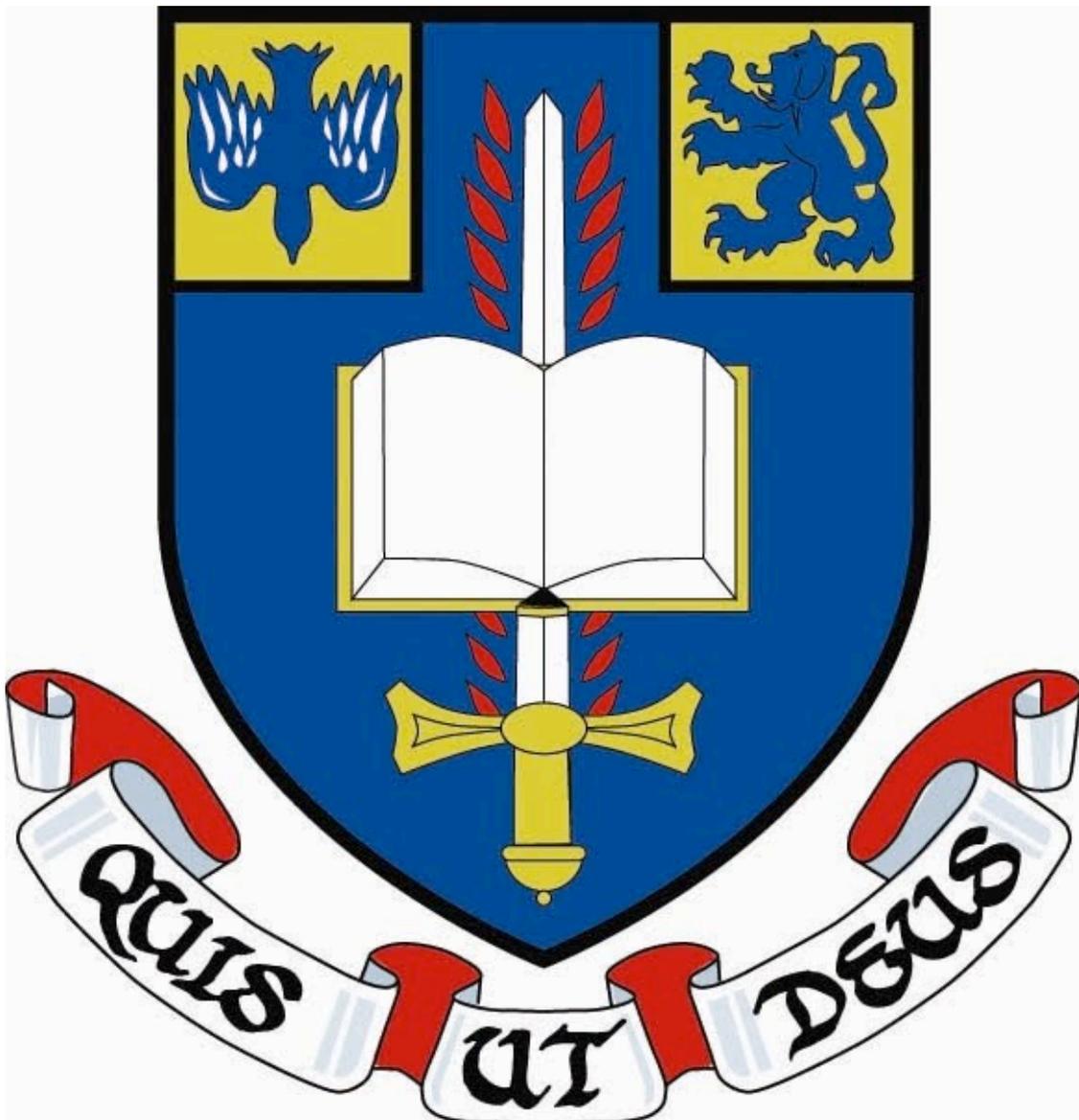

The Government and the Economy

Mr Traynor©

Economics
Note • Leaving Cert • 6th Year



Short Questions

1)

Outline **three** areas of responsibility of the National Treasury Management Agency (NTMA).

(i) _____

(ii) _____

(iii) _____

(16 marks)

2)

Outline **two** measures the Irish Government could take to increase consumer spending in the economy.

Answer 1:

Answer 2

(16 marks)

3)

The Irish Government is considering the introduction of water charges for households. Outline **three** possible economic arguments in favour of the introduction of water charges for households in Ireland.

(i) _____

(ii) _____

(iii) _____

(iii) _____

(17 marks)

4)

“It is estimated that the ‘Black Economy’ costs the Irish Economy over €1 billion per month”.
(Irish Small and Medium Enterprises (ISME), August 2007).

Explain the underlined term and state **one** method by which the government could discourage this activity.

Explanation: _____

Method: _____

(16 marks)

5)

Define **economic development**. State **two** policies by which governments in less developed countries (LDCs) might promote economic development.

Definition: _____

Policy (i): _____

Policy (ii): _____

(16 marks)

6)

State **TWO** functions of the **Irish National Treasury Management Agency**:

Function 1: _____

Function 2: _____

(17 marks)

7)

Savers who have **SSIAs** (Special Savings Investment Accounts) are being subsidised by the Irish government through the receipt of additional bonus payments.

Outline **TWO** economic advantages **and TWO** economic disadvantages of this scheme for the Irish economy.

Advantages:

(i) _____

(ii) _____

Disadvantages:

(i) _____

(ii) _____

(17 marks)

8)

Explain what is meant by the term **Public Sector Borrowing Requirement**.

(16 marks)

9)

Define the '**Black Economy**' (also referred to as the '**Underground Economy**') and state **ONE** example to support your definition.

Example: _____

(16 marks)

10)

Outline **TWO private benefits** and **TWO social benefits** of the possible decline in the consumption of tobacco products, which is being promoted by government policies.

Private benefits:

(i) _____

(ii) _____

Social benefits:

(i) _____

(ii) _____

(17 marks)

11)

Define, with the aid of an example, the term "a regressive tax".

12)

Name 4 economic aims of the government

- _____
- _____
- _____
- _____

13)

Define the term Social Benefits

Name 2 Social Benefits that may arise from the governments payment of student fees for most 3rd level students in Ireland.

(i) _____

(ii) _____

14)

Distinguish between tax avoidance and tax evasion.

(17 marks)

15)

Define **SOCIAL COSTS**. Give **TWO** examples.

.....
.....

Example (i)

Example (ii)

(16 marks)

Long Questions

2011

(a) The Budget is a statement of the Government’s fiscal policy. The Irish Government, in its National Recovery Plan 2011-2014 committed to reducing the General Government Deficit to under 3% of GDP by 2014.

- (i) Explain the underlined term.
- (ii) State and explain **four** possible economic effects on the Irish economy of the government’s plan to significantly reduce the deficit over the next four years.

(30)

(b) It has been suggested that in order to reduce the National Debt the government should privatise state owned companies in the coming years.

- (i) Explain the term ‘privatisation’.
- (ii) Outline **four** economic arguments in favour of privatisation OR outline **four** economic arguments against privatisation.

(25)

(c) ‘The number of staff in the Irish public sector grew by 15.5% from 2001 to 2008, according to OECD statistics’.
(Report on the Sources of Ireland’s Banking Crisis, 2010)

Discuss **four** measures the Minister for Finance could take to reduce the public sector wage bill.

(20)

[75 marks]

2010

- (a) “Next year, almost half of income earners will pay no income tax and 4% of income earners will pay almost half of the total tax yield”.
(Minister for Finance, Budget Statement, 9th December 2009).

The above situation is occurring at a time when **taxation revenues** have fallen considerably and there is a debate about the need to **broaden the tax base**.

- (i) Explain briefly the underlined terms.
(ii) Discuss the characteristics of a good taxation system.

(30 marks)

- (b) The Irish government introduced a carbon tax in its latest Budget (9th December 2009).

- (i) Is this tax an example of a **progressive** or a **regressive** tax? Explain your answer.
(ii) State and explain **two** possible economic advantages and **two** possible economic disadvantages of the new carbon tax.

(25 marks)

- (c) At end of December 2008 the Irish National Debt amounted to approximately **€50.4bn** and at the end of December 2009 it was approximately **€75bn**.

State and explain **four** problems associated with the Irish National Debt.

(20 marks)

[75 marks]

2009

- (a) Define **each** of the following terms:

- (i) Current Budget Deficit;
(ii) Exchequer Borrowing Requirement;
(iii) Public Sector Borrowing Requirement;
(iv) National Debt.

(20 marks)

- (b) Ireland’s National Debt grew from €36bn at end of 2006 to €50.4bn at end of 2008.

- (i) Outline the major reasons for the increase in National Debt.
(ii) Describe the economic consequences (positive and negative) of the increase in National Debt in recent years.

(35 marks)

- (c) The Irish economy will experience a substantial Current Budget Deficit for 2009. You have been employed as an Economic Advisor to the Minister for Finance.

- (i) State and explain **two** specific courses of action (one on the revenue side and one on the expenditure side of the Government Account) you would advise the Minister to take in order to reduce significantly the Current Budget Deficit.
(ii) Outline the possible economic effect(s) of **each** course of action you have chosen.

(20 marks)

[75 marks]

2008

- (a) In **each** of the following distinguish between the terms:
- (i) 'progressive taxation' **and** 'regressive taxation';
 - (ii) 'tax avoidance' **and** 'tax evasion'.
- (20 marks)*
- (b) (i) Outline the main functions of taxation.
(ii) Explain, using an example, the meaning of the term 'incidence of tax'.
(iii) Outline **two** reasons why the Minister for Finance regularly taxes goods such as alcohol, cigarettes and petrol in the Government's annual budget.
- (30 marks)*
- (c) (i) There has been a shift in focus by the Government away from direct taxation to indirect taxation. Discuss **two** economic advantages and **two** economic disadvantages of this situation for the Irish economy.
(ii) Ireland must reduce its 'carbon footprint' (i.e. level of greenhouse gas emissions from fossil fuels) by 20% over the next 12 years. Explain **two** ways in which the tax system could be used to meet this target.
- (25 marks)*
[75 marks]

2007

- (a) Explain the following economic terms, using appropriate examples in each case:
- (i) **Government Current Budget;**
 - (ii) **Government Capital Budget;**
 - (iii) **Revenue Buoyancy;**
 - (iv) **Regressive Taxation.**
- (25 marks)*
- (b) State and explain how a **government budget** could be affected by each of the following developments:
- (i) a rise in interest rates in the economy;
 - (ii) a fall in the rate of stamp duty on property purchased;
 - (iii) the introduction of subsidised child care for all families within the state.
- (30 marks)*
- (c) You are appointed Economic Advisor to the Minister for Finance. Outline the economic arguments you would identify for the Minister in favour of lowering Irish income taxation rates.
- (20 marks)*
[75 marks]

2006

- (a) Among Adam Smith's contributions to economic thought, was his **Canons of Taxation**.
- (i) State and explain Adam Smith's **FOUR** Canons of Taxation.
- (ii) Do you consider that these Canons are useful for analysing the taxation system in Ireland today? Justify your answer. (25 marks)
- (b) Outline possible positive **and** negative economic consequences of a Government Current Budget Surplus. (25 marks)
- (c) You are the economic advisor to the Minister for Finance. The Minister is considering raising tax revenue through indirect taxation. Discuss the economic advantages **and** economic disadvantages of such a policy. (25 marks)
- [75 marks]**

2005

- (a) In each of the following distinguish between the terms:
- (i) monetary policy and fiscal policy;
- (ii) progressive taxation and regressive taxation;
- (iii) tax avoidance and tax evasion. (30 marks)
- (b) There has been an increase in government income from taxation in the past year.
- (i) Outline **THREE** reasons for this outcome.
- (ii) State **ONE** revenue opportunity and **ONE** expenditure opportunity for the government arising from this increased income. Which of these would you consider a priority? Explain your choice. (25 marks)
- (c) Explain how an understanding by the Minister for Finance of the concept of **Price Elasticity of Demand** would help in setting levels of indirect taxation. Use examples to illustrate your answer. (20 marks)
- [75marks]**

2004

- (b) In recent years Ireland's National Debt as a percentage of Gross Domestic Product (GDP) has declined. Discuss the economic consequences of this development for the Irish Economy. (25 marks)
- (c) (i) Outline the main sources of government revenue.
- (ii) Discuss the economic consequences of a government policy to increase public service charges (e.g. road tolls, bin charges, TV, licences) rather than raise tax levels for the Irish economy. (30 marks)
- [75 marks]**

2003

(b) Outline the effects which a rise in the level of unemployment in Ireland may have on:

- (i) Government current finances.
- (ii) The Balance of Payments (Current Account).
- (iii) Price Inflation. (20 marks)

2002

(b) Outline the positive **and** negative economic consequences of a Current Budget Surplus. (25 marks)

2001

(a) Define clearly the following terms:

- (i) Current Budget Surplus;
 - (ii) Exchequer Borrowing Requirement;
 - (iii) National Debt. (20 marks)
- (b) Discuss the main characteristics of a good system of taxation. (20 marks)
- (c) Discuss the main effects on the Irish economy of the reduction in rates of income tax in recent Government Budgets. (25 marks)
- (d) Explain what is meant by the term '**tax harmonisation**'. (10 marks)
- [75 marks]**

Short Questions (Answers)

1)

Outline **three** areas of responsibility of the National Treasury Management Agency (NTMA).

1. Borrowing on behalf of the Irish Government / sale of government bonds.
2. Managing the Irish National Debt on behalf of the government.
3. Managing the National Pension Reserve Fund.
4. Managing other government funds such as the Social Insurance Fund and Dormant Account Fund.
5. Borrowing on behalf of the Housing Finance Agency.
6. Providing financial advice, possibly funding, and providing guarantees for all major public investment projects carried out by the National Development Finance Agency operating through the NTMA.
7. Providing a Central Treasury Service for the taking of deposits and lending to local government bodies, and liquidity management for the Central Bank and Financial Services Authority of Ireland.
8. Personal injuries claims brought against Government departments and other State Authorities/ the State's Clinical Indemnity Scheme managed by the NTMA as the State Claims Agency.
9. Acting as Ireland's agent for the purchase of carbon credits.

16 marks (10+4+2)

2)

2. Outline **two** measures the Irish Government could take to increase consumer spending in the economy.
 - (a) **Decrease indirect taxes e.g. VAT**
This will help reduce prices and so encourage consumers to spend.
 - (b) **Provide incentives to consumers to spend**
The introduction of the car scrappage scheme encouraged consumers to change their cars and so demand has increased.
Extending home insulation grants may encourage house owners to spend on insulation / further improvements on their houses.
 - (c) **Decrease direct taxes e.g. income taxes / increase the minimum wage**
This would increase consumers' disposable incomes and so encourage spending.
 - (d) **Generate confidence in the economy**
The government, by pursuing appropriate economic policies, may give consumers and producers confidence in the economy and so encourage both to increase demand.
 - (e) **Facilitate lending by the financial institutions**
By assisting the financial institutions the government may encourage them to give credit which will lead to an increased demand by borrowers/consumers.
 - (f) **Capital investment programme:** government could increase capital expenditure in order to stimulate aggregate demand and incomes e.g. complete the NDP.

2 points at 8 marks each. State: 4 marks. Explain: 4 marks.

3)

The Irish government is considering the introduction of water charges for households. Outline **three** possible economic arguments in favour of the introduction of water charges for households in Ireland.

1. Reduce consumption of water / discourage waste.

If people pay for water it may encourage people to use it more sparingly / use it more efficiently and so discourage waste.

2. Generate revenue for the service provider / broaden the tax base

The charges will help create revenue for the provider and this will help towards the cost of the provision of water.

3. Improve quality of water supply / distribution of water.

The revenue earned may be used to improve the quality of the water supply to householders and/or help build a better system of distribution e.g. pipes etc.

4. Encourage investment in alternative technologies.

Organisations which use a lot of water may be encouraged to invest in technologies which reduce water consumption.

5. Helps reduce need to raise direct taxation.

By generating revenue in this way it may help reduce the need of the government to increase direct taxation and/or reduce/eliminate other essential services.

6. Impossible to evade / helps government financial planning.

As the tax is in-built it is impossible to evade due to meters being installed. As the revenue from the tax is more certain than other forms of taxation it will aid the government in financial planning.

3 points: 6 marks + 6 marks + 5 marks.

4)

Explain the term the **Black economy** and state one method by which the government could discourage it.

Explanation: All economic activity that goes unrecorded in National Income Accounts.

Methods of discouragement:

1. Reduce direct taxation/indirect taxation, alterations to tax system.
2. Better enforcement by revenue commissioners / simplification of the tax system.
3. Make good use of tax revenue, and educate public about same

16 marks graded.

5)

Define **economic development**.

Definition:

An increase in the GNP per person accompanied by a change in the structure of society.

State TWO policies by which governments in LDCs might promote economic development:

1. Promote population control

Governments could encourage a reduction in population by various measures including: educating the population in family planning methods; improving the welfare of its citizens; providing better social services for its citizens.

2. Improve infrastructure

Provision of clean water & proper sanitation. Development of public housing, roads, power supplies etc.

3. Promote land/ agricultural reform

Decrease emphases on one crop/diversify production. Try to spread ownership of land.

Improve production methods/modernise the agricultural industry.

4. Improve education/literacy skills

Start with a basic literacy programme to improve literacy skills. Provide technical skills to the population. Provide primary education. Develop the secondary sector and initiate further education programmes.

5. Incentives for development of enterprise

Try to foster a movement away from a dependency culture and encourage enterprise. Use borrowings to encourage enterprise so as to create sustainable employment.

6. State bureaucracy / corruption/ spending on arms.

Try to reduce bureaucracy within state institutions. Eliminate corruption so that aid flows to those who it was intended for. Divert funds from arms spending to more urgent current requirements.

16 marks graded.

6)

State **TWO** functions of the **Irish National Treasury Management Agency**.

1. Borrowing on behalf of the Irish Government / sale of government bonds.
2. Managing the Irish National Debt on behalf of the government.
3. Managing of the National Pension Reserve Fund.
4. Managing of other government funds such as the Social Insurance Fund and Dormant Account Fund.
5. Borrows on behalf of the Housing Finance Agency.
6. Provision of financial advice, possibly funding, and providing guarantees for all major public investment projects carried out by the National Development Finance Agency operating through the NTMA.
7. Provides a Central Treasury Service for the taking of deposits and lending to local government bodies and liquidity management for the Central Bank and Financial Services Authority of Ireland.
8. Personal injuries claims brought against Government departments and other State Authorities/ the State's Clinical Indemnity Scheme managed by the NTMA as the State Claims Agency.

17 marks graded

7)

Savers who have **SSIAs** (Special Savings Investment Accounts) are being subsidised by the Irish government through the receipt of additional bonus payments.

Outline TWO economic advantages of this scheme for the Irish economy.

1. Encouraged savings in the short term:
The additional bonus payments encouraged over 1 million people to save.
2. Creates a habit for future savings in the long run:
Now that people have saved for 5 years, they may continue to save into the future.
3. Provides Funds for investment:
Financial institutions have increased funds which can be channelled into investments.
4. Reduced inflationary pressures:
Savings reduced spending thereby lessening demand- pull inflation (during the life of the scheme).
5. Increased standard of living:
When the SSIAs mature, the recipients will be able to demand more goods and services.
6. Economic Growth:
The (part) spending of the SSIAs will help boost economic growth.
7. Provision for Pensions:
Some recipients may switch their SSIAs into providing funds for their retirement pensions.
8. Tax revenues for government:
Increased spending (particularly on luxury items) will lead to increased tax revenues for the state

8)

Explain what is meant by the term Public Sector Borrowing Requirement.

Financing the Exchequer Borrowing Requirement and Semi- State bodies and Local Authority borrowing.

16 marks graded.

9)

Define the 'Black Economy' (also referred to as the 'Underground Economy') and state ONE example to support your definition.

Definition: ***12 marks graded***

Example: ***4 marks.***

All economic activity which goes unrecorded / is not included in the National Income accounts.

Example: Any appropriate example, such as:

1. Trading in goods/services in a black market.
2. People engaged in 'nixers'.
3. Under-declaration of income.

10)

Outline **TWO private benefits** and **TWO social benefits** of the possible decline in the consumption of tobacco products, which is being promoted by government policies.

Private benefits:

1. **Decreased spending on tobacco / consumer had a higher disposable income**
2. **Opportunity cost: the consumer can now use this income for something else.**
3. **Lower insurance premium due to the reduction in risk**
4. **Personal: easier for the person to socialise / lower cleaning bills/ more attractive**
5. **Healthier person: person may be ill less frequently / greater life expectancy.**

Social benefits:

1. **Healthier population as people have less respiratory illnesses.**
2. **Reduction in health costs – less people requiring medical care.**
3. **Environment benefits: less pollution / less litter.**
4. **Effect on economic activity: more people visiting restaurants / pubs – upturn in economic activity.**
5. **More productive workforce: less illnesses /less time off – higher productivity.**

2 private benefits + 2 social: 17 marks graded

11)

1. A regressive tax is defined as:

- One that takes proportionately more in tax as a person's income decreases or
- One which takes a higher proportion in tax from low income earners than from high income earners or
- One that as income rises a decreasing proportion is taken in tax.
- Example 1: VAT / Example 2: Excise duties / Example 3: Refuse charges
- Example 4: Licence form of taxes i.e. TV licence / Car Tax

Correct definition: 12 marks graded + 2 examples

12)

2. FOUR economic aims of government

1. Achieve Full employment.
2. Reduce price inflation – limit price increases.
3. Achieve moderate economic growth.
4. Achieve Balance of Payments equilibrium – encourage exports.
5. Control government expenditure/finances.
6. Reduce borrowing / control the national debt as a percentage of GDP.
7. Reduce taxation levels / achieve taxation equity.
8. Promote balanced regional development.
9. Improve infrastructure.
10. Improve state services: –health/education services / achieve a just social policy.
11. Achieve an equitable distribution of income / achieve a just social policy.
12. Protect the value of the domestic currency (non-euro zone countries).

4 aims at 4 marks each = 16 marks

13)

The benefits/advantages, which accrue to society as a whole as a result of an individual / firm consuming / producing a commodity [which are not measured by the price system]

TWO examples of social benefits which may arise from the Irish Government's payment of student fees for most third level colleges in Ireland:

- (a) Improve the skills/ quality/ productivity / mobility of the labour force
- (b) Acts as an incentive for attracting foreign industry to Ireland.
- (c) Possible increase in present / future living standards.
- (d) May lead to an increase in future tax revenues for the state.
- (e) Fairer distribution of wealth: low-income student may be able to break the poverty trap.

Correct definition: 12 marks graded and 2 examples

14)

6. Tax avoidance:

Arranging ones affairs within the law, so as to minimise tax liabilities.

Tax evasion:

Reducing ones tax liabilities by making false returns, or no returns.

17 marks

15)

3. Define SOCIAL COSTS. Give TWO examples.

16 marks

Price which society has to pay for the existence of a particular good / service.

Definition: 10 marks graded

Examples: 2 examples at 3 marks each = 6 marks

1. Pollution of air/water.
2. Noise nuisance
3. Disfigurement of the landscape.
4. Traffic congestion.
5. Reduction in public amenities / urban sprawl.

Long Questions (Answers)

2011

- (a) The Budget is a statement of the Government's fiscal policy. The Irish Government, in its National Recovery Plan 2011-2014 committed to reducing the General Government Deficit to under 3% of GDP by 2014.
- (i) Explain the underlined term.
- (ii) State and explain **four** possible **economic effects** on the Irish economy of the government's plan to significantly reduce the deficit over the next four years. (30)

- (i) Explain the term fiscal policy:

Any action taken by the government which influences the timing, magnitude and structure of current revenue and expenditure.

10 marks

- (ii) **Four** possible economic effects on the Irish economy of the government's plan to significantly reduce the deficit over the next four years:

1. Reduced standard of living

Taxpayers will have lower disposable incomes due to higher taxes and their standard of living will fall.

2. Public services: loss / deterioration / introduction of charges

Some public services may be discontinued (bus transport routes / less Special Needs Assistants); others may fall in standard (health services) while more may have to be paid for example household charges.

3. Changed ownership of strategic state assets

Some state bodies may be privatised affecting consumers (prices), employees (non-employment) and the government (revenue).

4. Public Sector Effects

The numbers employed in the public sector will fall; wages may be reduced and this may add further to the numbers unemployed.

5. Level of economic activity / demand fall

Lower disposable incomes has reduced domestic demand and this may result in an increase in the numbers unemployed.

6. Growth in the black economy

More people may be willing to participate in the black economy due to reduced incomes and the possibility of lower prices being charged in the black market.

7. Widening gap between rich and poor

Cutbacks in rate of social welfare payments; coupled with stricter eligibility requirements may mean that social welfare recipients suffer. Changes in taxation and expenditure cuts may have a greater effect on lower income groups.

8. Public unrest

People may become involved in protests / strikes which may disrupt economic activity. Some citizens may decide to emigrate seeking a better future.

4 points x 5 marks each

- (b) It has been suggested that in order to reduce the National Debt the government should privatise state owned companies in the coming years.
- (i) Explain the term 'privatisation'.
- (ii) Outline **four** economic arguments in favour of privatisation OR outline **four** economic arguments against privatisation. (25)

- (i) Privatisation – **5 marks**

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

- (ii) Four economic arguments in favour **OR** four economic arguments against privatisation.

arguments in favour	arguments against
1. Improved quality / choice of services Privatised firm may improve the quality / efficiency / choice of the service provided.	1. Loss of non-profit making services Non-profit making services may be discontinued in an effort to reduce costs.
2. More competitive prices Consumers may be offered more competitive prices on goods / services.	2. Standards of service / increased prices The quality of services provided by the new company may deteriorate in an effort to save costs. Prices may be increased to increase revenue. Charges for services which were considered 'free' may be introduced.
3. Continuity of supply The newly privatised companies may have access to new sources of funds and as they are not subject to government interference their long term prospects for survival may improve – ensuring continuity of supply for consumers.	3. Curtailment in Pay / Pensions increases / Changes to working conditions The new owners may limit the pay / pension increases due to its employees or change its employees' conditions of employment resulting in a worsening of these.
4. Employment opportunities If the new firm increases its market share then this may result in a growth in employment within the industry / additional job security for existing employees.	4. Loss of jobs / reduced job security / increased social welfare bill Jobs may be lost through rationalisation of services, meaning higher social welfare costs.
5. More rewards/Incentives for innovation Employees may reap more rewards for their innovations within the privatised industry e.g higher bonuses etc.	5. Loss of a state resource / critical infrastructure This company has been financed by taxpayers in the past. With its sale, taxpayers now lose critical infrastructure, which they once owned.
6. Revenue from sale/reduce borrowing The government could use the revenue from the sale of the firm to help reduce its level of borrowings.	6. Costs of the Sale All costs in preparation for the sale such as legal work must be paid for by the taxpayer.
7. Shedding of loss making companies By selling loss making companies the financial burden on the state / taxpayers is removed.	7. Foreign ownership Overseas buyers can become owners of a previously Irish company and so control of the asset can go outside the state.

4 points x 5 marks each

- (c) *'The number of staff in the Irish public sector grew by 15.5% from 2001 to 2008, according to OECD statistics'. (Report on the Sources of Ireland's Banking Crisis, 2010)*
- Discuss **four** measures the Minister for Finance could take to reduce the public sector wage bill. (20)

1. Reduce the numbers employed in the sector

Do not fill vacancies when they occur / natural wastage.
Introduce a voluntary redundancy package e.g. as in the HSE.

2. Reduce rates of pay per employee

Pay new entrants into the sector lower rates of pay than existing employees.
Adjust pension entitlements to reduce the cost of future pensions.

3. Change terms of employment

Defer incremental pay increases.
Negotiate pay reductions for state employees / wage freeze.
Cap the pay of higher paid civil servants.
Ban overtime for state employees/offer career breaks.

4. Change pension entitlements

Reduce the pensions given to current pension holders.

5. Outsource services e.g. IT / Payroll

This will mean that less staff is required in the public sector to provide these services.

20 marks (7+7+3+3)

2010

- (a) 'Next year, almost half of income earners will pay no income tax and 4% of income earners will pay almost half of the total tax yield' (Minister for Finance, Budget statement, 9th December 2009).

The above situation is occurring at a time when **taxation revenues** have fallen considerably and there is a debate about the need to **broaden the tax base**.

- (i) Explain briefly the underlined terms.
 (ii) Discuss the characteristics of a good taxation system. (30 marks)
- (i) Explain briefly the underlined terms

Taxation revenues – 5 marks

Monies/incomes received by the government in the form of direct & indirect taxes, and used in the running of the country.

Broaden the tax base – 5 marks

Increasing the number of people / areas on which tax is levied / in the tax net.

- (ii) Discuss the characteristics of a good taxation system.

1. Taxes should be equitable

The tax levied should be related to the person's ability to pay.

2. Taxes should be certain

The amount of tax which a person must pay (the state collects) should be certain and clear.

3. Taxes should be convenient

The manner / timing of payment of the taxes should be convenient to the taxpayer e.g. the PAYE system of tax is convenient because it is deducted at regular intervals rather than one lump sum.

4. Taxes should be economic

The cost of collection should be small in relation to the amount of revenue to be collected.

5. Taxes should not act as a disincentive.

The marginal rates of tax should not discourage workers from working overtime / tax rates on profits should not discourage investment by entrepreneurs / savings should not be discouraged.

6. Taxes should aid the redistribution of income.

A good tax system should help the government redistribute income from the rich to the poor / progressive taxes allow the government to do this.

7. Tax rates should be consistent with national economic objectives.

The taxes levied should help the government achieve other economic/social objectives. E.g. raising excise rates on cigarettes will help discourage smoking.

8. Should have a stabilising influence on the economy.

A good system of taxation can prevent the level of economic activity rising as fast as it otherwise would when the economy is on an upturn, and prevent the level of economic activity falling as fast as it otherwise would in a recession.

9. Evasion should be impossible

A good tax should be impossible to evade, otherwise the tax is not fair.

5 at 4 marks each. State: 2 marks. Explain: 2 marks.

- (b) The Irish government introduced a carbon tax in its latest Budget (9th December 2009).
- Is this tax an example of a **progressive** or a **regressive** tax? Explain your answer.
 - State and explain **two** possible economic advantages and **two** possible economic disadvantages of the new carbon tax. (25 marks)

- (i) Is this tax an example of a **progressive** or a **regressive** tax? Explain your answer

It is a regressive tax because it does not take into account your ability to pay the tax/ people on lower incomes would pay a greater proportion of their income in tax.

5 marks: State: 2 marks. Explain: 3 marks.

- (ii) **Two** possible economic advantages and **two** possible economic disadvantages of the new carbon tax.

Advantages	Disadvantages
Government revenues Increased government revenue through increased revenues from this carbon tax.	Inflationary pressures Higher fuel prices will mean consumer prices increase, leading to a rise in the CPI
Investment in R&D / Encourage innovation Greater investment in R&D into alternative sources of energy / renewables /transport. Government could promote 'green industries' and thereby create jobs.	Loss of competitiveness / increased costs of production Industry will now be paying higher prices and this may reduce the international competitiveness of Irish firms. Increased costs may act as a disincentive to attracting foreign direct investment.
More efficient use of resources / Change consumer behaviour Consumers may be more aware of the scarcity of these resources and so become more efficient in their consumption.	Decrease in the standard of living Higher prices means less disposable income and so standard of living will fall.
Help pay towards our carbon footprint / Environmental protection The revenue collected can offset the cost of our collective carbon footprint / result in fewer emissions. Revenue may be targeted for specific environmental projects.	Regressive form of taxation This tax would not take a person's ability to pay into account.
2 at 5 marks each. State: 2 marks. Explain: 3 marks.	2 at 5 marks each. State: 2 marks. Explain: 3 marks.

- (c) At end of December 2008 the Irish National Debt amounted to approximately €50.4bn and at the end of December 2009 it was approximately €75bn.
State and explain **four** problems associated with the Irish National Debt. (20 marks)

1. Opportunity costs involved.

With more funds being used to meet our annual interest repayments the government has less funds available for other purposes.

2. Increased burden on taxpayers.

The increase will mean that the government will have to consider increasing future taxes for taxpayers.

3. Increased annual interest repayments.

An increasing national debt means that the annual cost of repaying our national debt is rising.

4. Diminished international credit-rating.

The fact that Ireland is seen to have an increasing national debt means that our credit-rating is deteriorating.

5. Euro stability pact requirements.

Ireland has difficulty in meeting the conditions of the stability pact and hence corrective action must be taken in economic policy matters and agreed by the EU.

6. Poor management of economy.

Some citizens may become aware of the government's poor management of the economy and this may diminish their confidence in the economy.

7. Risk in Provision of Public Services / pressure on government to cut spending

Due to an increase in the national debt the government has cut back spending on certain public services, thereby affecting the provision of some services e.g. the health service; education service.

8. Servicing the external portion of the National Debt

The external portion of the national debt is subject to exchange rate movements, if borrowed from outside the eurozone.

The Irish Government doesn't earn tax revenue on the repayment of external sources, unlike on the repayment of internal sources.

**4 points at 5 marks each.
State: 2 marks. Explain: 3 marks.**

2009

(a) Define **each** of the following terms:

- (i) Current Budget Deficit;
- (ii) Exchequer Borrowing Requirement;
- (iii) Public Sector Borrowing Requirement;
- (iv) National Debt.

(i) Current Budget Deficit

Current government expenditure exceeds current government revenue/ Current (Day-to-day revenue and expenditure).

(ii) Exchequer Borrowing Requirement

The amount borrowed by the government to fund a current budget deficit and any borrowing for capital purposes/current budget deficit plus borrowing for capital purposes.

(iii) Public Sector Borrowing Requirement

The exchequer borrowing requirement plus borrowing for semi-state/state sponsored bodies and local authorities.

(iv) National Debt

This is the total amount /accumulated total of outstanding borrowing by the government.

4 definitions @ 5marks each graded

(b) Irelands National Debt grew from €36bn at end of 2006 to €50.4bn at end of 2008.

(i) Outline the major reasons for the increase in National Debt.

1. Increased Current Budget deficits

The government have decided to operate a deficit budget in order to continue with the provision of public services / not to further reduce aggregate demand. Any borrowing to finance this current expenditure will increase the size of the deficit. This money must be borrowed thereby increasing the national debt.

2. Borrowing for capital purposes/Self-Liquidating Debt

The government continues to borrow to invest in infrastructure and other capital projects, which will eventually generate income and yield tax revenues to meet costs of repaying the money borrowed This also increases the national debt.

3. Social Investment

The government borrowed to invest in socially desirable projects which may not yield any tax revenue such as hospitals, schools, public amenities.

2 reasons @ 5 marks each graded

(ii) Describe the economic consequences (positive and negative) of the increase in National Debt in recent years.

Positive Consequences	Negative Consequences
<ul style="list-style-type: none"> • Improved Public services. If the increased debt is caused by an increase in current borrowing the government may continue to spend on public services resulting in a continuation of these services. • Increased spending on infrastructure. If the increased debt is caused by an increase in capital borrowing then there may be greater spending on the state's infrastructure which may assist the future growth of the economy. • Future Economic Growth. Increased National Debt may boost aggregate demand and may provide opportunities for further economic growth. • Employment Rising aggregate demand should lead to increased demand for labour resulting in lower unemployment. • Self-Liquidating debt. If the return on the borrowings is able to meet the cost of repayments then the borrowing has been self-liquidating. 	<ul style="list-style-type: none"> • Opportunity costs involved. With more funds being used to meet our annual interest repayments the government has less funds available for other purposes. • Increased burden on taxpayers. The increase will mean that the government will have to consider increasing future taxes on future taxpayers. • Increased annual interest repayments. An increasing national debt means that the annual cost of repaying our national debt is rising. • Diminished international credit-rating. The fact that Ireland is seen to have an increasing national debt may mean that our credit-rating worsens. • Outside Euro stability pact requirements. Ireland has difficulty in meeting the conditions of the stability pact and hence corrective action will need to be taken in economic policy matters. • Poor Govt. management of economy. Citizens may become aware of the government's poor management of the economy and this may diminish citizen's confidence in the government. • Risk in Provision of Public Services Due to an increase in the national debt the government may cut back spending on public services, resulting in a deterioration in provision of services e.g. the health service
<p>5 points @ 5 marks each graded Must have a minimum of two points under one heading.</p>	

- (c) The Irish economy will experience a substantial Current Budget Deficit for 2009. You have been employed as an Economic Advisor to the Minister for Finance.
- (i) State and explain **two** specific courses of action (one on the revenue side and one on the expenditure side) you would advise the Minister to take in order to reduce significantly the Current Budget Deficit.
- (ii) Outline the possible economic effect(s) of **each** course of action you have chosen.

Revenue	Expenditure
<ul style="list-style-type: none"> • <u>Increase Indirect Tax or example</u> By increasing taxes such as VAT and excise duties the government would aim to increase tax revenue from consumption. <i>Effect</i> <ul style="list-style-type: none"> ○ Increased smuggling in order to evade tax. ○ Increased inflation as the increase is automatically built into the price. ○ Reduction in aggregate demand as prices have increased. • <u>Increase Direct Tax / Pension levy</u> By increasing taxes such as PAYE, CGT or the pension levy the government would aim to increase their tax revenue from wealth and incomes. <i>Effect</i> <ul style="list-style-type: none"> ○ Increased numbers working in the ‘black economy’ in order to evade tax. ○ Decrease in employment as the cost of wages will increase / decreased incentive to work. ○ Increase wage demands which may lead to industrial disputes. ○ Decrease in aggregate demand as real incomes and spending power falls. 	<ul style="list-style-type: none"> • <u>Decrease numbers employed in the public sector.</u> Offer redundancy packages to those working in the public sector. <i>Effect</i> <ul style="list-style-type: none"> ○ Increase in short-term costs in meeting redundancy payments. ○ May lead to increase in long term unemployment if no work is available in the private sector. ○ Reduction in aggregate demand as real incomes and spending power have decreased. ○ Deterioration in public services. • <u>Decrease wages in the public sector.</u> Introduce a pay freeze where workers wages will not increase over a period of time. <i>Effect</i> <ul style="list-style-type: none"> ○ May lead to industrial disputes. ○ Skilled workers may leave for the private sector or emigrate. ○ Discourage effort and motivation in the sector, reducing efficiency in the long-term. • <u>Reduce / cut back on state services / raise charges on state services.</u> Cut services such as medical card / cervical cancer vaccine / book grants etc in each government department. <i>Effect</i> <ul style="list-style-type: none"> ○ Those on lower incomes may suffer a dramatic fall in standard of living. ○ May increase costs in the long run in order to reintroduce services. ○ May lead to industrial disputes and public protests by affected citizens. • <u>Reduce social welfare</u> This will reduce current expenditure and reduce the budget deficit. <i>Effect</i> <ul style="list-style-type: none"> ○ Those on lower incomes may suffer a dramatic fall in their standard of living. ○ May increase the incentive to find work.
Revenue course of action: 5 marks graded Economic Effect of action: 5 marks graded	Expenditure action: 5 marks graded Economic Effect of action: 5 marks graded

2008

- (a) In each of the following distinguish between the terms:
 (i) 'progressive taxation' and 'regressive taxation'
 (ii) 'tax avoidance' and 'tax evasion' (20 marks)

Progressive taxation	Marks	Regressive taxation	Marks
One that takes proportionately more in tax as a person's income increases	5	One that takes proportionately more in tax as a person's income decreases	5
Tax avoidance		Tax evasion	
Arranging ones affairs within the law so as to minimise tax liabilities.	5	Reducing tax liabilities by making false returns or no returns.	5

- (b) (i) Outline the main functions of taxation. (30 marks)

1. Finance Government Activities

To finance all government activities e.g. running of civil service, wages of Public Sector workers.

2. Economic Objectives

To achieve economic objectives: reducing inflation, favourable balance of payments.

3. Redistribution of National Wealth

To redistribute the national wealth through transfer payments/social welfare payments.

4. Automatic Stabiliser

It acts as an automatic stabiliser for the economy. It helps to avoid wide fluctuations in the economic cycle by automatically taking more tax when economy is doing well and taking less when economy is performing poorly.

5. Social objectives

To achieve social objectives e.g. discourage smoking, drinking / decrease pollution/damage to environment.

6. Promote enterprise

To help industry through subsidies/grants and other services can be provided to help industry and encourage enterprise e.g. County Enterprise Boards.

4 points at 4 marks each graded.

- (ii) Explain, using an example, the meaning of the term 'incidence of tax'.

Incidence of tax refers to the person who actually bears/pays the tax.
This is not necessarily the person on whom the tax was levied or placed.

Example: If the government decides to increase a tax for a producer e.g. electricity and the company passes on the tax to the consumer in the form of higher electricity prices then the incidence of tax is on the consumer because the consumer ends up paying most of the tax.

Explanation and example: 6 marks graded.

- (iii) Outline two reasons why the Minister for Finance regularly taxes goods such as alcohol, cigarettes and petrol in the Government's annual budget.

1. Inelastic demand

These goods have inelastic demand therefore the quantity demanded will only reduce slightly because of the increase in tax. The government will therefore collect more tax revenue

2. Goods with Social Consequences

The consumption of these goods has other consequences e.g. health issues with the use of tobacco and alcohol/social problems from excess alcohol/environmental damage. The government can use the tax system to try to discourage the consumption of these goods/could use the revenue to provide for extra healthcare etc.

3. To discourage private car transport and encourage public transport

By making petrol dearer, the use of public transport may be more attractive and by encouraging its use, the environment is protected by reducing emissions.

4. To discourage/limit tax evasion

Since goods like alcohol, tobacco and petrol have inelastic demand people continue to purchase these goods and by including the tax in the price it makes it more difficult to evade taxes on these products.

2 reasons at 4 marks each graded.

- (c) (i) There has been a shift in focus by the Government away from direct taxation to indirect taxation. Discuss two economic advantages and two economic disadvantages of this situation for the Irish economy. (25 marks)

Economic Advantages	Economic Disadvantages
<p>Evasion is more difficult As the indirect tax is included in the selling price of the good or service it is impossible to evade.</p>	<p>Will increase inflation Indirect taxes raise the prices of goods and services and hence the cost of living, possibly causing demands for further wage increases.</p>
<p>No disincentive to work A taxpayer can adjust their expenditure patterns to reduce their tax liability and thus it does not act as a disincentive to work unlike direct taxes.</p>	<p>Regressive Lower income groups may end up paying a greater proportion of their income in this form of tax because they spend a greater proportion of their income on goods/services.</p>
<p>Convenient for taxpayer They are included in the selling price and paid when the good/service is bought.</p>	<p>Revenue collected is not as certain The revenue to be collected is not as predictable as that from direct taxation. This may hinder the government's financial planning.</p>
<p>Used by government to change consumption patterns The government could increase the tax on those commodities which it deems harmful to the public i.e. cigarettes, alcohol. The introduction of the plastic bag tax has reduced demand.</p>	<p>Burden of collection passed to retailers/traders These now act as revenue collectors and procedures must be put into practice to collect, record and remit the revenue, increasing costs for the firms.</p>
<p>Economic The cost of collection is borne by retailers and producers not by the state.</p>	<p>Inequitable Indirect taxes ignore ability to pay. A person who earns a high income but doesn't drink, smoke or drive a car will pay a lower proportion of his/her income in tax than a person on the same income who consumes these commodities.</p>
<p>Fewer complaints from taxpayers As the tax is included in the selling price the taxpayer may be unaware of the rate of tax s/he is paying and so the government may face less criticism than if rates of direct taxation were increased.</p>	
<p>Acts as a built-in stabiliser As the economy expands spending rises and so too will the revenue collected from taxation.</p>	

2 advantages at 4 marks each and 2 disadvantages at 4 marks each graded.

- (ii) Ireland must reduce its 'carbon footprint' (i.e. the level of greenhouse emissions from fossil fuels by 20% over the next 12 years.
Explain **two** ways in which the tax system could be used to meet this target.

1. Environmentally Friendly Vehicles

The government could give tax exemptions for environmentally friendly vehicles such as electric cars, hybrids, and vehicles using bio-diesel.

2. Vehicle Registration Tax

A reduction in Vehicle Registration Tax could be given for vehicles with low CO₂ emissions and an increase in Vehicle Registration Tax for high emission vehicles.

3. Road Tax

Increase the amount of road tax paid to discourage the use of vehicles.

4. Public Transport

Reduce any taxation on prices paid for public transport.

5. Polluter Pays

Introduce a polluter pays principle/tax those who are environmentally unfriendly at a higher rate e.g. weight per bin

6. Offer tax incentives to firms to develop/supply alternative sources of energy.

The government has increased expenditure in this area with the long term aim of reducing dependence on fossil fuels.

7. Offer tax incentives to households to switch to alternative sources of energy.

The government could increase the tax rebates to those households who switch to solar energy; wood pellet heating etc.

8. Increase Excise Duty on Fuel

Increase taxes on petrol, diesel and home heating oil to encourage people to change their consumption patterns towards more environmentally friendly solutions.

2 points: 5 marks graded + 4 marks graded.

2007

(a) Explain the following economic terms, using appropriate examples in each case: (25 marks)

Economic Terms	Examples
<p><u>Government Current Budget:</u> 5 marks</p> <ul style="list-style-type: none"> • Outlines the government's expected / planned revenues and expenditures • <u>for the forthcoming year</u> / day to day purposes or • Current expenditure is spent <u>on items used up during the year</u> / day to day items. • Current revenue is money collected in taxes (direct / indirect; and other income during the year. 	<p>2 marks</p> <p>Teachers Salaries; Social Welfare Payments. VAT; Income Tax revenues; Stamp Duties.</p>
<p><u>Government Capital Budget:</u> 4 marks</p> <ul style="list-style-type: none"> • Outlines the governments planned expenditure on items not used up during the year but which / increase the productive capacity of the country. • The money to pay for capital expenditure is usually through borrowing by the government. 	<p>2 marks</p> <p>Building roads Building hospitals Sale of semi state company</p>
<p><u>Revenue Buoyancy</u> 4 marks</p> <ul style="list-style-type: none"> • The actual taxation revenue collected during the year is greater than that which had been planned for. 	<p>2 marks</p> <p>Levels of income tax / stamp duties collected in the past year greater than had been planned.</p>
<p><u>Regressive Taxation</u> 4 marks</p> <ul style="list-style-type: none"> • One that takes proportionately less in tax as a person's income increases. 	<p>2 marks</p> <p>VAT / Excise duties.</p>

- (b) State and explain how a **government budget** could be affected by each of the following developments:
- (i) a rise in Interest rates in the economy;
 - (ii) a fall in the rate of stamp duty on property purchased;
 - (iii) the introduction of subsidised child care for all families within the state. (30 marks)

Factor	Effect on Government Current Revenue or Government Current Expenditure	Explanation
Interest rates rise	Government Current Expenditure increases	Increased expenditure by government to meet interest repayments on National Debt.
	Government Current Revenue decreases	With higher interest rates people may borrow less, resulting in reduced consumer spending and falling tax revenues.
	Government Current Revenue decreases or Government Current Expenditure Increases	Investment may decline resulting in job losses, lower direct tax revenue collected and increased social welfare expenditure.
Rate of Stamp duty on property purchased falls	Government Current Revenue increases	May result in increased property sales, increasing the amount of revenue generated. However the final effect depends on the price elasticity of demand for houses.
Subsidised child care for all families introduced	Government Current Expenditure increases	Increased expenditure by the state on maintaining crèches; paying salaries etc.
	Government Current Revenue increases	Might encourage more people to return to work thereby increasing the tax revenue collected.

3 at 10 marks each graded.

- (c) You are appointed Economic Advisor to the Minister for Finance. Outline the economic arguments you would identify for the Minister in favour of lowering Irish income taxation rates. (20 marks)

Maintain standards of living during rising inflation.

With rising inflation at the moment, standards of living are falling.

To alleviate this hardship it may be appropriate to reduce income tax rates – leading to greater disposable incomes.

Increase participation in the workforce / Incentivise the workforce.

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

Encourage continuation of Social Partnership.

It would show trade unions that the government is committed to the continuation of social partnership and encourage the partners to enter new negotiations.

Maintain / Improve competitiveness.

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

Enable Ireland attract foreign industry / encourage investment.

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

Stimulate economic activity.

With lower tax rates, disposable income rises and so should spending – possibly increasing the indirect tax revenues collected. This will increase demand and may lead to higher employment and continued economic growth.

[The adverse effects of this is that it could result in inflation and greater imports].

Discourages the black economy.

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

4 points at 5 marks each graded.

2006

- (a) Among Adam Smith's contributions to economic thought, were his **Canons of Taxation**.
 (i) State and explain Adam Smith's **FOUR** Canons of Taxation.
 (ii) Do you consider that these Canons are useful for analysing the taxation system in Ireland today? Justify (25)

(i) Canons of Taxation

Canon	Explanation
Equity	Takes a higher proportion of income in tax as income rises. or The ability of each person to pay the tax must be taken into account.
Economy	The revenue collected should exceed the costs of collection. The costs of tax collection should be small relative to the yield.
Certainty	The amount paid should be certain and clear/not arbitrary.
Convenience	The tax should be collected in a way and at a time which suits the taxpayer / the method and timing of the tax should suit the taxpayer.

16 marks: 4 canons at 4 marks each graded.

- (ii) Do you consider that these Canons are useful for analysing the taxation system in Ireland? **YES – 1 mark**

Canon		
Equity	With PAYE, people on higher incomes pay a greater proportion in tax. One of the accepted functions of taxation is the redistribution of wealth, which is an argument for equity.	Highlights that indirect taxes are regressive as a taxpayers' ability to pay is not taken into account.
Economy	If a tax does not collect more than the cost of administering the tax is should not be introduced. This is one of the advantages of direct taxes.	One of the arguments against indirect taxation is the complexity of the collection system.
Certainty	The main advantage of direct taxes is that the amount to be collected is clear to the state, thereby helping financial planning.	A difficulty of administering indirect taxes is that the amount to be collected is unclear and makes planning by the state difficult.
Convenience	This is one of the justifications for the PAYE system of income tax, where the tax is deducted at source from income. VAT is paid at the time of purchase.	If the method of paying and the timing of the tax does not suit the taxpayer is can lead to evasion.

2 reasons at 4 marks each graded.

Candidates must analyse the Irish Taxation system with reference to the Canons.

Or

The candidates could argue: **NO – 1 mark** and argue as follows:

Besides these canons there are other key principles which could be considered for analysing the taxation system.

Is it possible to evade the tax?

None of the canons help us measure the level of tax evasion, which in Ireland has been a problem.

Does the tax cause a disincentive to work / save or invest?: Should the taxation system cause any of the above then this is a serious difficulty for promoting economic growth.

2 reasons at 4 marks each graded.

- (b) Outline possible positive **and** negative economic consequences of a Government Current Budget Surplus.
(25 marks)

Positive	Negative
<p><u>1.Reduced inflationary pressures.</u> The government is withdrawing more money from the economy than it is putting in. This tends to have a deflationary effect in the economy.</p>	<p><u>1. Rise in conflicting expectations.</u> When citizens observe the budget surplus they may demand improvements in state services e.g. health services; education provision etc. However, the demands/expectations made on the government may conflict.</p>
<p><u>2.Managing our finances.</u> The existence of a budget surplus means that government does not have difficulty in controlling its finances. This can lead to confidence in the economy and attract investment.</p>	<p><u>2. Public Sector Workers.</u> When public sector workers see this budget surplus they may see it as an opportunity for wage negotiations. Workers may thus demand pay increases and /or an increase in the level of the workforce.</p>
<p><u>3.Adhering to EU guidelines.</u> The fact that a budget surplus exists indicates that the country is meeting the EU agreed guidelines without any difficulty. This alleviates the need for the EU to comment adversely on government economic policy.</p>	<p><u>3. Tax reductions.</u> Taxpayers who feel that they are paying too much tax may feel aggrieved. They may demand reductions in their tax / improved equity in the tax system.</p>
<p><u>4.Scope for taxation reforms.</u> The fact that a surplus exists indicates that scope exists for reform in the taxation system in the country. This should allow for improvements in the tax system allowing people to retain more of their income e.g. widened tax bands etc.</p>	<p><u>4. Discontinuity in Social Partnership.</u> The existence of the budget surplus may cause discontent within society. Citizens may feel that certain sectors are benefiting more from government policies. May prove difficult in approving national agreements.</p>
<p><u>5.Uses of this increased govt. revenue.</u> With increased revenue flowing into the government, they now have the ability to make use of this additional revenue. They may use for current projects e.g. services or on long term projects e.g. infrastructure.</p>	<p><u>5. Government financial planning.</u> The surplus may indicate that the planning by the government was not sufficiently accurate at budget preparation time.</p>
	<p><u>6. Opportunity costs of a surplus.</u> The budget surplus may have been achieved by the reduction of expenditure on services within the country. Thus essential services such as health, education etc may have deteriorated.</p>

Marking Scheme: 5 points at 5 marks each graded.

Must contain a minimum of two positive and two negative consequences.

- (c) You are the economic advisor to the Minister for Finance. The Minister is considering raising tax revenue through indirect taxation. Discuss the economic advantages and disadvantages of such a policy. (25 marks)

Economic Advantages	Economic Disadvantages
<p><u>Evasion is more difficult.</u> As the indirect tax is included in the selling price of the good or service it is impossible to evade.</p>	<p><u>Will increase inflation.</u> Indirect taxes raise the prices of goods and services and hence the cost of living, possibly causing demands for further wage increases.</p>
<p><u>No disincentive to work.</u> A taxpayer can adjust their expenditure patterns to reduce their tax liability and thus it does not act as a disincentive to work as with direct taxes.</p>	<p><u>Regressive / Inequitable</u> Lower income groups may end up paying a greater proportion of their income in this form of tax because they spend a greater proportion of their income on necessities.</p>
<p><u>Convenient for taxpayer.</u> They are included in the selling price and paid when the good/service is bought. As the tax is hidden it is easier to impose than direct tax.</p>	<p><u>Revenue collected is not as certain.</u> The revenue to be collected is not as predictable as that from direct taxation. This may hinder the government's financial planning.</p>
<p><u>Used by government to change consumption patterns.</u> The government could increase the tax on those commodities which it deems harmful to the public i.e. cigarettes, alcohol. The introduction of the plastic bag tax has reduced their demand.</p>	<p><u>Burden of collection passed to retailers/traders.</u> These now act as revenue collectors and procedures must be put into practice to collect, record and remit the revenue, increasing the costs for the firms.</p>
<p><u>Economic.</u> The cost of collection is borne by retailers and producers not by the state.</p>	
<p><u>Acts as a built in stabiliser.</u> As the economy expands spending rises and so too will the revenue collected from taxation.</p>	

**5 points at 5 marks each graded.
Minimum of 2 advantages / 2 disadvantages required.**

2005

- (a) In each of the following distinguish between the terms:
- (i) monetary policy and fiscal policy;
 - (ii) progressive taxation and regressive taxation;
 - (iii) tax avoidance and tax evasion.

(30 marks)

Monetary policy	Fiscal policy
Those actions by the ECB, which influence the money supply, interest rates and the availability of credit.	Any action taken by the government which influences the timing, magnitude and structure of current revenue & expenditure.
Progressive taxation	Regressive taxation
One that takes proportionately more in tax as a person's income increases.	One that takes proportionately less in tax as a person's income increases.
Tax avoidance	Tax evasion
Arranging one's affairs within the law so as to minimise tax liabilities.	Reducing one's tax liabilities by making false returns or no returns.

6 terms at 5 marks graded.

- (b) There has been an increase in government income in taxation in the past year.
- (i) Outline **THREE** reasons for this outcome.

1. Increase in income tax revenue

- Increase in employment leading to an increase in income tax revenue.
- Increasing number of taxpayers contributing at a higher marginal rate of tax.

2. Higher indirect tax revenue

- Increase in economic growth, leading to higher spending and higher indirect taxes.

3. Increased efficiency in tax collection

The Revenue commissioners are:

- collecting substantial tax revenues from holders of non-resident accounts.
- more efficient at collecting current taxes / at recouping taxes owed.
- effective in encouraging citizens to be tax compliant.

4. Property taxes

- An increase in house sales and house prices has resulted in a large increase in stamp duties, capital gains taxes and VAT.

5. Corporation profits tax revenue has risen

- With businesses doing well the amount of corporation profits tax revenue has risen.

3 points at 5 marks graded.

- (b) (ii) State **ONE** revenue opportunity and **ONE** expenditure opportunity for the government arising from this increased revenue.

REVENUE opportunity	EXPENDITURE opportunity
Reduce Income taxes	Increase spending on hospitals services.
Reduce VAT on goods and services	Increase spending on education.
Reduce Stamp Duties	Increase pay for public servants
Reduce excise duties on petrol	Improve the state's infrastructure.

Which of these would you consider a priority?

Candidates may choose either a revenue or expenditure opportunity and justify their choice.

10 marks graded.

- (c) Explain how an understanding by the Minister for Finance of the concept Price Elasticity of Demand would help in setting levels of indirect taxation. Use examples to illustrate your answer. (20 marks)

A knowledge of the concept of Price Elasticity of Demand could help the Minister for Finance in setting levels of indirect tax in two main ways:

1. How to raise more revenue from indirect taxation levels.

An increase in indirect taxation on a commodity will only lead to increased tax revenue if the demand for the commodity is inelastic.

Example: Price inelastic commodities [alcohol and cigarettes].

If the demand for these commodities is price inelastic then by increasing the VAT rate on these commodities, the Government will earn additional revenue because the percentage decrease in demand is less than the percentage increase in selling price.

2. How to reduce the consumption of 'harmful' commodities.

Increasing the rate of indirect taxation on certain (elastic) commodities may help the government to reduce the consumption of commodities which may have high social costs. If the Minister knows they are elastic commodities, then by increasing VAT rates, the demand for these goods will fall, thus helping to achieve this objective.

Example: Price elastic commodities.

While an increase in the rate of indirect tax may not bring in additional revenue (due to the drop in demand) the aim of reducing consumption of these commodities may be achieved.

20 marks: 2 reasons at 5 marks graded. 2 examples at 5 marks graded.

2004

- (b) In recent years Ireland's National Debt as a percentage of Gross Domestic Product (GDP) has declined.
Discuss the economic consequences of this development for the Irish economy. (25 marks)

<p style="text-align: center;"><i>Marking scheme</i> <i>5 points x 5 marks graded.</i></p>
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1. Reduced annual interest repayments.

A declining national debt to GDP means that the annual cost of repaying our national debt is declining.

2. More funds available to the government for current use.

With less funds being used to meet our annual interest repayments the government has more funds available for use for other purposes.

3. Reduced burden on future taxpayers.

The decline will mean that the government will not have to contemplate increasing future taxes on future taxpayers.

4. Improved international credit-rating.

Unlike other countries the fact that Ireland is seen to have a declining national debt as a percentage of GDP will mean that our credit-rating improves.

5. Adhering to requirements of the Euro stability pact.

Unlike other members of the Euro Ireland does not have a difficulty in meeting the conditions of the stability pact and hence no corrective action need to be taken in economic policy matters.

6. Prudent management of economy by government.

Citizens may be made aware that the government's management of the economy is prudent and this may boost morale.

7. Possible deterioration in public services

If the reduced debt to GDP ratio is caused by a reduction in current borrowing the government may spend less on public services resulting in a deterioration of these services i.e. the health service.

8. Reduced spending on infrastructure.

If the reduced debt to GDP ratio is caused by a reduction in capital borrowing then there may be less spending on the state's infrastructure which may inhibit the future growth of the country.

(i) The main sources of government revenue: 5 x 2 marks each.

Current Revenue	Capital Revenue
1) Direct tax revenue or examples 2) Indirect tax revenue or examples 3) Profits of state companies 4) Receipts from the sale of semi-state co's 5) Interest on loans to semi-states/local auth. 6) Fees charged for services or examples 7) State savings schemes: PO / prize bonds. 8) Central bank surplus income.	1. Surplus from the Current Budget 2. Loan repayments: local authorities / semi-states repaying loans received from govt. 3. Borrowing through national loans 4. Grants and loans from foreign international institutions / EU 5. Sale of state property.

(ii) The economic consequences of a government policy to increase public service charges

Positive consequences	Negative consequences
1. Less pressure to ↑ taxes/ borrowing By raising public charges there will be less pressure on the government to raise additional revenue by increasing taxation.	1. Increased cost of living The prices of those services for which charges are being imposed will increase thereby increasing the cost of living.
2. More efficient use of services Where people pay for services it may encourage a greater efficiency in their use e.g. encourage people to re-cycle / use public transport etc.	2. Increased inflation Inflation will rise. This will affect the economy negatively: reduced competitiveness; demand for compensatory wage increases etc.
3. Saving scarce resources Those people who can afford to pay for these services now do so. Hence the resources which were being used to finance these services would no longer be necessary – saving scarce resources.	3. Affects lower income groups most The increased charges will have the greatest impact on lower income groups – those with the least ability to cope with the higher prices. Their standard of living will deteriorate.
4. Targeting use of resources economically By charging those who can afford to pay the government can provide direct payments to help those who cannot – thereby targeting the use of our resources more economically.	4. Viability of Partnership Agreements Trade unions may consider that the increase in these charges are 'stealth taxes' and this may affect their decision to enter into future agreements / seek higher wage increases.
5. Pressure to improve quality of service Agencies may be forced to improve the quality of service provided as people now pay e.g. <ul style="list-style-type: none"> – Better frequency of service – More re-cycling centres – Pay-per-weight for refuse 	5. Inequity / fairness The disparity in charges or in the quality of service / the introduction of charges <ul style="list-style-type: none"> – may cause disquiet in citizens – cause people to dump their rubbish – avoid toll roads & disrupt local communities
6. Lower Tax base Ireland can maintain a low tax base and hence encourage continue investment into the economy	6. Higher costs for business They must now pay higher toll charges; refuse charges; water charges – increasing costs which may require higher prices or reduction in jobs.
7. Uses of revenue collected. Revenue is collected. This can be targeted for best use, to help achieve further aims e.g. the plastic bag tax.	
<i>4 x 5 marks graded.</i>	

2003

(b) Outline the effects which a rise in the level of unemployment in Ireland may have on:

- (i) Government current finances.
- (ii) The Balance of Payments (Current Account).
- (iii) Price Inflation.

(20 marks)

	Effects of a RISE in UNEMPLOYMENT	Marks
Government Current Finances	1. Reduction in taxation revenues. 2. Increase in social welfare payments.	7 marks graded
Balance of Payments (Current Account)	1. <u>Lower incomes</u> leading to a <u>reduction in imports</u> . or 2. Rising unemployment may mean <u>closures of business</u> – some of which may be <u>export orientated</u> , hence <u>lower exports</u> .	7 marks graded
Price Inflation	1. <u>Moderation in the rate of price inflation</u> due to the <u>reduction in spending power</u> and a fall in demand pull inflation. Or 2. In the long term the increase in unemployment may lead to the <u>need to increase taxation / rise in charges</u> for certain services, <u>resulting in a rise in the CPI</u> .	6 marks graded
		20 marks

2002

(b) Economic consequences of a Current Budget Surplus – Minimum 2 positives/negatives		5x5marks graded
Positive	Negative	
<u>1.Reduced inflationary pressures.</u> The government is taking more money out of the economy than it is putting in→ this tends to have a deflationary effect in the economy.	<u>1. Rise in conflicting expectations.</u> Citizens, when they observe the surplus, may demand an improvement in state services e.g. health services, education provision.	
<u>2.Improved government finances.</u> The existence of a CBS means that government does not have difficulty in controlling its finances.	<u>2. Public Sector pay.</u> Public sector workers may demand pay increases as they see the government's improved ability to pay.	
<u>3.Meeting agreed EU guidelines.</u> The fact that a surplus exists indicates that the country is meeting the EU agreed guidelines without difficulty.	<u>3. Tax reductions.</u> Taxpayers may demand reductions in their tax / improved equity in the tax system.	
<u>4.Scope for taxation reforms.</u> The fact that a surplus exists indicates that scope exists for reform in the taxation system in the country.	<u>4. Discontinuity of Social Partnership.</u> The existence of the surplus may cause discontent within society leading to conflicting demands from various sectors.	
<u>5.Uses of this increased govt. revenue.</u> With increased revenue flowing into the government, it now has the ability to make use of this additional revenue.	<u>5. Government financial planning.</u> The surplus may indicate that the planning by the government was not sufficiently accurate at budget preparation time / or that economic circumstances have changed.	

2001

(a) Define clearly the following terms:	(20 marks)
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(i) Current Budget Surplus

- Current government revenue exceeds current government expenditure.

(ii) Exchequer Borrowing Requirement

- Borrowing by the state to finance a current budget deficit and borrowing for capital purposes.

(iii) The National Debt

- Is the total amount of money borrowed by the government, which is outstanding.
- The cumulative total of outstanding government borrowing.

<p><u>Marking Scheme</u></p>

<p>3 clearly defined terms : 7 marks + 7 marks + 6 marks</p>
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(b) Discuss the main characteristics of a good system of taxation. (20 marks)

1. Equity

The tax levied should be related to the person's ability to pay.

2. Certainty

The amount of tax which a person must pay should be certain and clear/not arbitrary.

3. Convenience

The manner and timing of payment of the taxes should be convenient to the taxpayer e.g. the PAYE system of tax is convenient because it is deducted at regular intervals rather than one lump sum.

4. Economy

The cost of collection should be small in relation to the amount of revenue to be collected. The tax collected should exceed the cost of collection.

5. Not act as a disincentive.

High marginal rates of tax may discourage workers from working overtime. High tax rates on profits may discourage investment.

6. Aid the redistribution of income.

A good tax system should help the government redistribute income from the rich to the poor – progressive taxes allow the government to do this.

7. Be variable / flexible / adjustable.

Taxes should be capable of being varied upwards or downward to suit government policy.

Tax structures and the rates at which individual taxes are levied must be flexible to be capable of meeting new circumstances.

8. Be consistent with national economic objectives.

The taxes levied should help the government achieve its other objectives. e.g. raising excise tax rates on cigarettes could help discourage smoking.

9. Have a stabilising influence on the economy.

A good system of taxation can prevent the level of economic activity rising as fast as it otherwise could when the economy is on an upturn, and prevent the level of economic activity falling as fast as it otherwise could in a recession.

10. Evasion should be impossible

A good tax should be impossible to evade – otherwise the tax is not fair or convenient.

Marking Scheme : 5 points x 4 marks each.

State: 5 x 2 marks each = 10 marks. Explain: 5 x 2 marks each = 10 marks

(c) Discuss the main effects on the Irish economy of the reduction in rates of income tax in recent Government Budgets. (25 marks)

1. Reduced direct tax revenue

Income tax revenue for the government may fall and the government may seek alternative sources of income, such as increasing indirect tax, borrowing or reducing expenditure.

2. Increased incentive to work / save

With the tax reduction workers may be prepared to put in additional effort as they now have higher disposable income. They may also decide to save more.

3. Black economy

People may be more prepared to declare their income for tax purposes resulting in a possible reduction in the size of the black economy.

4. Increased disposable income / Increase in demand / Inflation pressures.

With increased purchasing power, demand for goods and services could rise. This may result in increased inflation and/or increased imports.

5. Employment / Investment Opportunities / Incentives to invest.

Increased demand may result in higher domestic production, resulting in increased employment opportunities and/or presenting opportunities for increased investment.

6. Reduced emigration / Increased Immigration

In the past high taxes encouraged emigration. With a fall in taxes people receive greater reward for their effort and this may stem the 'brain drain'. The reduction in taxes may also encourage immigration into Ireland.

7. Moderation in wage demands / less industrial unrest

The demand for wage increases may be moderated and this may lead to a continuation with the social partnership agreements / less industrial unrest.

Marking Scheme

5 points at 5 marks each = 25 marks
 State: 2 marks each = 5 @ 2 = 10 marks
 Explain: 3 marks each = 5 @ 3 = 15 marks

(d) Explain what is meant by the term 'tax harmonisation'. (10 marks)

Tax harmonisation

- Refers to the aim of members of the European Union / other trading blocs
- to move all tax rates to the same rates/align within each member state/country.

Marking Scheme

10marks graded