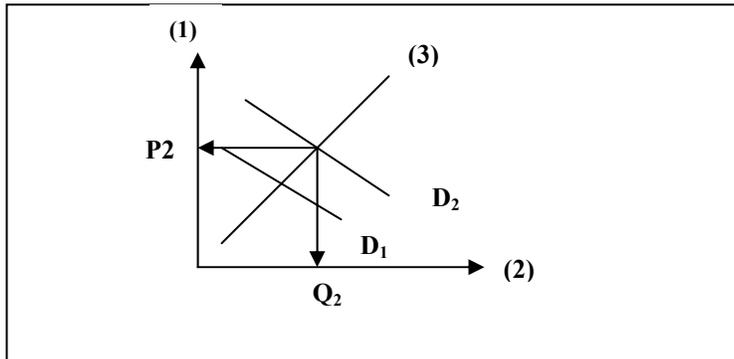
Music can be downloaded by users at their convenience. Being portable it can be plugged into home entertainment devices.

**5) Prices of Complimentary goods – decrease.**

Downloading music, relative to buying conventional CDs, is cheaper and this makes them attractive. PCs are also cheaper, attracting more people to buy both the PC's and iPods.

**2 at 5 marks each graded.**

(ii) Show on your diagram:



**New price – P<sub>2</sub>: 3 marks / New quantity – Q<sub>2</sub> - 2 marks.**

(iii) State **ONE** complementary good for iPods and explain the effect **on the demand for this complimentary** good if the demand for iPods continues to increase.

Complementary good	Effect on the demand for complimentary good	Reason
More download sites / itunes available; PCs; Speakers; Headsets etc.	Will increase	As iPods increase in use there will be an increasing demand for goods which compliment their use.
<b>4 marks</b>	<b>3 marks</b>	<b>3 marks</b>

- (c) The demand for foreign holidays by Irish citizens has increased in recent years.
- (i) State and explain **TWO** possible reasons for this development.
  - (ii) State and explain **THREE** measures which the Irish Tourist industry could take to encourage more people to holiday in Ireland. (30 marks)
- (i) State and explain **TWO** possible reasons for this development.

**Higher incomes / Use of SSIsAs.**

Consumers have increased incomes and can now afford to holiday abroad. People are finding it easier to get loans for holidays.

**Wider Choice.**

More routes are available from air transport companies to various destinations and demand has increased.

**Cheaper cost of air travel.**

With more competition in the market, prices have fallen enabling more people to travel.

**More conducive climate.** [Unplanned factors]

Irish people want more favourable weather and by travelling abroad they are more likely to get it.

**More competitive prices on foreign holidays.**

The cost of holidaying in Ireland is relatively more expensive than holidaying abroad.

**Age structure of the Irish population.**

Ireland has a large young population and this age group likes travelling e.g Exams students when they finish exams.

**2 points. 1<sup>st</sup> at 8 marks graded 2<sup>nd</sup> at 7 marks graded.**

- (ii) **THREE** measures the Irish Tourist industry could take to encourage more people to holiday in Ireland.

**Reduce Prices.**

By reducing the price of packages available more people may consider Ireland as a place to holiday.

**Advertising / Promotion.**

The industry could promote positive aspects of the country internationally. It could offer special promotions e.g. holidays for senior citizens and it could offer incentives e.g. reduced admission prices for entry to historical / cultural sites.

**Improve standards of service.**

By improving the services available and tailoring them to suit individual needs more people may be encouraged to holiday in Ireland e.g. quality of accommodation, food, standards of service etc.

**Broaden the range of services available.**

Hotels could provide spa treatments, activities for children, special programmes targeting sectors i.e. holidays for single people etc.

**Target UK / Northern Ireland consumers.**

The value of the Pound sterling has increased relative to the euro, making it relatively cheaper for this group to holiday in Ireland.

**3 at 5 marks each graded.**

### Q3 Costs, Labour, Enterprise

- (a) A furniture producer pays rent of €5,000 to use a premises. The producer also pays wages of €50,000 each month to workers. Other costs include the bill for timber €35,000, and a monthly loan repayment of €10,000 on finance obtained to purchase equipment.
- (i) Define fixed costs and variable costs.
- (ii) State whether each of the four payments underlined above are examples of fixed costs or variable costs

<i>Fixed Costs</i>	<i>Marks</i>	<i>Variable Costs</i>	<i>Marks</i>
<i>Costs which do not change as output changes</i>	<i>5 marks</i>	<i>costs which do change as output changes</i>	<i>5 marks</i>
<i>Rent</i>	<i>3 marks</i>	<i>Wages</i>	<i>3 marks</i>
<i>Loan repayment</i>	<i>3 marks</i>	<i>Bill for timber</i>	<i>3 marks</i>

- (iii) If this producer receives €120,000 from the sale of the furniture produced, calculate the **profit** it makes.

$$€120,000 - [€5,000 + €50,000 + €35,000 + €10,000] = \boxed{€20,000.}$$

**8 marks graded.**

- (b) Entrepreneurs are important in an economy.
- (i) State and explain **TWO** reasons why entrepreneurs are important in the Irish economy.

**1. Organise production.**

Entrepreneurs organise the other factors of production i.e. land, labour and capital into production units.

**2. Create Jobs.**

If successful the entrepreneur will help create employment.

**3. Decide on goods to produce.**

Entrepreneurs decide which goods and services to produce and in what quantities, by responding to consumer preference and offering consumers a choice.

**4. Decide on price of product/service.**

Entrepreneurs decide what price to charge for their goods and services, hoping there will be a demand at these price levels.

**5. Encourage further investment.**

Entrepreneurs invest both their money and skills in a business in the hope of making a profit. This may encourage further investment in the economy, if successful.

**6. Place for savers funds.**

Entrepreneurs provide an investment outlet for savers funds, generating a return on savings.

**7. Revenue for the government.**

Entrepreneurs when successful, help generate revenue for the government through taxation revenues i.e. Vat, Company Profits Tax and Payroll Taxes

**8. Improve the Balance of Payments.**

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

**2 points at 5 marks each graded.**

(ii) State & explain **TWO** ways the Irish government could encourage more individuals to become entrepreneurs.

**1. Emphasis on enterprise education.**

If the government encouraged greater emphasis on enterprise education in schools and colleges then more individuals may be willing to undertake the risks involved.

**2. Taxation policies.**

If government reduced corporation profits tax then individuals may see the possibility of greater profitability. Similarly, a reduction in VAT rates may increase demand for commodities and provide greater investment opportunities.

**3. Government Policies.**

If the government reduced the regulations involved in setting up a business or removed obstacles then more people might become entrepreneurs. If the Govt. offered grants and other incentives for establishing a business then more people might do so.

**4. Attractive labour market policies.**

- The continuation of the partnership model ensures a relatively peaceful industrial climate. This may encourage more entrepreneurship.
- The availability of an educated / skilled workforce acts as an incentive to individuals to establish a business.

**5. The existence of an optimistic future for the economy.**

When people are optimistic about the economy they are more likely to take risks.

If the government, through its economic and social policies, creates a positive economic outlook then individuals may take more risk.

**6. Development of the state's infrastructure.**

If the government can improve the roads networks, improve communications through the provision of broadband access, facilitate the growth of Dublin Airport etc., then these obstacles which currently impede individuals setting up businesses, will be removed.

**7. Improve competitiveness.**

Currently the competitiveness of Irish industry is deteriorating. If measures can be taken to improve competitiveness then individuals may set up enterprises e.g. more competitive quotes for communications, insurance, energy etc.

**2 points at 5 marks each graded.**

(c) Entrepreneurs employ **labour** to help in the production process.

(i) Define the underlined term.

Labour: The human effort involved in the production of output.

**10 marks graded.**

(ii) State and explain **TWO** reasons why an entrepreneur might employ additional workers.

**Increase in demand for the firm's output.**

If there is an increase in demand for the firm's goods, more labour will be employed to produce the output to meet the demand.

**Government Policies.**

If the government pursued policies which make it less expensive to employ workers then the employer may employ extra workers e.g. a reduction in employers' PRSI, reduced corporation profits tax.

**Increased productivity.**

If workers become more productive, allowing the employer to increase profits, then the employer may increase the workforce.

**Moderation in wage demands.**

If the workers moderate their wage demands, costs of production may stabilise (or fall) and profitability will rise. This may result in the firm being able to hire additional workers.

**2 points at 5 marks each graded.**

(iii) **ONE** reason why workers who train for longer periods generally receive higher wage rates.

**1. Improved Skills.**

The workers may have acquired additional skills and their pay is commensurate with the level of skill involved.  
e.g. a nurse may learn to use new technology.

**2. Greater Specialisation.**

The worker may become more specialised and be of more value to the employer.  
e.g. bank employee may specialise in dealing with investment policies only.

**3. Greater Productivity.**

The worker may become more efficient and so generate greater profit for the employer.

**4. Compensation for the training time involved.**

In order to encourage workers to undergo further training, employers may have to offer employees higher wages so that they give of their own time in undergoing the training.

**5 marks graded.**

## Q4 Money, Interest Rates, Savings

4. (a) (i) Define the terms: **money** and **legal tender**.

**Money:** This is anything which is acceptable in payment for a debt.

**Legal tender:** This is anything which must (by law) be acceptable in payment for a debt.

**12 marks graded.**

- (ii) Name the **TWO** items from the list below which **are** considered legal tender.

<b>€50 NOTE</b>	<b>€1 COIN</b>	<b>2 correct choices at 4 marks each</b>
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**Note:** Do not state more than two items from the list.

(20 marks)

- (b) The **ECB** continues to increase interest rates throughout the Euro zone.

- (i) What do the letters ECB represent?

**European Central Bank: 7 marks:**

- (ii) State and explain how an increase in interest rates could affect each of the following:

- Individual households; - Businesses; - The economy.

(25 marks)

Group	Statement	Explanation
Households	<b>Reduced standard of living</b>	<ul style="list-style-type: none"> <li>• Lower disposable income.</li> <li>• Costlier mortgage / loan repayments.</li> <li>• More needed to meet debt repayments.</li> <li>• Reduced borrowing for other purchases.</li> </ul>
Businesses	<b>Increased costs/ Reduced profitability / Re-location</b>	<ul style="list-style-type: none"> <li>• Cost of borrowed capital is higher so costs have increased.</li> <li>• Possible reduced borrowing – less expansion</li> <li>• Cutbacks in employment.</li> <li>• Possible re-location to cheaper foreign locations.</li> </ul>
Economy	<b>Reduced economic growth</b>	<ul style="list-style-type: none"> <li>• Cost of repaying interest on the National debt increases.</li> <li>• Less spending by consumers may result in reduced tax revenues for the government. With reduced revenue, spending by the government on services may fall.</li> <li>• Inflation: workers may demand wage increases to compensate for reduction in the standard of living.</li> <li>• Job losses may result in increased social welfare expenditure.</li> </ul>

**18 marks graded**

- (c) People who have saved under the Special Savings Investment Accounts (SSIAs), over the past number of years, are now accessing these **savings** and using the cash received.
- (i) Explain the underlined term.
- (ii) State & explain **TWO** economic advantages of this development for the Irish economy.
- (iii) State & explain **TWO** economic disadvantages of this development for the Irish economy. (30)
- (i) Savings means not spending part of your income: **6 marks**

**(ii) and (iii) People are now accessing these savings and using the cash received**

<i>Economic Advantages</i>	<i>Economic Disadvantages</i>
<b>Increased standard of living.</b> People are able to demand more goods and services.	<b>Inflation.</b> Spending of the SSIAs will cause inflationary pressures within the economy.
<b>Tax revenues for government.</b> Increased spending (particularly on luxury items) will lead to increased tax revenues for the Government.	<b>Imports.</b> Spending of the SSIAs on imports i.e. cars, foreign holidays may lead to Balance of Payments difficulties.
<b>Provision for Pensions.</b> Some recipients may switch their SSIAs into providing funds for their retirement.	<b>Difficulty of meeting consumer demand.</b> With the increase in demand for goods and services producers/suppliers may not be able to meet this demand e.g. builders and house renovations.
<b>Economic Growth.</b> The (part) spending of the SSIAs will help boost economic growth.	<b>Dissatisfaction within the population / Inequality.</b> The increased flow of money will benefit those who could afford to save, widening the gap between those on low fixed incomes – social welfare recipients who could not afford to save.
	<b>Impact on the infrastructure / Social costs.</b> If people buy more cars / go on more foreign holidays – this may result in further damage to the environment / increased carbon emissions.
<b>2 at 6 marks each graded.</b>	<b>2 at 6 marks each graded.</b>

## Q5 Trade

(a) (i) Distinguish between a **Balance of Trade surplus** and a **Balance of Trade deficit**.

- *Balance of Trade surplus*: **Visible** exports are greater than **Visible** imports.
- *Balance of Trade deficit*: **Visible** imports are greater than **Visible** exports

**10 marks graded.**

(ii) Using the partially completed table above calculate Ireland's Balance of Trade with each country / region (A, B, C above) and state whether it is a surplus or deficit in each case. (25 marks)

<i>Countries / Regions</i>		<i>Visible Exports € million</i>	<i>Visible Imports € million</i>	<b>Balance of Trade € million</b>	<b>Surplus or Deficit</b>
A	<i>United Kingdom</i>	<i>15,500</i>	<i>18,000</i>	<b>– 2,500</b>	<b>Deficit</b>
B	<i>Other EU countries</i>	<i>40,000</i>	<i>15,000</i>	<b>25,000</b>	<b>Surplus</b>
C	<i>USA</i>	<i>16,500</i>	<i>8,000</i>	<b>8,500</b>	<b>Surplus</b>

**15 marks graded**

(b) (i) State and explain **THREE** reasons why **exports** are important to the Irish economy.

**1. Job creation.**

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

**2. Increased GNP / Economic growth.**

The monies received from exports will lead to increased incomes within the country.

**3. Increased sales / profits.**

Domestic firms can increase their sales/profits by exporting their excess output on a foreign market.

**4. Earn foreign currencies.**

The receipt of foreign currencies can boost Ireland's reserves / help protect the value of the € / provide the finance to help pay for Ireland's imports.

**5. Attract investment.**

Strong exports will enhance confidence in the country and may attract increased investment into Ireland.

**3 points at 6 marks each graded.**

(ii) Foreign golf supporters who travelled to Ireland to view the Ryder Cup in 2006 are an example of an invisible export for Ireland. State **TWO** other examples of **invisible exports**. (25 marks)

- Foreigners holidaying in Ireland
- Foreigners using Irish transport services
- Foreigners paying for the use of Irish financial services
- Irish entertainment artists performing abroad.
- Employees of Irish companies doing consultancy work abroad.
- Profits earned by Irish companies abroad being returned to Ireland.
- Irish emigrants' remittances – sent back to Ireland.
- Irish workers servicing foreign aircraft.

**1<sup>st</sup> correct answer: 4 marks. 2<sup>nd</sup> correct answer: 3 marks.**

(c) You are given the following information about the Euro (€) to US dollar (\$) exchange rate.

**Year 1: €1 = \$1.20**

**Year 2: €1 = \$1.30**

(i) State whether the euro has gone up or down in value relative to the dollar. Explain your answer.

Answer: The euro has gone up in value.

Explanation: It is now worth 10 cent more than in year 1.

**9 marks graded.**

(ii) State and explain the possible effect which the above change will have on: Ireland's **exports** to the US and Ireland's **imports** from the US. (25 marks)

<i>Ireland's exports to the US</i>		<i>Ireland's imports from the US.</i>
Will possibly <b>decrease</b>	Effect	Will possibly <b>increase</b>
The price of Irish goods in the USA will now be more expensive.	Explanation	The price of US goods in Ireland will now be cheaper.

**16 marks graded.**

**Q6 Population and LDCs**

(a) In 2006 the CSO conducted a count of Ireland’s population.

(i) What do the letters **CSO** represent?

**Central Statistics Office: 6 marks**

(ii) What is the official term used for a count of population?

**Census (of Population): 5 marks**

(iii) Explain **ONE** possible use of information on population for each of the following:

- Irish Government
- Business Firms.

(25 marks)

<i>Irish Government</i>	<i>Business Firms</i>
<b>1 at 7 marks graded.</b>	<b>1 at 7 marks graded.</b>
<p><b>Infrastructural requirements.</b> It helps the government plan for future infrastructural requirements e.g. schools, roads.</p>	<p><b>Future levels of consumer demand.</b> Producers can predict/forecast more accurately future demand for their goods and services.</p>
<p><b>Provision of Essential services.</b> It indicates if additional investment in services is required e.g. health, education etc. The information provided will also aid the government in preparing its current budget.</p>	<p><b>Population data.</b> Detailed information on the population such as age, gender, marital status, number of children, religion etc. is provided –so business firms have detailed information on their markets.</p>
<p><b>Regional policy.</b> The government may be prompted to change/develop regional policy if some counties experience depopulation.</p>	<p><b>Labour market.</b> The data can be used by business firms to see if they can meet future labour requirements.</p>
<p><b>Pension planning.</b> The government can predict more accurately what provision it should make for pensions in the future.</p>	
<p><b>Demographic Changes.</b> It provides information on demographic changes both nationally and on a regional basis, helping Govt. plan for the future needs of the economy.</p>	

(b) The CSO has stated that Ireland's population has increased in recent years.

(i) State and explain **TWO** factors which has led to this development.

**1. Increase in immigration.**

Ireland has seen a rapid increase in the number of immigrants with enlargement of the EU / more relaxed laws for asylum seekers. This has significantly affected Ireland's population growth.

**2. Returning emigrants to Ireland.**

The high rate of economic growth in recent years has attracted many Irish emigrants back to work and live in Ireland.

**3. Increase in birth rate.**

The birth rate in Ireland has increased with more births per 1,000 of the population.

**4. Increase in life expectancy.**

People are living longer due to various factors such as health care, better nutrition, improved standard of living etc.

**1<sup>st</sup> point at 7 marks graded. 2<sup>nd</sup> point at 6 marks graded.**

(ii) State and explain **TWO** economic effects of increases in population for the Irish economy. (25 marks)

**1. Increased demand for goods & services.**

With a rising population the demand for goods & services within the country grows leading to increased opportunities for investment. Firms who increase output may benefit from cost economies

**2. Increased pressure on essential services / infrastructure.**

A rising population may put further pressure on essential services e.g. health services, schools, clean water etc. Greater pressure is exerted on the infrastructure of the country leading to bottlenecks e.g. increased traffic jams. Shortages may develop in certain sectors i.e. housing, education, social services etc.

**3. Economic Planning.**

An increase in population should lead to an increase in planning by both central and local authorities for future development/provision of services.

**4. Decreased Dependency Ratio/Increased Dependency Ratio.**

The increased numbers in the labour force will lower the dependency ratio and lead to increased tax revenues for the state.

If the increase is due to an increase in the birth rate, then the average age of the population falls and an increase in the dependency ratio will require additional funding/taxes.

**5. Land Values.**

As population density increases, demand for housing increases, available land becomes scarce and hence the price of land increases.

**2 points at 6 marks each graded.**

- (c) One of the problems currently being experienced by less developed countries (LDCs) is a high rate of population growth.
- (i) State and explain **THREE** economic problems (other than population growth) which these countries are experiencing.

**Famine.**

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

**Foreign Debts.**

These are very high. Their repayment uses up government revenue limiting the revenue available for other purposes in the economy.

**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. They are vulnerable to crop failure and/or a wide variation in export prices.

**Population engaged in extractive/primary industries.**

The percentage may be high resulting in insufficient workers being available in secondary & tertiary sectors. This results in lower 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 / inadequate 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.**

Low per capita income results in a poor standard of living and a consequent low demand for goods and services.

**Low Levels of education/literacy.**

These low levels restrict the ability of LDCs to achieve economic development.

**War / Political corruption.**

Wars in LDCs disrupt the economy and do not allow ordinary economic activity to take place. Some 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) Suggest **TWO** measures which governments in the developed world could take to help reduce the problems being experienced by LDCs. (25 marks)

**1. Provide aid.**

Governments can continue to provide aid for emergency situations. They can provide more long term aid to help with the development of infrastructure/provision of education, health programmes etc.

**2. National Debts – abolish or re-structure.**

If the national debt was cancelled, the countries could use available funds for development.

**3. Improve trading opportunities / ‘Fair Trade’.**

Improve access to markets in the developed world – provide outlet for their exports. Improve the terms of trade available – provide higher prices for their exports.

**4. Encourage multinationals to set up firms there.**

These could provide the workers with skills. The fair wages received could help boost domestic demand and provide tax revenue for the state.

**5. Assist LDCs with available technologies.**

The provision of technologies to the LDCs could help improve standards of living and increase productive capacity.

**6. Assist peace measures and promote political stability.**

Economic development requires a peaceful environment. Foreign countries could provide peacekeeping troops and encourage political stability.

**2 measures at 5 marks each graded.**

## Q7 Taxation and Government Budgets

- (a) In the case of each of the following taxes:
- a tax levied on a good or service
  - a tax on company profits
  - a tax on an employee's wages
- (i) Name each tax.
- (ii) State whether the tax is an example of a direct tax or an indirect tax. (25 marks)

Tax	Name of Tax	Direct Tax	Indirect Tax
Tax levied on goods or services	VAT / Excise Duty		√
<b>Marks</b>	<b>4 marks</b>		<b>4 marks</b>
Tax on company profits	Corporation Profits Tax	√	
<b>Marks</b>	<b>4 marks</b>	<b>4 marks</b>	
Tax on an employee's wages	Income Tax / PAYE	√	
<b>Marks</b>	<b>5 marks</b>	<b>4 marks</b>	

- (b) (i) State and explain **TWO** reasons for taxation in an economy.
- (ii) **ONE** reason why the Minister for Finance might increase taxes on goods such as alcohol etc.
- (iii) The government introduced a plastic bag tax in recent years. Discuss **TWO** advantages of this tax.

- (i) State and explain **TWO** reasons for taxation in an economy.

**1. To provide revenue for the government / Finance government activities.**

The government requires money to fund the operation of a modern state e.g. defence, policing etc.

**2. To provide essential goods and services.**

The government requires finance to provide services such as health care, schools etc. which are essential for citizens.

**3. To help re-distribute wealth.**

The government can re-distribute the taxation in the form of social welfare payments to those citizens who require it e.g. the dole; old age pensions; single parent allowances etc.

**4. To develop the infrastructure.**

The revenue collected can help build roads, airports; hospitals etc.

**5. To help industry.**

Subsidies, grants and other services can be provided to help industry and encourage enterprise.

**6. Achieve desirable social objectives.**

To discourage smoking, drinking etc. To decrease pollution/damage to environment.

**7. To help achieve a favourable Balance of Payments.**

By placing a tax on imports, imports may fall, thereby improving the Balance of Payment position.

**8. To achieve other government objectives.**

To control inflation it may increase direct taxes to discourage spending.

**2 reasons at 5 marks each graded.**

(ii) Outline **ONE** reason why the Minister for Finance might increase taxes on goods such as alcohol/petrol etc.

**1. To discourage smoking / alcohol.**

By increasing the price the Minister might encourage people to smoke less or drink less / leading to better health.

**2. To reduce health care costs.**

If individuals become healthier they may not require as much health care, so the costs of providing health care falls.

**3. To reduce absenteeism from work.**

If less people are ill, there will be less absenteeism from work and productivity should increase.

**4. To increase revenue from these taxes.**

Because people may become addicted to smoking and consuming alcohol, the Minister knows that irrespective of the tax increase, the demand will not be significantly affected by higher prices.

**5. To specifically target the consumption of alcohol and tobacco by young people.**

The Minister may wish to make the prices of these products prohibitive for young people so that they are discouraged from smoking / binge drinking.

**6. To discourage private car transport and encourage public transport.**

By making petrol more expensive, the use of public transport may become more attractive and by encouraging its use, the environment is protected, by reduced emissions.

**1 reason at 5 marks graded.**

(iii) The plastic bag tax - discuss **TWO** advantages of this tax for the Irish economy.

**1. Reduce litter / Protect the environment.**

The tax has encouraged consumers to reuse shopping bags. Litter has been reduced.

**2. Less waste of resources.**

With reduced use, less scarce resources are used in the production of this commodity.

**3. Greater consumer awareness of how we use resources.**

There is increased awareness of the misuse of scarce resources and how the misuse of these impact on the environment.

**4. Government revenue.**

The plastic bag tax has resulted in increased tax revenue for the government.

**2 at 5 marks each graded.**

(c) A Minister for Finance prepares the following Current Budget for 2007:

Current Budget - 2007			
Government Current Income	€10,000m	Government Current Spending	€9,500m

(i) Calculate the Current Budget Balance for the above budget and state whether it is a surplus or deficit. Show your workings.

$$€10,000m - €9,500m = €500m \quad \text{Surplus}$$

**1 mark    1 mark    2 marks    1 mark**

(ii) The actual figures for 2006 differed from the budgeted figures as follows:

- Current income **was lower by 5%**
- Current spending **was higher by 10%**

Calculate the Current Account balance, taking these changes into account. Show all your workings. (25 marks)

***Re-drafted Budget***

Current income was lower by 5%:

$$5\% \times €10,000^* = € 500^*. \quad €10,000 - €500^* = €9,500^*$$

**8 marks graded**

Current spending was higher by 10%:

$$10\% \times €9,500^* = € 950^* + €9,500^* = €10,450^*.$$

**8 marks graded**

	<b>€ million</b>		<b>€ million</b>
Government Current Income	9,500	Government Current Spending	10,450
Current Budget <b>Deficit*</b>	950*		
	<b>10,450</b>		<b>10,450</b>

**10 asterisked figures/term at 2 marks each =20 marks.**

## Q8 Oil Consumption, Infrastructure

- (a) The increasing worldwide consumption of oil is causing problems for economies.
- (i) State and explain **TWO** economic reasons why the worldwide consumption of oil is increasing.
- 1) China: economy expands.**  
In recent years the economy in China has expanding rapidly resulting in a major upsurge in its consumption of oil.
  - 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 huge growth in 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 [reduced conservation].**  
Consumers and producers now use more sophisticated electronic devices, all of which require energy for production and use. With the increased standard of living consumers may be less conscious of saving energy i.e. leaving appliances on ‘stand-by’.

**2 points at 5 marks each graded.**

- (ii) State and explain how **EACH** of the following could help to reduce this problem:  
Consumers; Business Firms; the Irish Government. (25 marks)

Group	<b>3 at 5 marks each graded.</b>	
Consumers	Reduce consumption/ Eliminate wasteful use.	<ul style="list-style-type: none"> <li>• More people could use public transport.</li> <li>• “Power of One Campaign”: reduce energy use e.g. improve insulation / switch to energy efficient appliances.</li> <li>• Eliminate wasteful use of resources / become more aware of limited resources /switch to smaller car engine sizes.</li> </ul>
Business Firms	Increase efficiency/ Eliminate waste.	<ul style="list-style-type: none"> <li>• Improving production technologies through R &amp; D / use renewable sources of energy.</li> <li>• Waste may be reduced thereby saving scarce resources/less packaging.</li> </ul>
Irish Government	Education policies/ Taxation policies.	<ul style="list-style-type: none"> <li>• Pursue public education campaigns to inform people how to reduce oil consumption.</li> <li>• Through subsidies / taxation policies encourage reduction in the consumption of certain products e.g. carbon taxes / insulation grants.</li> <li>• Put higher taxes on bigger car engines / subsidise public transport.</li> <li>• Use alternative/renewable energy sources e.g. wind, nuclear.</li> </ul>

- (b) The Irish government is investing heavily in the country's **infrastructure**.
- Explain the underlined term.
  - State and explain **TWO** reasons why improvements in infrastructure are important for the Irish economy.
  - Outline **TWO** areas of infrastructure which need further investment and explain the reasons for your choices. (25)

(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

**5 marks graded.**

- (ii) Reasons why improvements in infrastructure are important for the Irish economy.

**1. Improve quality of life /protection of environment.**

When our infrastructure improves we can avail of better roads, clean water supply and improved broadband access. These help improve the way we live. Investment in a good public transport system will reduce private car use, reduce pollution and fuel emissions.

**2. Improve productivity / efficiency.**

Firms face fewer delays in production / distribution and so they can achieve increased output.

**3. Maintain Ireland's attractiveness for mobile investment.**

As our infrastructure improves foreign industry may see Ireland as an ideal venue for locating here as it can be serviced efficiently.

**4. Maintain economic growth / improve our standard of living.**

As output increases and incomes increase this leads to further demand, employment creation and further increases in incomes.

**2 at 5 marks each graded.**

- (iii) **TWO** areas of infrastructure which need further investment / explain with reasons.

<b>Area</b>	<b>Reason</b>
Roads (Rail)	Present road network cannot cope with existing traffic and this results in traffic congestion; accidents; stress; increased costs to industry.
Dublin Airport	Cannot cope with passenger numbers resulting in overcrowding. If improved it could further boost tourism in Ireland.
Power / Water	As our economy grows there is an increased demand for sources of power / clean water for both commercial and domestic use.
Waste Disposal	People now place greater emphasis on protecting the environment and we must develop alternative ways of dealing with waste.
Tele communications	Industry requires an efficient communications network to compete internationally. Individuals require it for personal use. The Irish government wishes to extend the availability of broadband.
Housing	The lack of housing is creating problems in Ireland. More affordable housing is needed to cope with Ireland's rising population.
Health Care	To cope with increasing demand and ease the pressure in emergency wards more beds / hospitals need to be provided. More nursing homes for the elderly.
Schools	As the population rises we need more schools to accommodate the students.
<b>2 at 5 marks each graded</b>	

- (c) The Irish Govt. has decided to construct a Metro transport system linking Dublin City centre with Dublin Airport.
- (i) State and explain **TWO** possible advantages of this development for the Irish economy.
- (ii) State and explain **TWO** possible disadvantages of this development. (25 marks)

<b>Economic Advantages</b>	<b>Economic Disadvantages</b>
<p><b>Reduced traffic congestion.</b> With the new metro there may be a reduction in cars on the roads, thereby easing traffic congestion.</p>	<p><b>Increase in land / property prices.</b> The price of property adjacent to the metro route may increase, causing difficulty to those who may wish to buy property.</p>
<p><b>Reduced pollution / Environmental protection.</b> With reduced cars, pollution levels (noise and fuel emissions) will drop, thereby reducing damage to the environment.</p>	<p><b>Capital Cost of the project.</b> Taxes may have to increase to fund the project.</p>
<p><b>Shorter travelling times: less stress/accidents.</b> The commuting time between Dublin Airport and intervening routes to the city centre will be reduced. With less delays and hassle, stress for travellers will be reduced.</p>	<p><b>Opportunity costs of the project.</b> Some citizens may prefer that the funds used for the project could be put to alternative uses e.g. alleviating homelessness etc.</p>
<p><b>Enhanced local environment / infrastructure.</b> The new metro, with less car traffic, may allow local communities re-develop their physical environment to the benefit of all citizens while still developing the infrastructure.</p>	<p><b>Disruption during construction.</b> As with all capital projects there may be disruption to the economic, social and commercial life during construction.</p>
<p><b>Reduced Oil consumption.</b> More people may avail of the Metro reducing private car use and thereby reducing the consumption of oil.</p>	<p><b>Loss of income for taxi / bus operators.</b> With more people using the Metro, less will be using taxis and buses and this means a loss of income and possible job losses in those sectors.</p>

**4 points at 7+6+6+6 graded.**

