



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

**Leaving Certificate 2017**

**Marking Scheme**

**Economics**

**Ordinary Level**

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

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

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

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

### **Future Marking Schemes**

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



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

# **LEAVING CERTIFICATE 2017 MARKING SCHEME**

## **ECONOMICS**

### **ORDINARY LEVEL**

## Marking Scheme and Support Notes

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

- The support notes presented are not exclusive and further relevant points presented by candidates are rewarded on their merits.
- They are not model answers but a sample of possible responses.
- The support notes in many cases may contain key phrases which must appear in the candidate's answer in order to merit the assigned marks.
- 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 and mark allocations may therefore vary from year to year.
- Words, expressions or phrases must be correctly used in context and not contradicted and where there is evidence of incorrect use or contradictions the marks may not be awarded.
- As a general rule, if in doubt about the validity of any answer, examiners must consult with their advising examiner before awarding marks.

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## Section A

1. In relation to the following taxes, match the tax with its appropriate explanation.  
(One explanation has no match.)

Tax		Explanation	
A	VAT	1	A tax on income.
B	DIRT	2	A tax on goods imported into a country.
C	PAYE	3	A tax on the profit made on disposal of an asset.
D	Customs duty	4	A tax on interest earned on deposits in financial institutions.
		5	A tax on purchases and services.

TAX	→	A	B	C	D
EXPLANATION	→	5	4	1	2

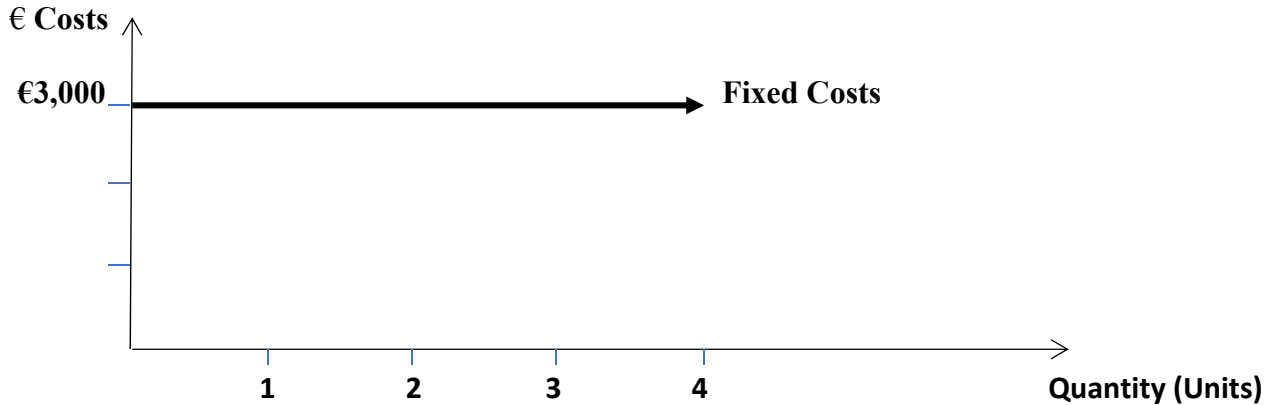
(16 marks)

4 x 4 marks each

2. You are given the following data for a firm.

Quantity (Units of output)	1	2	3	4
Fixed costs in €	3,000	3,000	3,000	3,000

- (i) Draw and label the fixed costs for this firm.



Q axis + label: 3 marks / Costs axis + label: 3 marks / FC labelled at €3,000: 4 marks

- (ii) Explain the term **fixed costs** and state **one** example for a firm:

**FC:** costs which do not change as the level of output changes.

**Example:** Rent of a fixed asset

6 marks

3. Outline **one** possible economic effect which an increase in the number of people travelling from the Republic of Ireland to shop in Northern Ireland may have on **each** of the following: **(16 marks)**

**Retailers in the Republic of Ireland:**

1. Reduced sales and profits for these businesses.
2. Closure of some businesses due to reduced spending, resulting in unemployment.
3. More competitive pricing: Retailers in the republic may reduce prices in order to compete with retailers in Northern Ireland.

**Irish Government's finances:**

1. Taxation revenue: reduced VAT receipts from the sale of goods and services / Reduced CPT.
2. Reduction in excise duties from sale of cigarettes and tobacco products in the republic.
3. Taxation policy: The Irish government may consider reducing VAT in the republic to reduce the price difference between North and South.
4. If unemployment were to increase it may result in an increase in social welfare spending.

**2 x 8 marks each**

4. Indicate by means of a tick (✓) the category to which each good or service belongs:

Statement	Visible exports	Invisible exports	Visible imports	Invisible imports
Expenditure of Irish soccer supporters having travelled to Austria.				✓
Irish firms selling cheese in Germany.	✓			
Foreign tourists using Ryanair to travel to Ireland.		✓		
Irish consumers buying cars in the UK and bringing them back to Ireland.			✓	

**(16 marks)**

**4 x 4 marks each**

5. What do the following letters stand for? Write **each** answer in the spaces provided.

IMF	<b>International Monetary Fund</b>	<b>5 marks</b>
ECB	<b>European Central Bank</b>	<b>6 marks</b>
WTO	<b>World Trade Organisation</b>	<b>5 marks</b>

**(16 mark)**

6. The Irish government invests significant amounts of taxpayers' money in Irish third level education but this involves an opportunity cost. Explain the underlined term and state **two** economic advantages to the Irish economy of this investment in third level education. **(17 marks)**

Opportunity cost:

- **The cost of foregone alternatives.**
- **The cost of passing up the next best choice when making a decision.**

**7 marks**

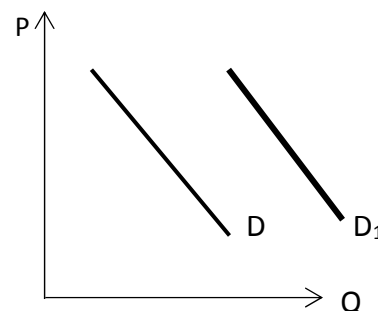
State **two** economic advantages to the Irish economy of this investment in third level education.

Possible responses include:

- A better educated workforce may result in graduates earning higher incomes and an improved standard of living.
- May make Ireland more attractive for MNCs / FDI.
- The increased productivity of workers will enable businesses to be more profitable.
- Development of new courses: increase in investment will allow institutions to develop new courses to meet the changing needs of the business world.
- Equal access: an increase in funding may make it easier for lower income families who cannot afford to send children to third level to gain access to higher education.

**2 x 5 marks each**

7. This diagram represents the demand for new cars in Ireland in 2015. **(17 marks)**



- (i) The demand for new cars increased in 2016. **Draw the new demand curve of cars and label it D<sub>1</sub>.**

**New D/Curve correctly labelled: 7 marks**

- (ii) Suggest **two** reasons for the increase in the demand for new cars in Ireland in 2015.

Some companies are offering loans at low or zero interest rates / offering attractive trade in allowances. People who can afford to do so are changing their cars due the lower annual car tax rates / reduced maintenance costs.

People are changing cars so as to get a more fuel efficient car and therefore reduce their running costs.

Some credit unions / banks are willing to give loans at competitive interest rates.

Increased employment; increased incomes for some employees and an increase in economic growth has resulted in increased confidence and a resulting increase in car sales.

**2 x 5 marks each**

8. 'The government was advised to consider introducing new taxes on disposable fast-food containers, cans and plastic bottles'.  
(Source: Irish Times, July 2016)

Outline **one** possible economic advantage and **one** possible economic disadvantage of this measure.

(17 marks)

Economic advantage

**Revenue for the government** increases and the government can decide how best this can be used.

**Fund initiatives** to help reduce waste by suppliers / introduce incentives to encourage less packaging.

**Encourage suppliers to consider** alternative methods of packing so as to reduce waste e.g. recyclable coffee cups / cleaner environment as recycling is encouraged.

**If income from the tax is ring-fenced then it could be spent on environmental protection issues.**

**Polluter pays principle** positive influence on consumer behaviour/ encourages consumers to reduce, reuse, and recycle.

**Consumption of fast food may be discouraged** due to the tax which could improve health of population.

Economic disadvantage

**Increased prices** for consumers of these goods so reduced disposable income.

**Increased administration costs** for business who must collect these taxes / sales and profits of some businesses may be adversely affected.

**Citizens may become more disgruntled** at these taxes and it may not achieve its objective.

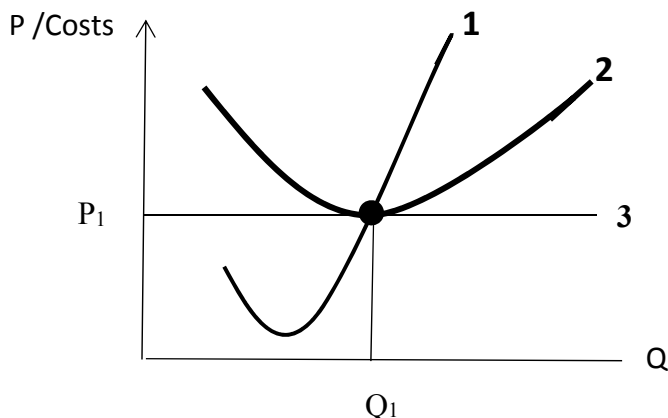
**A regressive tax** which is based on consumption rather than ability to pay.

1<sup>st</sup> correct response: 10 marks

2<sup>nd</sup> correct response: 7 marks

9. The diagram below represents the long run equilibrium of a firm in **Perfect Competition**. (17 marks)

(i) Write out the full correct label for each of the lines numbered 1 to 3. Use the answer box provided.



Answer Box

No.	Full label
1	Marginal Cost
2	Average Cost
3	Average revenue / marginal revenue / demand

4 marks + 4 marks + 4 marks

(ii) Is the firm earning super normal profit? Yes / No.

Circle your choice and explain your answer.

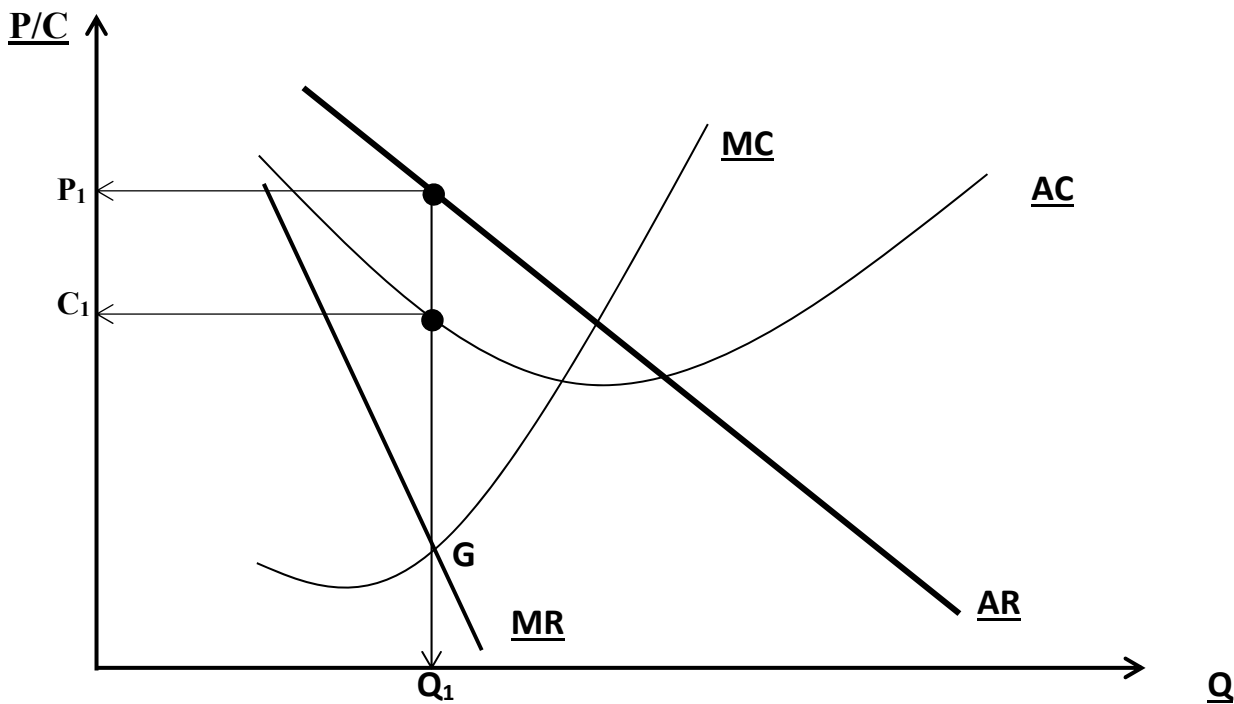
It is not earning SNP because AR = AC.

5 marks



## Q1: MONOPOLY & STATE COMPANIES

(a) The diagram below represents a **Monopoly** firm in equilibrium.



(a) Copy the diagram into your answer book.

- (i) Write out what **each** of the **six** underlined labels represents.
- (ii) The firm is in equilibrium at point G and produces output  $Q_1$ . Show on your diagram:
- The price the firm will charge for  $Q_1$ . (use label  $P_1$ )
  - The average cost of producing this output. (use label  $C_1$ )

(30 marks)

(i) Write out what **each** of the **six** underlined labels represents.

Label	What each represents	Marks
<u>P / C</u>	Price / Cost	4 marks
<u>Q</u>	Quantity	4 marks
<u>AC</u>	Average Cost	4 marks
<u>AR</u>	Average Revenue	4 marks
<u>MC</u>	Marginal Cost	4 marks
<u>MR</u>	Marginal Revenue	4 marks

(ii) The firm is in equilibrium at point G and produces output  $Q_1$ . Show on your diagram:

The price the firm will charge for $Q_1$ .	$P_1$
The average cost of producing this output.	$C_1$

6 marks

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

(i) State **three** possible barriers to entry.

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

(21 marks)

<b>Legal /state restrictions</b>
The government may grant a company the sole right to supply a good or service so that there is a legal restriction on competition.
<b>Ownership of a Patent / Copyright</b>
A patent / copyright will confer the sole right on a business to a particular manufacturing process for a particular commodity for a period of time.
<b>Trade Agreements &amp; Collusion.</b>
Firms may enter into trade agreements with other suppliers i.e. collude with them so that no other firm can supply the commodity to a particular segment of the market.
<b>Ownership of raw materials</b>
A company may acquire the sole right to the available raw materials thereby becoming a monopoly in that particular market e.g. an oil exploration company.
<b>Industry requires a large investment in capital / Economies of scale</b>
For some industries the capital required to get established in that industry is so large that only the company which can raise the necessary capital can operate in the market.
<b>Mergers / Takeovers</b>
By merging with a competitor or buying out the competitor a firm may become a monopoly supplier in that industry.

3 x 7 marks each

- (c) The state-owned companies Bus Éireann, Irish Rail and An Post are currently experiencing losses. This may make it difficult for these companies to continue to provide all their services in the future.

(24 marks)

- (i) State and explain **one** reason why some services provided by the above companies are provided by state companies and not by private entrepreneurs.

**Loss making services / demand is low for some services**

Some of the services may be loss making and private entrepreneurs may not be interested in providing them. The demand for the service is too low to make it cost efficient e.g. some Bus Éireann routes.

**Government deems services socially desirable/essential**

The government may deem such services essential for people in remote rural areas/social objective.

**Lack of capital by private entrepreneurs**

Some private entrepreneurs may not be able to acquire the capital necessary to provide business in those areas.

**Economies of scale**

If the state provides the service on a national scale they may be able to provide the service at a lower cost and benefit from economies of scale.

1 x 8 marks

- (ii) State and explain **two** possible measures these state-owned companies could take to try to reduce their losses.

**Decrease wage costs / pensions**

By cutting wages the costs of these firms will fall.

**Decrease numbers employed**

The wage bill will be reduced and so costs should fall.

**Cut / reduce the provision of loss making services / routes**

If loss making services are cut or reduced then the costs of the firm should fall. Some express bus routes could be removed.

**Increase revenue / efficiency**

If the firms can generate additional revenue from ancillary activities then this increased revenue could offset losses from core work/They may increase prices or try to generate additional revenue streams/ If efficiencies can be achieved then costs will fall.

2 x 8 marks each

## Q2: Economic goods, Demand and Elasticity

- (a) The Apple iPhone 7 is an economic good. Economic goods have three characteristics: they are scarce, transferable and provide the utility for the consumer. **(20 marks)**
- (i) Explain **any two** of the underlined terms, with reference to the Apple iPhone 7.

### Scarce

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

The supply of the Apple iPhone 7 is less than the demand.

### Transferable

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

It is possible for one person to give the Apple iPhone 7 to another person.

### Utility

The good must provide the consumer with satisfaction otherwise there would be no demand for it.

Ownership of the Apple iPhone 7 provides the owner with satisfaction.

**2 x 5 marks**

- (ii) Explain **any two** of the following economic terms:
- Normal good
  - Substitute good
  - Complementary good.

Normal good	Substitute good	Complementary good
One which a consumer buys more of as income rises.	Goods that satisfy the same needs as other goods.	Goods that are used in conjunction with each other/used jointly.
Positive income effect.	Goods that can be consumed / used in place of another.	
Obeys the law of demand.	Goods that can be used as alternatives to one another.	

**2 explanations x 5 marks each**

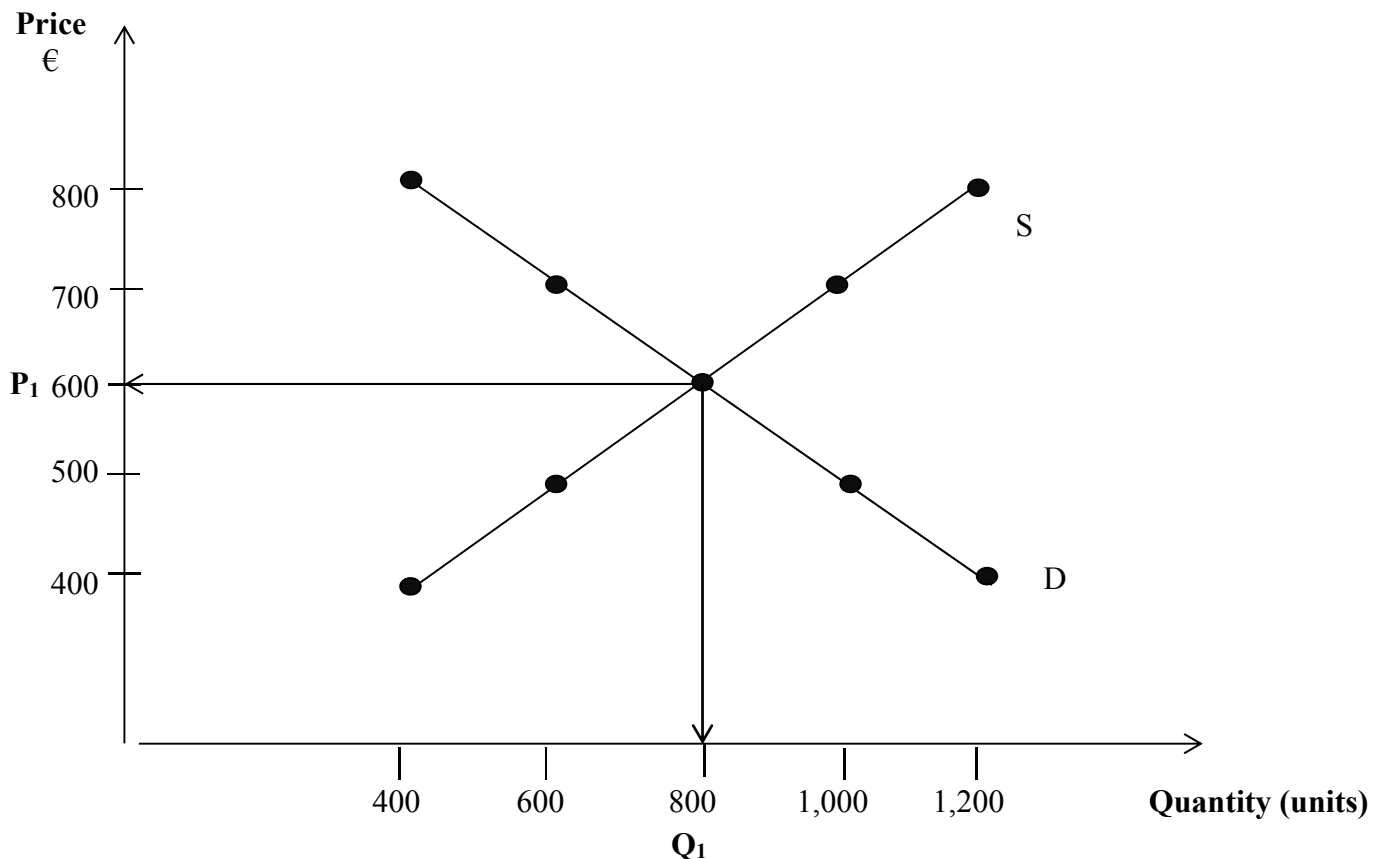
(b) The information below represents the market demand and supply schedule for Apple iPhone 7:

Price €	Quantity Demanded (units)	Quantity Supplied (units)
400	1,200	400
500	1,000	600
600	800	800
700	600	1,000
800	400	1,200

Using the above information and **one** diagram (you may use graph paper):

- (i) Draw **and** label the market demand curve for the Apple iPhone 7
- (ii) Draw **and** label the market supply curve for the iPhone 7.
- (iii) Show on your diagram:
  - The market equilibrium price for the Apple iPhone 7 (use  $P_1$ )
  - The market equilibrium quantity for the Apple iPhone 7 (use  $Q_1$ ).

(30 marks)



**Graph:**

**D:** 5 points at 2 marks each = 10 marks

**S:** 5 points at 2 marks each = 10 marks

**Labels: P, Q, D/C and S/C** = 4 marks

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

(c) The formula for measuring **Income Elasticity of Demand (YED)** is:

**(25 marks)**

$$\frac{\Delta Q}{\Delta Y} \times \frac{Y_1 + Y_2}{Q_1 + Q_2}$$

(i) Explain what each of the above symbols represent.

$\Delta Q$	Change in the quantity demanded of the good
$\Delta Y$	Change in the income of the consumer.
$Y_1$	Original income of the consumer.
$Y_2$	New / current income of the consumer.
$Q_1$	Original quantity of the good demanded.
$Q_2$	New / current quantity demanded of the good

**6 correct terms x 2 marks each**

(ii) The Income Elasticity of Demand (YED) for the Apple iPhone 7 is **+ 2.8**.

Would you consider the Apple iPhone 7 to be a luxury good, based on your knowledge of YED? Explain your answer.

This good is a luxury good.

Luxury goods tend to be income elastic.

The percentage increase in quantity demanded is greater than the percentage increase in income.

**Answer: 5 marks. Reason: 8 marks**

### Q3: Factors of production, Wages and Emigration

- (a) A construction firm converts inputs (factors of production) to output (houses). State and explain the **four** factors of production that might be used to produce houses. **(20 marks)**

<i>Factor</i>	<i>Explanation</i>
<b>Land</b>	<ul style="list-style-type: none"><li>anything supplied by nature (which helps in the production of output.) Agricultural land/forests provide timber to build a house.</li></ul>
<b>Labour</b>	<ul style="list-style-type: none"><li>the human effort involved in building. (in the production of output.) Block layers, electricians, plumbers.</li></ul>
<b>Capital</b>	<ul style="list-style-type: none"><li>man-made wealth / machinery or equipment used (in the production of output.) JCBs/cranes</li></ul>
<b>Enterprise</b>	<ul style="list-style-type: none"><li>the person who takes the risk / has the idea in setting up a business. Property developers.</li></ul>

**5 marks per term**

- (b) The Irish Government is facing demands for wage increases from employees in the public sector. Employees in the private sector are also seeking wage increases. **(30 marks)**

- (i) Explain **each** of the underlined terms and state **one** example of an occupation in **each** of the sectors above.

#### **Public sector**

That part of the economy which is run by state bodies / government departments, usually to provide services for its citizens and is controlled by the state.

Example: a teacher.

#### **Private sector**

That part of the economy which is run by private individuals or groups and is not controlled by the state.

Example: Tesco worker.

**Explanations: 2 x 7 marks each (4 + 3)**

- (ii) State and explain **one** economic reason why employees are currently seeking wage increases.

**Economic growth**

The government states that the economy is growing and workers want a share of this growth.

**Return for accepting austerity / pay restoration**

Workers who suffered pay reductions in the past now wish to see their pay restored in return for accepting these austerity measures. Middle income earners suffered the most severe cuts in income during the downturn and now want their incomes restored to the pre-economic crisis level.

**Increased cost of living**

The cost of living for some has increased e.g. accommodation and utilities and some workers are seeking wage increases to help pay for these increased costs.

**Pay equality**

New entrants to the public service are on lower salaries than their colleagues for the same work and want equality of pay.

**Increase in minimum wage**

The minimum wage increased to €9.50/hr in the last budget and so all other sectors will feel justified in demanding a wage increase.

**1 x 8 marks (4+4)**

- (iii) Discuss **one** possible economic **disadvantage** for the Irish economy If employees in the both the public and private sectors receive wage increases.

**Inflation**

If wages increase then a business may have to increase prices to pay for the higher wages.

**Rising costs for business / reduced competitiveness.**

If public sector wages rise then this may mean the price of services / utilities may increase and this will reduce the profits for businesses/Higher wages increase costs of production which leads to increased selling price in the market place.

**Loss of jobs**

Should prices for goods and services rise, demand may fall and this may result in a reduction in the number of employees.

**Less attractive for MNCs**

If labour costs rise then MNCs may find Ireland less attractive as a location.

**Increased taxation**

The government may increase taxes to fund increased wages in the public sector.

**Reduced state services**

The government may have to reduce the number of services provided or cut provision in order to save money and pay for the increased public sector wage bill.

**1 x 8 marks (4+4)**



(c) (i) State and explain **two** economic reasons why different wages are paid for different jobs.

(25 marks)

**Different skills**

The skills attaching to different jobs vary and pay is commensurate with the level of skill involved.  
e.g. a doctor receives a higher rate of pay than a nurse.

**Training/experience**

Workers who undergo longer periods of training will receive higher levels of pay.  
e.g. a nurse who trains and becomes more specialised will receive higher pay.

**Educational qualifications**

Generally wage levels recognise the educational qualifications achieved by the worker.

**Nature & Conditions of the job/danger**

These may vary between jobs and pay levels will reflect this.  
e.g. dangerous work, unsocial hours, and the temporary nature of the job.

**Negotiating strength of the workers' trade union**

If a worker is a member of a strong trade union this union may obtain wage levels in line with workers' marginal revenue productivity.

**Traditions attaching to certain jobs**

It has been possible for those involved in the self-governing professions i.e. those in the legal / accountancy professions to maintain high pay levels because of the tradition which is attached to those professions.

**Possession of innate talents**

Some people possess certain talents and hence may be able to earn very high incomes e.g. sports stars, those in the entertainment industry.

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

(ii) The Irish Government is trying to encourage Irish emigrants to return and work in Ireland.  
Suggest **two** measures that the government could take to encourage this.

**Improve government services/develop infrastructure**

Make the economy a more attractive place to return to. Develop the infrastructure e.g. broadband. Improve state services such as improving health provision and develop the education sector.

**Lower taxation**

By reducing income tax this will reward work. Higher net pay will create an incentive for emigrants to return. The government could also reduce other taxes.

**Provide grants/subsidies to firms**

Grants could be made available to those firms which specifically hire emigrants. If the government reduced the rates of PRSI/USC for employers on each new emigrant hired then emigrants may return.

**Training and education**

Provide training and education courses in growth sectors of the economy and make these training places available to emigrants. This may encourage emigrants to return to Ireland.

**Devote more resources to capital spending**

More capital spending will likely create more job opportunities for construction workers that have had to emigrate in the past.

**1<sup>st</sup> correct response 7 marks (4 + 3): 2<sup>nd</sup> correct response 6 marks (3 + 3)**

## Q4: Money, Savings and Inflation

(a) In modern economies money has replaced barter.

(25 marks)

(i) Explain the terms **money** and **barter**.

Term	Explanation
Barter	Swapping one item for another.
Money	Anything which is acceptable in payment for a debt / buying a good.

**2 explanations x 5 marks each**

(ii) Explain **one** difficulty associated with the use of barter.

### Time consuming

It may take time to find someone who wants what you have and has what you want.

### Difficult to establish value

It can be difficult to put a precise value on items.

Example: How would it be decided how many carrots is a loaf of bread worth?

### Specialisation of labour

Specialisation would become very difficult as it would be impossible to satisfy all your demands for goods and services.

**1 explanation x 5 marks**

(iii) State **two** other items which are currently used as money, other than coins and notes.

- Cheques
- Credit Cards
- Debit Cards
- Electronic bank transfers

**2 x 5 marks each**

(b) Some banks are offering customers a low interest rate on their savings.

(26 marks)

(i) Explain **each** of the underlined terms.

Interest rate: the price of money / the cost of borrowing / the return on savings expressed as a percentage.

Savings: that part of a person's income which is not spent.

**2 explanations x 6 marks each**

- (ii) State and explain **two** factors, **other than interest rate**, which households may consider in deciding whether to save or not.

#### **Income levels**

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

#### **Rate of DIRT**

- In Budget 2017 the government reduced the rate of DIRT and this may encourage people to save more.

#### **Level of Inflation**

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

#### **Levels of Social Welfare Benefits**

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

#### **Tax Rates**

- If rates of income tax decrease then disposable incomes rise and this may result in greater ability to save.

#### **Future Expectations / confidence in the economy**

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

#### **Demands on disposable income**

- Younger members of society may face greater demands on their income e.g. repaying mortgages etc. and therefore have less income for saving. Older members of society may have repaid their mortgages and so have more disposable income for saving.

**2 x 7 marks (4+3)**

- (c) (i) Explain the term **price inflation**. **(24 marks)**

An increase in prices of goods / services (over a period of time) in the economy.  
A decrease in the value of money / people buy less for their money.

**8 marks**

- (ii) State **one** economic effect which **any two** of the following developments may have on the rate of price inflation in Ireland. Explain your answer in each case.
- an increase in world oil prices
  - a decrease in the rates of Irish indirect taxes
  - a decrease in the Irish level of savings.

Category	Statement	Explanation
Increase in world oil prices.	Inflation rate will rise.	The cost of production / transportation should rise resulting in increased prices for goods and services. Price of fuel will rise resulting in higher home heating bills / car running costs.
Decrease in the rates of Irish indirect taxes.	Inflation rate will fall.	As indirect taxes fall the prices of goods and goods and services should fall resulting in lower inflation. Producers will now pay lower input prices resulting in reduced prices for goods / services.
Decrease in the Irish level of savings.	Inflation rate will rise.	If level of savings fall it may suggest that people are spending more which increases demand and may push up prices.

**2 x 8 marks (4+4).**

## Q5: National Income and Economic Growth

- (a) The multiplier formula for an open economy is (21 marks)

$$\frac{1}{MPS + MPM}$$

Assume the MPM is 0.25 and MPS is 0.15

- (i) Explain the term **multiplier**.

The **multiplier** tells us by how much national income increases for any given injection into the economy.

**5 marks**

- (ii) Using the formula above calculate the size of the multiplier. **Show your workings.**

$$\frac{1}{MPS + MPM}$$

$$\frac{1^2}{0.15^3 + 0.25^3}$$

**2.5<sup>2</sup>**

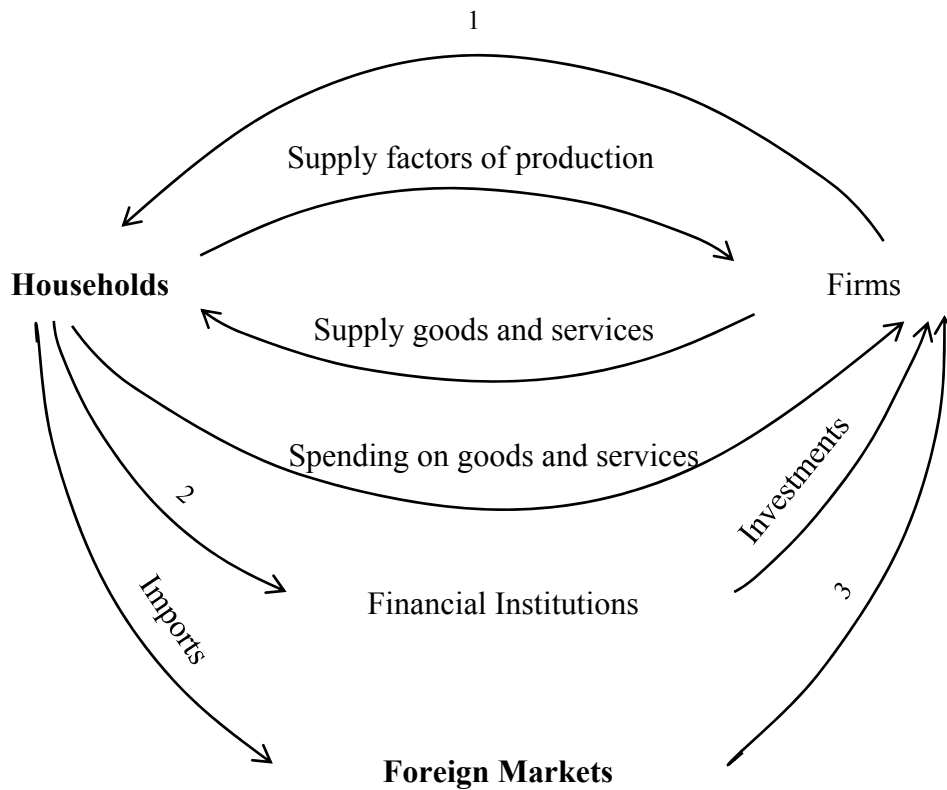
**10 marks**

- (iii) If investment in the economy increases by €10 million, what is the increase in national income? **Show all your workings.**

$$€10 \text{ million}^2 \times 2.5^2 = €25 \text{ million}^2.$$

**6 marks**

- (b) The diagram below represents the **Circular Flow of Income** in an open economy without Government. **(30 marks)**



- (i) Ireland is an **open economy**. Explain this statement.

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

**5 marks**

- (ii) State what **each** of the lines numbered **1 to 3** represents.

No	Represents	Marks
1	Payment / for factors of production	<b>5 marks</b>
2	Savings	<b>5 marks</b>
3	Exports	<b>5 marks</b>

- (iii) Referring to the diagram above, explain the type of activities which take place between **any two** of the following:
- Foreign Markets and firms
  - Households and foreign markets
  - Households and financial institutions.

*Foreign markets and firms*

Firms export some of their goods (to foreign markets) and receive income for these.

*Households and foreign markets*

Households: spend part of their income buying imports.

*Households and financial institutions*

Households: save part of their income in financial institutions.

**Any two responses x 5 marks each**

- (c) One of the aims of government is to achieve economic growth. **(24 marks)**

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

Explanation: it is the rise in GNP / output / national income per head within a country.

The increase in the amount of goods and services in an economy over a period of time.

**8 marks**

- (ii) Outline **two** reasons why it is important for an economy to achieve economic growth.

**Increased employment**

Economic growth will lead to increased demand with more labour being demanded to produce this output resulting in more jobs.

**Reduced Emigration and increased immigration**

If jobs are created then people who had planned to emigrate may stay here and more immigrants may be attracted to the economy thereby increasing the demand for new goods and services.

**Improved government finances**

With a rise in spending indirect tax revenue rises; more people at work will result in an increase in direct tax revenue; expenditure on social welfare should fall. The government will have more revenue to do with as they wish.

**Improved standard of living**

Economic growth results in increased income in the economy allowing us to buy more goods and services / a reduction in poverty.

**Investment opportunities.**

Rising GDP indicates a growing economy and this may attract investment.

**Positive effects on Businesses**

With rising demand, sales should increase leading to increased profits/Some businesses will increase their exports and some may expand and their future is more secure.

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

## Q6 Budgeting, State services and Budget 2017

(a) The estimated Government current budget for 2017 is as follows: (25 marks)

Government Current Income	€53,245m	Government Current Expenditure	€50,548m
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(i) Calculate the current budget surplus. **Show your workings.**

(i) Current budget surplus:

$$€53,245^1 m - €50,548^1 m = € 2,697m^2$$

**5 marks**

(ii) State **one** example of government current income and **one** example of government current expenditure.

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

**One correct example in each case: 2 x 5 marks each**

(iii) Explain **two** economic effects of the falling unemployment rate on the Government's current budget.

### Current revenue increases

More PAYE, as more people working/Those in employment will have a higher disposable income which they are likely to spend and hence pay more indirect tax to the government/If firms' profits rise as a result of increased sales then Corporation tax receipts could also rise.

### Current expenditure decreases

If more people are working then the government will have to pay out less in social welfare payments.

**2 x 5 marks each (3+2)**



(b) Outline **one** economic argument in favour of and **one** economic argument against **any two** of the following government policies/measures announced in Budget 2017: **(24 marks)**

- An increase in social welfare payment of €5 per week
- A decrease in rate of Deposit Interest Retention Tax (DIRT) from 45% to 39%
- Increase in excise duty on tobacco (e.g. 50c increase on a packet of 20 cigarettes).
- An increase in social welfare payment of €5 per week

Economic argument <b>in favour</b>	Economic argument <b>against</b>
<p><b>Increased standard of living</b> For those who depend on social welfare it may help them achieve a better standard of living.</p>	<p><b>Increased government expenditure / borrowing</b> The government will spend more and so may require more borrowing to fund expenditure.</p>
<p><b>Fairer distribution of income</b> Citizens who can afford to do so will pay taxes and those who need social welfare receive an extra payment and this reduces inequality in the economy.</p>	<p><b>Opportunity cost</b> The money could be put to some alternative use e.g. to fund youth employment initiatives: work, education and training initiatives.</p>
<p><b>Reduction in demand for state funding by charitable organisations.</b> As people have more disposable income they may become less reliant on charitable organisations so less funding will be required from government to provide the service.</p>	<p><b>Possibility of increased taxation</b> With the increase in government expenditure the government may have to increase direct / indirect taxes to fund this increase.</p>
<p><b>Increased spending in the economy</b></p>	<p><b>Possible effect on workers/may discourage work</b> An increase in social welfare payments may discourage people from working. This may be seen as unfair by workers who have taken severe pay cuts, tax increases etc. during the recession.</p>
<b>1 x 6 marks</b>	<b>1 x 6 marks</b>

- Decrease in rate of Deposit Interest Retention Tax (DIRT) from 45% to 39%.

Economic argument <b>in favour</b>	Economic argument <b>against</b>
<p><b>Encourage savings</b> The reduced tax may encourage people to save resulting in reduced indebtedness.</p>	<p><b>Reduce Government revenue</b> This increase may reduce tax revenues for the state.</p>
<p><b>Increased availability of loans</b> Financial institutions may increase the amount of loans created, due to a rise in savings.</p>	<p><b>Need for the government to raise other taxes</b> This may be necessary if the government needs to supplement its income to fund its activities / services.</p>
<p><b>Reduce inflation</b> If people save more they will spend less and this may help reduce inflation in the country.</p>	<p><b>May discourage spending</b> If people may save more they may spend less, reducing domestic spending which could lead to job losses.</p>
<p><b>Encourage future planning</b> People may be encouraged to save more to provide for their futures rather than spending in the short term.</p>	<p><b>Could be considered inequitable</b> This tax affects only those who can afford to save, mainly those on higher incomes. It may be seen to favour the wealthier section of society.</p>
<b>1 x 6 marks</b>	<b>1 x 6 marks</b>

- Increase in excise duty on tobacco (e.g. 50c increase on a packet of 20 cigarettes)

Economic argument <b>in favour</b>	Economic argument <b>against</b>
<b>Increase Government revenue</b> This increase will help raise tax revenues for the state.	<b>Decrease in standard of living</b> Disposable incomes will fall for smokers and this will lead to a lower standard of living.
<b>Reduce consumption / better personal health</b> Consumption of tobacco products may fall and so the health of these consumers will improve. It may discourage younger people from smoking.	<b>Inflation</b> Prices of tobacco related products rise and this is included in the Consumer Price Index.
<b>Social benefit of healthier population</b> A healthier and more productive society/less absenteeism.	<b>Inequitable</b> Only applies to smokers.
<b>Reduced healthcare costs in society</b> As less people may become ill the costs of healthcare to society will diminish.	<b>Smuggling/black economy may increase</b> As cigarettes become more expensive more consumers may switch to smuggled cigarettes.
<b>Opportunity cost</b> The money saved on healthcare can be put to some other use by the government.	<b>Tax revenue may fall</b> If consumption falls and/or smuggling increases then the tax revenue collected by the government may fall.
<b>1 x 6 marks</b>	<b>1 x 6 marks</b>

(c) Various opinion polls have indicated that people in Ireland favour an improvement in state services rather than a reduction in taxation rates. **(26 marks)**

(i) Identify **two** state services which could be improved **and** explain your answer in **each** case.

Possible responses include:

**Health services**

Employ more nurses / doctors to help reduce waiting lists and give all people waiting a bed when required.

**Education**

Reduce class size in primary / secondary schools to provide improved opportunities to students.  
 Increase funding to 3<sup>rd</sup> level institutions so that the quality of the courses provided can be improved.

**Disability services**

Improve the provision of services so that this group experience a better quality of life.

**Social housing**

This will help reduce the number who are homeless and/or reduce the number staying in hostels/hotels.

**2 x 8 marks (4 + 4)**

- (ii) Would you favour a reduction in taxation rates e.g. income tax rates in Ireland, VAT rates?  
Outline **two** reasons for your answer.

YES	NO
<p><b>Increased disposable income / savings</b> Lower taxes will mean an increased income and therefore an increased standard of living/ People may save more.</p>	<p><b>Loss of state services / charges for services</b> The reduction in tax revenue may mean the closure of rural post offices, gárda stations, small schools etc.</p>
<p><b>Increased reward for effort</b> Some people may feel more rewarded and so be more motivated to put in extra effort or to seek employment.</p>	<p><b>Deterioration in state services</b> The reduction in tax revenue may mean that some state services deteriorate further e.g. over-crowding in hospitals, schools etc.</p>
<p><b>Cheaper prices</b> If indirect taxes fall then the prices of goods and services may fall resulting in more available income.</p>	<p><b>Greater inequality</b> Reduced tax revenue may mean reduced social welfare payments resulting in increased inequality.</p>
<p><b>Attract emigrants back to Ireland</b> If income tax rates fall then Irish emigrants may return to Ireland as they may have a better standard of living.</p>	<p><b>New Sources of revenue would be required</b> The government will have to find other income sources, new taxes may be introduced, there may be an increase in property tax etc. to finance government activities.</p>
<p><b>Revenue for the government</b> Higher incomes mean people will spend more money on goods and services and be able to save more which should generate more taxation for the government.</p>	<p><b>Less government funding available for state initiatives</b> There will be less government funding available for grants to business, agriculture etc.</p>
<p><b>Reduced activity in the Black economy</b> Lower VAT rates should help to reduce the activities in the black economy and encourage more legitimate business activities.</p>	

**Any 2 reasons x 5 marks each (3 + 2)**

## Q7: Trade, Brexit and Location of Industry

- (a) You are given the following information about a country's trade in a year. (25 marks)

Visible Exports €m	Visible Imports €m
22,000	23,500

- (i) Explain the term Balance of Trade.

This is the difference between visible exports and visible imports.

**9 marks**

- (ii) Using the above data calculate the Balance of Trade **and** state if it is a surplus or deficit. **Show your workings.**

$$\begin{array}{rclcl} \text{Visible exports} & - & \text{Visible imports} & & \\ \text{€22,000 m} & - & \text{€23,500 m} & = & \text{(1,500m)} \end{array}$$

The balance of trade is a **deficit**.

**8 marks**

- (iii) If the level of visible exports above increased by €2,000m, calculate the new Balance of Trade **and** state if it is a surplus or deficit. **Show your workings.**

$$\text{New visible exports: } \text{€22,000 m}^1 + \text{€2,000 m}^1 = \text{€24,000 m}^1$$

$$\text{New Balance of Trade: } \text{€24,000 m}^1 - \text{€23,500 m}^1 = \text{€500 m}^1$$

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

**8 marks**

- (b) The Irish government retained the rate of Corporation Tax at 12.5% in Budget 2017. **(24 marks)**

- (i) Explain the underlined term.

This is a tax on the profits made by a company.

**8 marks**

- (ii) State and explain **two** economic factors, other than the rate of corporation tax, which a multinational company may consider when choosing Ireland as a location for its business.

**Possible responses include:**

**Availability of skilled workforce**

A business will require a skilled / English speaking workforce, IT skills so training could be reduced.

**Government incentives**

There may be tax incentives / grants towards location in certain areas of the country/The availability of advance factories.

**Efficient Transport network**

A business will require good efficient transport infrastructure to get their goods to the market, source raw materials etc.

**Availability of essential services**

A business will require reliable electricity provision; banking services; reliable and speedy broadband and other ancillary services to maintain its operations.

**Land for expansion / cost of land / rent of commercial property**

If the business plans to extend it will require land for expansion, at a reasonable price.

**Regulations: environmental / planning permission**

A particular industry may be subject to certain environment regulations and these must be checked with the appropriate authority. Firms must ensure that appropriate planning permission is available from the local authority.

**Proximity to the market / raw materials**

A business which relies on a steady flow of consumers must locate close to the market/A business which requires large amount of raw materials must locate close to the availability of these e.g. a power generating station.

**Social infrastructure**

Businesses will consider the availability of schools, hospitals, parks etc. so that their workforce can have a good lifestyle.

**Membership of EU**

As Ireland is a member of EU, MNCs may locate here as it gives them open access to the large EU market.

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

(c) In June 2016 the citizens of the UK voted to leave the EU in what has become known as BREXIT. **(26 marks)**

(i) What do the letters EU stand for?

European Union. **6 marks**

(ii) Discuss **one** economic effect which the exit of the UK from the EU may/could have on **any two** of the following:

- Irish firms exporting to the UK
- Tourism between Ireland and the UK
- Consumers in Ireland.

Category	Statement	Explanation
<b>Irish firms exporting to UK</b>	Reduced sales / profits	Irish firms (faced with possible tariffs and/or a rise in the value of the Euro) may experience reduced sales and profits.
	Possible Closure / New Markets	If Irish firms can't find alternative buyers it may force the closure of businesses e.g. some mushroom producers in Ireland/firms may seek out new markets for products.
	Relocation to UK	Some Irish exporters who rely on trade to the UK may decide to relocate their business into the UK to avoid tariffs and fluctuations in the euro. This could increase unemployment and reduce the Balance of Trade.
<b>Tourism between Ireland &amp; UK</b>	Depends on value of the euro v. sterling	If the euro increases in value (or sterling decreases) then it may discourage UK tourists coming to Ireland and encourage Irish tourists to the UK.
		If the euro decreases in value (or sterling increases) then it may encourage UK tourists to Ireland and discourage Irish tourists visiting the UK.
<b>Consumers in Ireland</b>	Possible higher prices	The introduction of border controls may discourage tourism.
		If tariffs are imposed by the EU on UK goods imported into EU then the prices for these goods will rise for Irish consumers.

**2 x 10 marks each (4 + 6)**

**Q8: Population increase, reducing obesity and rural broadband**

(a) The population of Ireland counted in April 2016 by the CSO is estimated to be 4.76 million. This represents an increase of almost 170,000 persons since 2011 when the population was previously counted in 20111. **(30 marks)**

(i) What do the initials CSO stand for?

Central Statistics Office

**9 marks**

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

Census (of Population)

**5 marks**

(iii) State and explain **one** possible economic effect which this increase in Ireland's population may have on **any two** of the following:

- demand for goods and services
- provision of state services
- Irish labour market.

Category	Statement	Explanation
Demand for Goods & services	Increase	There are more people requiring goods and services.
Provision of State services	Need for more services	There will be an increased demand for state services which the government will need to provide for i.e. schools, hospitals etc.
Irish Labour market	Increase in number of workers	Participation in the labour market should increase as more people become available for work.

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

- (b) The Irish government is considering introducing a sugar tax in 2018 as one measure to deal with Ireland's obesity problem.

State and explain **two** other economic measures you would suggest to help reduce obesity levels in Ireland. **(20 marks)**

**Education in schools**

The improved provision of Physical Education (PE) and facilities for PE in schools will encourage greater activity and possibly help to reduce obesity levels/Whole school approaches to healthy lifestyles in conjunction with the Department of Education & Skills.

**Better labelling of products**

Require companies to provide consumers with greater information on sugar / fat / salt content which allows consumers to make informed decision resulting in reduced consumption of such foods.

**Calorie information displayed** in takeaways and restaurants

If the calorie content of meals is displayed in takeaways and restaurants it may allow for better decision making by consumers resulting in reduced consumption of high fat/sugar content foods.

**Improved social infrastructure**

The provision of more walkways, cycle paths, greenways etc. may encourage a more active lifestyle and so help reduce weight.

**'No fry zones'**

Ban the establishment of fast food outlets near all schools in the country so as to reduce the sale of fast foods to school students.

**Ban vending machines in schools / colleges**

This may help to reduce the consumption of foods with a high calorie content.

**"Healthy Weight for Ireland – Obesity Policy and Action"**

The government could roll out and implement this policy launched in 2016, with full funding and political backing.

**2 x 10 marks each (5 +5)**



(c) 'The government is going to privatise the long awaited rural broadband network in 2017.'

*(Source: Irish Independent, July 2016)*

(25 marks)

(i) Explain the meaning of the term **privatisation**.

This is the sale / transfer of a state / government company to private owners.

**9 marks**

(ii) Outline **two** economic advantages of this investment in broadband for rural areas.

Possible responses include:

**Access to internet (for individuals and business)**

Individuals and businesses will have quicker access to the internet/WIFI allowing for improved access to news, financial institutions etc. and an improved standard of living.

**More business start-ups**

Currently some businesses find it impossible to operate in rural areas due to the lack of broadband. With this investment more people may be willing to set up business in rural areas.

**Economic growth**

Increased economic activity in rural areas may mean an increase in employment in these areas.

**Sustainable rural communities**

With increased economic activity and possibly more employment opportunities more people may live in rural areas making these areas more sustainable and allow for the continued provision of state services.

**2 x 8 marks (4 + 4)**

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