
Economic Short Questions

Mr Traynor©

Section A
Exam Prep • Leaving Cert • 6th Year



2012

1. State **three** reasons why the demand curve for bottled water may shift to the right.

- (i) _____
- (ii) _____
- (iii) _____
- (16 marks)**

2. State **three** areas of responsibility of the European Central Bank (ECB).

- (i) _____
- (ii) _____
- (iii) _____
- (16 marks)**

3. Outline **two** reasons for the growth of the 'Black Economy' **and** state **two** effects for the Exchequer.

Reason 1: _____

Reason 2: _____

Effect 1: _____

Effect 2: _____

(16 marks)

4. In relation to each statement listed below, indicate whether it is an **internal** or **external** (a) **economy of scale** or (b) **diseconomy of scale**. (Place a tick (✓) for each correct answer.)

Statement	(a) Economy of Scale		(b) Diseconomy of Scale	
	Internal	External	Internal	External
Repetitive tasks, workers are bored				
R&D costs are shared by many firms				
Discounts are available for bulk buying				
Inadequate infrastructure				

(16 marks)

5. 'Inferior products have a negative Income Elasticity of Demand (YED)'.

(a) Explain this statement.

Explanation: _____

(b) State **one** example of an inferior product, giving a reason for your answer.

Example: _____

(16 marks)

6. Study the table below and calculate (i) and (ii), showing all your workings.

Year	National Income	Consumption	Investment	Exports	Imports
1	€24,000	€15,000	€6,000	€10,000	€7,000
2	€34,000	€22,000	€8,000	€16,000	€12,000

(i) The Marginal Propensity to Save (MPS).

Answer: _____

(ii) The size of the Multiplier.

Answer: _____

(17 marks)

7. Outline **three** factors currently affecting the rate of savings in the Irish economy.

(i) _____

(ii) _____

(iii) _____

(17 marks)

8. 'Imperfect Competition is wasteful of resources'. Do you agree with this statement? Yes /No
Explain your answer.

(17 marks)

9. The Irish Government introduced the household charge (property tax) of €100 per household in its 2012 budget.

(a) State **two** advantages of this charge/tax for the Exchequer.

(i) _____

(ii) _____

(b) Is this a progressive tax or a regressive tax? Explain your answer.

(17 marks)

2011

1. State **four** steps involved in constructing a Consumer Price Index (CPI).

Step 1 _____

Step 2 _____

Step 3 _____

Step 4 _____

(16 marks)

2. Define a mixed economy. State **two** examples of economic activity which supports the view that Ireland is a mixed economy.

Definition: _____

Example 1: _____

Example 2: _____

(16 marks)

3. Name the market structure (Perfect Competition, Imperfect Competition or Monopoly) to which each statement below is most likely to apply:

	STATEMENT	MARKET STRUCTURE
(i)	The firm has a perfectly elastic demand curve.	
(ii)	The product of the firm is unique.	
(iii)	Restaurants could be an example of this market structure.	
(iv)	Average costs of the firm are at a minimum.	

(16 marks)

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

(i) _____

(ii) _____

(iii) _____

(16 marks)

5. Define the term occupational mobility of labour. Outline **two** factors which can influence it.

Definition: _____

Factor 1: _____

Factor 2: _____

(16 marks)

6. Outline **two** possible economic effects for the Irish economy of the euro (€) falling in value relative to the US dollar (\$).

- (i) _____

 - (ii) _____

- (17 marks)**

7. State **three** reasons why multinational firms are re-locating to countries like Vietnam, Indonesia and Thailand in Southeast Asia.

- (i) _____
 - (ii) _____
 - (iii) _____
- (17 marks)**

8. A consumer buys 20 units of Good A when the price of Good B is €8. When the price of Good B rises to €10 (the price of Good A remaining unchanged) the consumer buys 12 units of Good A. Using an appropriate formula, calculate this consumer’s cross elasticity of demand for Good A. (Show your workings.)

WORKINGS

Answer:

Is Good A a substitute for, or a complement to, Good B? Explain you answer.

(17 marks)

9. In September 2010 approximately 5.1% of mortgage accounts were **in arrears** (behind on mortgage payments) of 90 days or more. Outline **two** economic **reasons** for this development and **two** actions financial institutions could take to help mortgage customers.

- Reasons:**
- (i) _____
 - (ii) _____
- Actions:**
- (i) _____
 - (ii) _____
- (17 marks)**

2010

1. State **three** reasons why prices of land for housing development have fallen in recent years in Ireland:

(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. A consumer spends €200 monthly on Product A when its price is €2 and continues to spend €200 monthly when its price increases to €2.50. Calculate the consumer's price elasticity of demand. (See Formulae and Tables Booklet p.28) **Show all your workings and explain your answer.**

Workings:

Answer:

Explanation:

(16 marks)

4. Define the term 'non-price competition'. State **two** examples.

Definition: _____

Example 1: _____

Example 2: _____

(16 marks)

5. State **three** economic reasons why entrepreneurship is important to the development of the Irish economy.

(i) _____

(ii) _____

(iii) _____

(16 marks)

6. It is estimated that in the Irish economy:
MPS = 0.25, MPM = 0.3, MPT = 0.2. Calculate the value of the Multiplier in the Irish economy.
Explain the economic meaning of the Multiplier figure. (See Formulae and Tables Booklet p.29)
Show your workings.

Workings

Answer:

Explanation:

(17 marks)

7. Outline **two** limitations in using the Live Register as a means of measuring unemployment.

(i) _____

(ii) _____

(17 marks)

8. Explain, with the aid of an example, the meaning of the term '**Rent of Ability**'.

(17 marks)

9. 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) _____

(17 marks)

2009

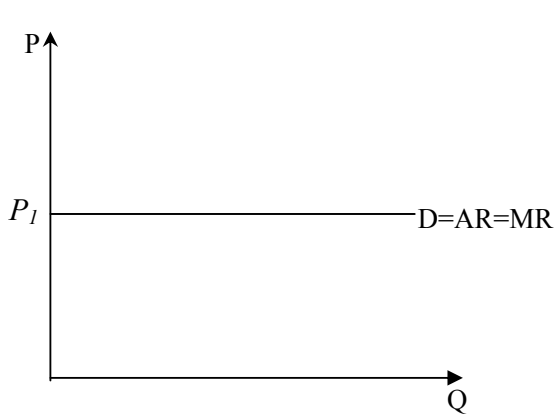
1. Outline **two** non-insurable risks faced by entrepreneurs.

(i) _____

(ii) _____

(16 marks)

2. The diagram below represents the demand curve facing a firm in Perfect Competition.



This demand curve is; **(✓ correct answer)**

- Unitary Elastic
- Perfectly Inelastic
- Perfectly Elastic

State the reason for your choice:

_____ **(16 marks)**

3. Ireland has a mixed economy. What do you understand by the underlined term? State **one** economic advantage and **one** economic disadvantage of this type of economic system.

Explanation: _____

Advantage: _____

Disadvantage: _____

(16 marks)

4. Define 'cost-push' inflation. Identify **two** sources of this form of inflation in the Irish economy.

Definition: _____

Source 1: _____

Source 2: _____

(16 marks)

5. The demand for land is a derived demand. Explain what is meant by the underlined term with reference to land.

_____ **(16 marks)**

6. Outline **two** possible economic effects of UK Sterling (£) falling in value relative to the Euro (€) for the Irish economy.

(i) _____

(ii) _____

(17 marks)

7. (a) State the **Law of Diminishing Marginal Utility**: _____

- (b) The table below illustrates the Law of Diminishing Marginal Utility.

Number of units consumed	1	2	3	4	5	6
Total Utility in units	30	65	85	100	110	115
Marginal Utility in units	30					

Complete the table and state the point after which diminishing utility sets in.

(17 marks)

8. Define 'economic development'. Explain **two** social costs of economic development.

Definition: _____

Cost 1: _____

Cost 2: _____

(17 marks)

9. Economists have commented on Ireland's 'greying population', i.e. the structure of Ireland's population is getting older. Outline **two** economic effects of this development for the Irish economy.

(i) _____

(ii) _____

(17 marks)

2008

1. State **three** factors that determine the efficiency of labour:

(i) _____

(ii) _____

(iii) _____

(16 marks)

2. “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)

3. A firm manufacturing 100 school desks weekly has the following total costs of production: Labour €2,000 (hired weekly); Raw Materials €3,500; Normal Profit €1,500; Rent €3,000. What is the minimum price per school desk this firm could charge in the **short run**? Explain your answer. (Show all your workings).

Workings:

Minimum Price:

Explanation:

(16 marks)

4. 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)

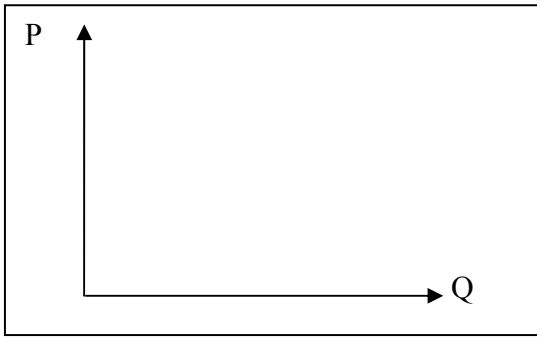
5. Define a **Free Enterprise** economic system and state **one** economic advantage of this system.

Definition: _____

Advantage: _____

(16 marks)

6. China will host the Beijing Olympic Games in August 2008 and 7 million tickets are available for the event. On the diagram below draw the supply curve for tickets and explain the reason for its shape.



Explanation:

(17 marks)

7. 'Ireland's current account in the **Balance of Payments** is in deficit'. Explain the meaning of this statement and state **two** reasons why this situation exists.

Explanation: _____

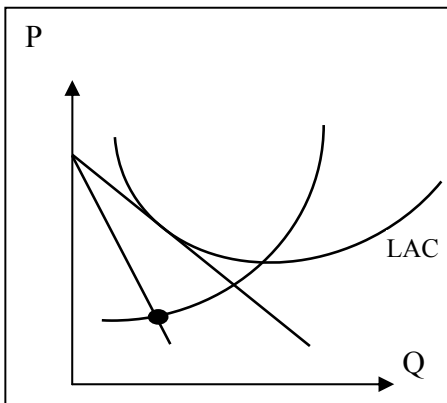
Reasons:

(i) _____

(ii) _____

(17 marks)

8. The diagram below represents the long run equilibrium of a firm in imperfect competition, which seeks to maximise profits. Label the diagram and use it to describe the long run equilibrium position for a firm in Imperfect Competition.



Description:

(i) _____

(ii) _____

(iii) _____

(iv) _____

(17 marks)

9. Oil prices rose steadily during the last year. State **two** economic reasons for this development. State **one** social cost and **one** social benefit of the rising prices.

Reasons:

(i) _____

(ii) _____

Social Cost: _____

Social Benefit: _____

(17 marks)

2007

1. State **FOUR** possible economic effects of rising **price inflation** on the Irish economy.

- (i) _____
- (ii) _____
- (iii) _____
- (iv) _____

(16 marks)

2. State **THREE** assumptions underlying the **Law of Comparative Advantage**.

- (i) _____
- (ii) _____
- (iii) _____

(16 marks)

3. Consumers buy 50 units of a product when the price is €1.50. When the price is reduced to €1 consumers buy 90 units. Using an appropriate formula, calculate the consumers' **price elasticity of demand**. **Show your workings and explain your answer.**

<p>Workings</p>	<p>Explanation:</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>
------------------------	--

(16 marks)

4. Firms attempting to enter a **monopoly** market must overcome barriers to entry. Outline **THREE** such barriers to entry.

- (i) _____
- (ii) _____
- (iii) _____

(16 marks)

5. Outline **THREE** functions/responsibilities of the **European Central Bank (ECB)**.

- (i) _____
- (ii) _____
- (iii) _____

(16 marks)

6. Outline **TWO** circumstances under which a factor of production can earn **Economic Rent**.

(i) _____

(ii) _____

(17 marks)

7. 'An Irish banking group owns thirty branch offices. There is no opportunity cost to the banking group using these offices as they are fully owned'. **True / False.**

Circle your choice and give a one sentence explanation of your answer.

(17 marks)

8. Define **Social Costs**. State **TWO** significant examples currently facing the Irish economy.

Definition: _____

Example 1: _____

Example 2: _____

(17 marks)

9. Energy costs (e.g. electricity) increased significantly in Ireland during 2006. Outline **TWO economic reasons** for the increase and **TWO economic consequences** of this specific development for the Irish economy.

Reasons:

(i) _____

(ii) _____

Consequences:

(i) _____

(ii) _____

(17 marks)

2006

1. State **THREE** economic uses for a census of population in Ireland.

- (i) _____
- (ii) _____
- (iii) _____
- (16 marks)**

2. State three reasons why **profits** are important in a **market economy**.

- (i) _____
- (ii) _____
- (iii) _____
- (16 marks)**

3. A firm wishes to attract more labour. In order to increase its labour force from 5 to 6 employees, the firm must increase the weekly wage rate from €400 to €440 per employee. Calculate the firm's **marginal cost of labour**. Show your workings.

<p>Workings</p>

Answer:

(16 marks)

4. Define **economic development**. State **TWO** policies by which governments of developed countries could promote economic development in less developed countries (LDCs).

Definition: _____

Policy (i): _____

Policy (ii): _____

(16 marks)

5. Define **internal economies of scale**. State **TWO** examples.

Definition: _____

Example (i): _____

Example (ii): _____

(16 marks)

6. In equilibrium a consumer buys 8 bars of chocolate at €1.00 each and 12 sandwiches at €4.00 each. The marginal utility of the eighth bar of chocolate is 10 utils. Using the Equi-Marginal Principle of Consumer Behaviour **calculate the marginal utility of the twelfth sandwich.**

Show all your workings.

<p>Workings</p>

Answer:

(17 marks)

7. Define **price discrimination**. State **TWO** conditions under which it would be possible for a firm to price discriminate.

Definition: _____

Condition (i): _____

Condition (ii): _____

(17 marks)

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

Function 1: _____

Function 2: _____

(17 marks)

9. 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)

2005

1. Explain the concept **Opportunity Cost**. Why is the concept central to the study of Economics?

(16 marks)

2. Outline **THREE** reasons for the survival of small firms in the Irish economy, even though they do not have the benefits of economies of scale.

(i)

(ii)

(iii)

(16 marks)

3. Explain what is meant by **Consumer Surplus**.

(16 marks)

4. A consumer in equilibrium buys 10 cups of coffee at €2 each and 10 phone cards at €6 each. The marginal utility of the cups of coffee is 5 utils. What is the marginal utility of phone cards? **Show your workings.**

Workings

Answer: _____

(16 marks)

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

(16 marks)

6. For a composite (weighted) price index covering the three types of expenditure given in the following table, calculate the price index for the current year. The base value is 100. **Show your workings.**

Category	% income spent on item(s)	Prices of item(s) base year	Prices of item(s) current year	Calculation of Simple Price Index	Weight	Result
		€	€			
Food	30%	10.00	11.50			
Clothing & Footwear	20%	40.00	36.00			
Other Items	50%	20.00	22.00			
	100%			Price Index for the Current Year	→	

(17 marks)

7. “When a firm produces at a level of output at which marginal cost is greater than marginal revenue the firm is maximising profit (or minimising losses)”. **True/False**
(Place a circle around your choice and write a one-sentence explanation of your answer).

(17 marks)

8. Outline **THREE** key ideas, which John Maynard Keynes contributed to economic thought.

(i) _____

(ii) _____

(iii) _____

(17 marks)

9. Given that Gross National Product at Current Market Prices is €180 million; Price Subsidies €4 million; Depreciation €15 million; Indirect Taxes €25million; complete the following calculations. **Show your workings**

(i) **Gross National Product at Factor Cost**

_____ = € _____

(ii) **Net National Product at Factor Cost/National Income**

_____ = € _____

(17 marks)

2004

1. Outline **FOUR** factors that affect **the supply of a good**, other than the price of the good itself.

- (i) _____
 - (ii) _____
 - (iii) _____
 - (iv) _____
- (16 marks)**

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

- _____
- _____
- Example: _____
- (16 marks)**

3. Name the economist primarily associated with the following economic concepts:

- (i) **Iron Law of Wages :** _____
 - (ii) **Law of Comparative Advantage:** _____
 - (iii) **Laissez Faire :** _____
 - (iv) **Liquidity Preference Theory:** _____
- (16 marks)**

4. Identify **FOUR** features of an oligopolistic market.

- (i) _____
 - (ii) _____
 - (iii) _____
 - (iv) _____
- (16 marks)**

5. State **THREE** limitations on the power of banks to create credit.

- (i) _____
 - (ii) _____
 - (iii) _____
- (16 marks)**

6. Define the **Law of Diminishing Marginal Utility** and state **TWO** assumptions underlying the law.

Definition: _____

Assumption (i): _____

Assumption (ii): _____

(17 marks)

7. 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)

8. “There is no opportunity cost to a firm in using an asset which it already owns”. **True / False.**
(Place a circle around your choice and give a one sentence explanation of your answer.)

(17 marks)

9. State **FOUR** reasons why different categories of workers are paid at different wage rates.

(i) _____

(ii) _____

(iii) _____

(iv) _____

(17 marks)

2003

1) Define the term Regressive Tax

2) Name four economic aims of the government

- ---
- ---
- ---
- ---

3) Define the term Monetary Policy

Identify 2 measures by which the ECB implements monetary policy within the euro zone countries

- ---
- ---

4) Define the term “Balance of `Payments on the Capital Account”

Give 2 examples of items that may appear on it

- ---

- ---

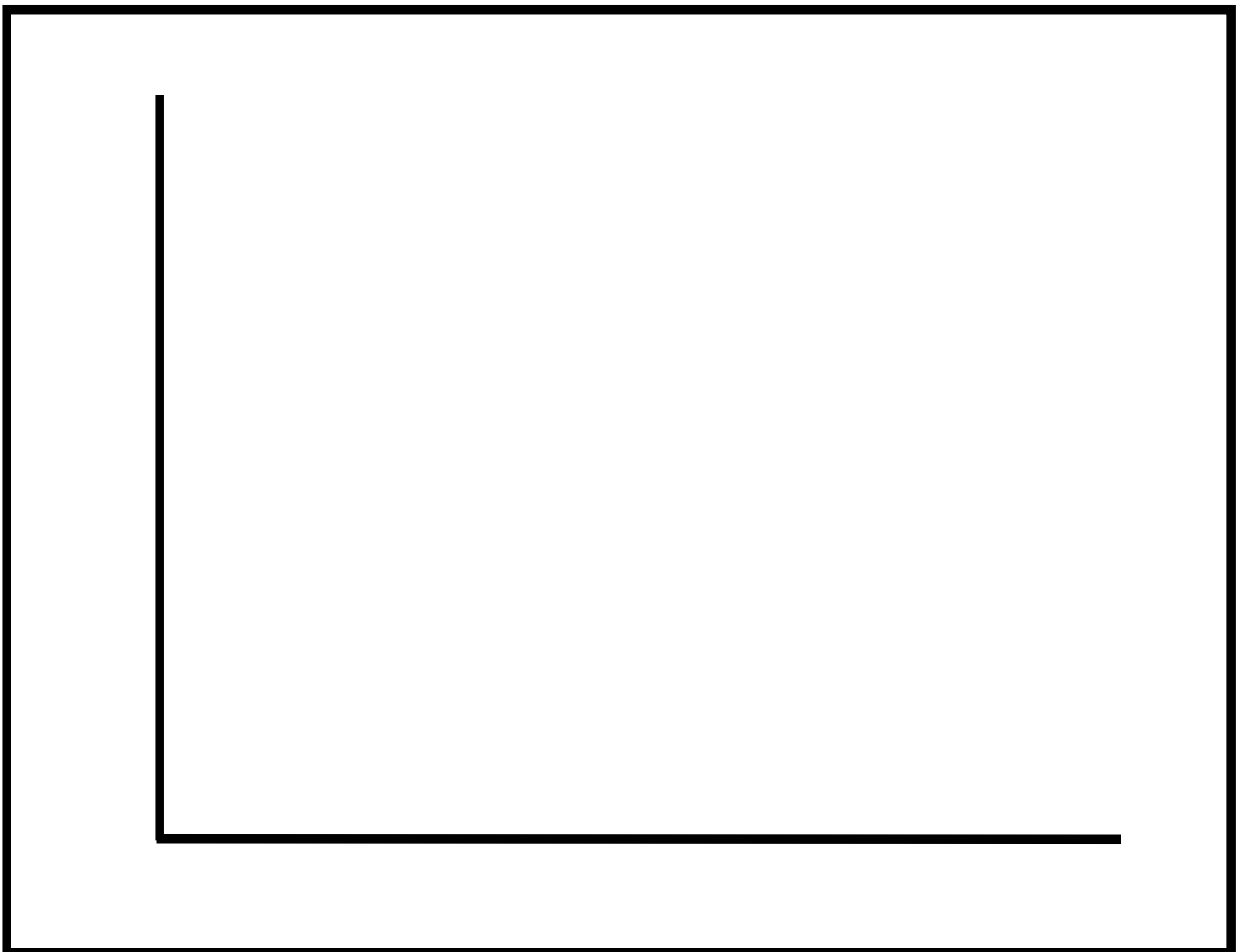
5) Give three economic reasons why entrepreneurs are important to the development of an economy

- _____

- _____

- _____

6) Using the diagram below, explain how higher consumers' incomes (other factors unchanged) may affect the demand curve for mobile phones in Ireland.



7) Name 4 economic assumptions used for analysing consumer behaviour

- _____
- _____
- _____
- _____

8) Define the term Social Benefits

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

- _____
- _____

9) A firm wishes to attract more labour. In order to increase its labour force from 7 to 8 employees the firm must increase the weekly wage rate from €250 to €300 per worker. Calculate the firm's marginal cost of labour. Show all your workings.

2002

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

Definition: _____

Policy 1: _____

Policy 2: _____

(16 marks)

2. Outline **FOUR** steps involved in calculating a **Composite Price Index**.

Step 1: _____

Step 2: _____

Step 3: _____

Step 4: _____

(16 marks)

3. Define **occupational mobility of labour**. Outline **TWO** factors which influence it.

Definition: _____

Factor 1: _____

Factor 2: _____

(16 marks)

4. Outline **THREE** key ideas which John Maynard Keynes contributed to economic thought.

(i) _____

(ii) _____

(iii) _____

(16 marks)

5. Outline **TWO** benefits to consumers of **non-price competition**.

(i) _____

(ii) _____

(16 marks)

6. Distinguish between **tax avoidance** and **tax evasion**.

(17 marks)

7. (a) State the **Law of Diminishing Marginal Returns**.

The table below illustrates the Law of Diminishing Marginal Returns.

Number of persons employed	1	2	3	4	5
Total output (in units)	12	27	47	63	73
Marginal Output (in units)	12				

- (b) Complete the table above and state the point after which diminishing returns set in.

(17 marks)

8. From the table below, calculate (i) and (ii), showing all your workings.

Period	National Income	Consumption	Investment	Exports	Imports
1	€4,200	€3,750	€400	€600	€550
2	€4,600	€4,050	€500	€700	€650

- (i) The Marginal Propensity to Consume.

- (ii) The size of the Multiplier.

(17 marks)

9. Explain why GNP rather than GDP (both at Market Prices) is generally regarded as a better measure of average standard of living in Ireland.

(17 marks)

2001

1. What is meant by the concept '*consumer surplus*'?

.....
.....
.....

(16 marks)

2. State **TWO non-insurable risks** which entrepreneurs face.

(i)

(ii)

(16 marks)

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

.....
.....

Example (i)

Example (ii)

(16 marks)

4. State **THREE** economic benefits of economic development to the citizens of underdeveloped countries.

(i)

(ii)

(iii)

(16 marks)

5. Identify **TWO** means by which semi-state companies which are monopolies could be made operate more cost effectively.

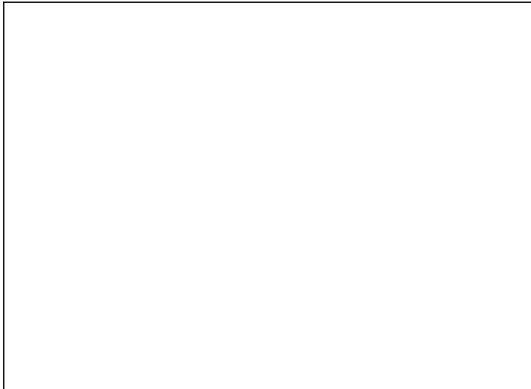
(i)

(ii)

(16 marks)

6. With the aid of a clearly labelled diagram, explain the relationship between the **average** and **marginal** costs.

Diagram



Explanation

.....

.....

.....

.....

(17 marks)

7. State **THREE** roles of profits in a market economy.

(i)

(ii)

(iii)

(17 marks)

8. State **THREE** contributions made to economic thought by the **Monetarist economists**.

(i)

(ii)

(iii)

(17 marks)

9. A country is said to be **overpopulated** in the economic sense when

.....

.....

.....

(17 marks)

Answers**2012**

1. State **three** reasons why the demand curve for bottled water may shift to the right.
 - (i) **Incomes:** consumer income may have increased resulting in increased demand.
 - (ii) **Taste / Preference:** because of increased advertising / branding / greater health consciousness the consumer is demanding more water.
 - (iii) **Expectations:** if consumers expect a 'big freeze' then they may stock up on bottled water.
 - (iv) **Price of substitute goods:** if the price of products such as soft drinks have increased then more people may buy water.
 - (v) **Unplanned factors:** if there was an unexpected heat wave, demand for water may increase / if a pollutant damaged the water supply then demand for bottled water may increase.
 - (vi) **Government policies:** if the government initiated a promotional campaign outlining the benefits of drinking water then demand may increase.

3 points: 6 + 5 + 5 marks.

2. State **three** areas of responsibility of the European Central Bank (ECB).

1. **Price Stability:**

Monitors inflation in member countries and adjusts the base ECB interest rate so as to adjust spending and maintain price stability.

2. **EU monetary policy:**

ECB implements monetary policy - monitors and advises on rates of interest, money supply, credit availability & protects the value of the euro.

3. **Official reserves of the euro area countries:**

It **holds and manages** the EUs official holdings of gold, foreign currencies and other reserves held as security against the issue of the euro. The ECB manages these reserves on behalf of the countries.

4. **Supervision:**

The member central banks of the Eurozone countries must provide prudential supervision of credit institutions and ensure stability in the financial system / lending to Eurozone central banks.

5. **Issues euro currency:**

The ECB has the exclusive / sole right to issue euro bank notes and coins within the euro area.

3 points: 6 + 5 + 5 marks.

3. Outline **two** reasons for the growth of the ‘Black Economy’ **and** state **two** effects for the Exchequer.

Two reasons for the growth of the ‘Black Economy’:

Reduced disposable incomes: people can’t afford to pay the legitimate prices for goods / services.

Increased VAT rates: causing prices to increase and consumers want to avoid the higher taxes.

Unemployment: those who have lost their jobs cannot afford VAT inclusive prices and/or are prepared to take a job for cash only to avoid paying income tax.

Disillusionment with government policies: some think that the tax system is unfair.

Two effects for the Exchequer:

Loss of tax revenue: reduced VAT / Income tax revenues.

Increased government expenditure: may have to increase spending on law enforcement.

Unemployment bill is higher: some are claiming social welfare and earning an income.

Decline in legitimate business activity: leading to possible job losses and a further drop in tax revenues e.g. buying diesel in the Black Market.

Pressure on government finances / provision of services:

Government may have to cut spending; additional sources of tax revenue considered (e.g. stealth taxes) and/or reduced volume of services provided.

2 reasons at 4 marks each. 2 effects at 4 marks each.

4. In relation to each statement listed below, indicate whether it is an **internal** or **external** (a) **economy of scale** or (b) **diseconomy of scale**. (Place a tick (√) for each correct answer.)

Statement	(a) Economy of Scale		(b) Diseconomy of Scale	
	Internal	External	Internal	External
Repetitive tasks, workers are bored			√	
R&D costs are shared by many firms		√		
Discounts are available for bulk buying	√			
Inadequate infrastructure				√

4 correct answers at 4 marks each.

5. ‘Inferior products have a negative Income Elasticity of Demand (YED)’.

(a) Explain this statement.

10 marks

As a consumer’s income decreases s/he will buy more of an inferior product.

(b) State **one** example of an inferior product, giving a reason for your answer.

Example: Remould tyres / low price cuts of meat / supermarket own brands / potatoes / white bread / instant noodles / public transport (bus service).

Reason:

As incomes decline the demand for supermarket own brands may increase as this is all families can afford.

6 marks

6. Study the table below and calculate (i) and (ii), showing all your workings.

Year	National Income	Consumption	Investment	Exports	Imports
1	€24,000	€15,000	€6,000	€10,000	€7,000
2	€34,000	€22,000	€8,000	€16,000	€12,000

(i)

The Marginal Propensity to Save (MPS)	MPC
Savings = Y – C	MPS = 1 – MPC
Year 1: €24,000 – €15,000 = € 9,000	↑ in C: € 7,000
Year 2: €34,000 – €22,000 = €12,000	↑ in Y: = €10,000
$MPS = \frac{€3,000}{€10,000} = 0.3$ or 30%	$MPC = \frac{€7,000}{€10,000} = 0.7$ or 70%
	MPS = 1 – 0.7 = 0.3

9 marks

- (ii) The size of the Multiplier.

Increase in imports: €12,000 – €7,000 = €5,000

$$MPM = \frac{€5,000}{€10,000} = 0.5 \text{ or } 50\%$$

Method 1	Method 2
	$MPC = 1 - MPS = 1 - 0.3 = 0.7$
$\frac{1}{MPS + MPM}$	$\frac{1}{1 - (MPC - MPM)}$
$\frac{1}{0.3 + 0.5}$	$\frac{1}{1 - (0.7 - 0.5)}$
$\frac{1}{0.8}$	$\frac{1}{0.8}$
1.25	1.25

8 marks

7. Outline **three** factors **currently** affecting the rate of savings in the Irish economy.

Confidence in economy

People are concerned about the future of the economy which is affecting consumer confidence. As a result people are tending to postpone purchasing and save instead. Consumers are spending less and are deferring spending until later. This results in forced savings.

Security of savings

Due to the current economic climate people are less inclined towards risky investments and prefer the security of state backed savings. Due to the on-going banking crisis consumers are seeking greater security for their savings e.g. An Post's 'National Solidarity Bond'.

(Real) Rate of interest

Savers will seek an interest rate greater than the current rate of inflation so as to maintain purchasing power. If the products available produce reasonable returns / time deposits, then people are more likely to use them as a form of saving.

Income levels

For some people income levels have fallen and so they are able to save less.

Rate of DIRT

The government increased the rate of DIRT in the December budget. This may discourage some people from saving.

3 points: 6 + 6 + 5 marks.

8. 'Imperfect Competition is wasteful of resources'. Do you agree with this statement? Yes /No
Explain your answer.

Yes. It does not produce at the lowest point of average cost. This is due to spending by the firm on advertising its products / services or the firm does not produce a sufficient quantity to benefit from economies of scale.

Or

No. If a firm invests in innovation and increases sales it may not be considered wasteful e.g. Apple's investment confers an advantage on the company that it would not enjoy without such spending.

(1+8+8) marks.

9. The Irish Government introduced the household charge (property tax) of €100 per household in its 2012 budget.

(a) State **two** advantages of this charge/tax for the exchequer.

1. Government revenue

These charges will increase revenues for the state / local councils.

2. Stable tax

This tax broadens the tax base, in accordance with the Troika aims. It is payable by every homeowner and so, in theory, it should be a more stable form of tax.

3. Less need to raise direct taxes / not act as disincentive to work

With revenue earned from this it may reduce the need for the government to increase direct taxation. As income taxes are not raised then this tax will not act as a disincentive to work.

4. Economic

The cost of collection for the state is to date quite low due to the online method of collection.

5. Ease introduction of property tax

Despite the problems with the household tax, its introduction is preparing the population for the introduction of the proposed property tax.

6. Government planning

As this is a flat charge, the revenue collected is certain, thereby facilitating government planning.

2 points at 4 marks each.

(b) Is this a progressive tax or a regressive tax? Explain your answer.

Regressive.
<ul style="list-style-type: none"> • Because it does not take into account a person's ability to pay the tax. • People on lower income would pay a greater proportion of their income in tax.

9 marks

2011**1. State four steps involved in constructing a Consumer Price Index (CPI).**

Step 1: Determine the commodities to be included in the index.

What the average Irish family buys frequently and in large quantities (National Average Family Shopping Basket).

Step 2: Determine prices in the base year.

Step 3: Calculate a Simple Price Index (SPI) for each commodity.

Step 4: Determine the weight to be attached to each commodity.

Step 5: Multiply the SPI for each commodity by its 'weight' and add to derive the CPI.

4 points x 4 marks each = 16 marks

2. Define a mixed economy. State two examples of economic activity which supports the view that Ireland is a mixed economy.

Definition: An economy that incorporates elements of both central planning (government involvement) and private enterprise in its economic system.

Two Examples:**1. Existence of Social Partnership**

Allows for the involvement of the government and other social partners in setting and achieving targets, over a specified period of time.

2. Existence of semi-state bodies and private enterprise

Both producing goods and supplying services in areas like transport, energy and communications.

3. Government Departments / Regulators

Regulate economic activities through their actions e.g. the financial services regulator.

4. Legislation passed by Government

Controls the activities of individuals / firms, such as the various labour laws e.g. Minimum Wage Law / Planning Laws / Companies Acts etc.

5. Use of taxation / government expenditure

The use of fiscal policy by the government affects economic activity and can alter market outcomes.

16 marks (12+4)

3. Name the market structure (Perfect Competition, Imperfect Competition or Monopoly) to which each statement below is most likely to apply:

	STATEMENT	MARKET STRUCTURE
(i)	The firm has a perfectly elastic demand curve.	Perfect Competition
(ii)	The product of the firm is unique.	Monopoly
(iii)	Restaurants could be an example of this market structure.	Imperfect Competition
(iv)	Average costs of the firm are at a minimum.	Perfect Competition

4 correct responses x 4 marks each = 16 marks

4. 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)

5. Define the term occupational mobility of labour. Outline **two** factors which can influence it.

Definition: the ability/ease of a worker to move from one job to another.

Two factors:

1. Availability and access to affordable **education courses**
2. Availability and access to **training, re-training courses** and courses to **update skills**.
3. **Government policies** which aid mobility i.e. work permits; elimination of language / cultural barriers; offering internship programmes.
4. **Reduced barriers for entry** to some occupations e.g. journalism; medicine, teaching etc.

16 marks (12+4)

6. Outline **two** possible economic effects for the Irish economy of the euro (€) falling in value relative to the US dollar (\$).
1. **Import prices (from US) dearer**
Price of imports from US increased.
This will result in a higher import bill for Irish producers / decrease in imports from the US.
The cost of Irish people visiting the US is dearer so less Irish people may holiday there.
 2. **Export prices (to US) cheaper**
Price of exports from Ireland to US decrease and therefore are easier to sell.
This may result in increased exports to the US.
The cost of Americans visiting Ireland is cheaper so more Americans may holiday here.
 3. **Employment opportunities**
With a possible increase in exports, employment in those industries which depend on Irish exports to the US may increase.
 4. **Economic growth may increase**
With job creation, spending within the economy may rise. Expenditure by the government on social welfare would decrease. Combined, these will impact positively on the rate of economic growth.
 5. **US Investment in Ireland**
It may be less costly for US firms to purchase capital goods/invest in Ireland, so investment may increase.

17 marks (9 + 8)

7. State **three** reasons why multinational firms are re-locating to countries like Vietnam, Indonesia and Thailand in Southeast Asia.
1. **Lower wage costs:** wage rates outside Ireland are lower.
 2. **Lower costs of production:** firms may avail of more competitive energy prices; utility charges; insurance costs; professional fees etc.
 3. **Less restrictive regulatory framework:** regulations may be less strict making it easier to operate e.g. protection of the environment may face less regulation.
 4. **Emerging economies are in a growth phase:** access to growing international markets/new markets.
 5. **Development in communications technology:** access to speedier broadband.

17 marks (10+5+2)

8. A consumer buys 20 units of Good A when the price of Good B is €8. When the price of Good B rises to €10 (the price of Good A remaining unchanged) the consumer buys 12 units of Good A. Using an appropriate formula, calculate this consumer's cross elasticity of demand for Good A. (Show your workings.) Is Good A a substitute for, or a complement to, Good B? Explain your answer.

$$\frac{\Delta Q_A}{\Delta P_B} \times \frac{P_{B1} + P_{B2}}{Q_{A1} + Q_{A2}}$$

$$\frac{-8}{€} \times \frac{€8 + €10 (18)}{20 + 12 (32)}$$

$$= -2.25$$

Good A is a **Complement**. It has a negative **CED**.

17 marks (8+5+2+2)

9. In September 2010 approximately 5.1% of mortgage accounts were **in arrears** (behind on mortgage payments) of 90 days or more. Outline **two economic reasons** for this development and **two actions** financial institutions could take to help mortgage customers.

Two reasons:

1. **Increased interest rates** resulting in increased costs of borrowing.
2. **Increased unemployment:** resulting in a loss of income and difficulty in repaying mortgage.
3. **Economic recession:** employees have lower incomes resulting from tax increases/reductions in pay.
4. **Reckless lending/ borrowing:**
 - 100% mortgages were issued and now lenders are unable to repay debt;
 - People borrowed too much and now can't meet the repayments.

Two actions:

1. **Re-schedule the loan contract:**
Extend the loan repayment period, thereby reducing the monthly repayment.
2. **Interest only payments:** Defer capital repayments until a later day so monthly payment falls.
3. **No penalty payments** such as extra interest charges for those in arrears
4. **Debt / equity swaps:** Take part ownership of the property in return for reduced repayments.
5. **Debt forgiveness** for those with no foreseeable chance of repayment-cancel their debt.
6. **Re-value properties** at market value and base interest repayments on this value.

17 marks (5+4+4+4)

2010

1. State **three** reasons why prices of land for housing development have fallen in recent years in Ireland.
- (a) **Deflation**: the general decrease in prices in Ireland has resulted in a decrease in land prices.
 - (b) **Recession**: unemployment and falling incomes has reduced the demand for housing
 - (c) **Uncertainty** about jobs in the future has stopped people from 'trading up' to larger houses
 - (d) **Credit crunch**: difficulty in getting mortgages has resulted in a decline in demand for housing.
 - (e) **Emigration is rising / immigration declining**: has resulted in a drop in demand for housing.
 - (f) **Reduced speculation in property**: the economic recession; introduction of the Property tax has resulted in a decline in demand for housing and a resulting fall in prices of land.
 - (g) **Overcapacity in housing market**: supply now exceeds demand with many vacant properties existing and hence the demand for land has decreased.

3 points: 6 marks + 5 marks + 5 marks each = 16 marks.

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. A consumer spends €200 monthly on Product A when its price is €2 and continues to spend €200 monthly when its price increases to €2.50. Calculate the consumer's price elasticity of demand. Show all your workings and explain your answer.

Workings:

Quantity 1: €200 / €2 = 100 units.

Quantity 2: €200 / €2.50 = 80 units.

$$\frac{-20^*}{50^*} \times \frac{\frac{\text{€2} + \text{€2.50}}{100 + 80} (4.50)^*}{(180)^*} = - * 1.0^*$$

6 * at 2 marks each = 12 marks

This good is a normal good because it has a minus sign / obeys the law of demand.
This good is unit elastic because PED = 1.

4 marks.

4. Define the term 'non-price competition'. State **two** examples.

Definition:

12 marks

Competition between firms where each firm tries to increase its sales / market share by methods other than changing prices.

Two examples:

Branding: establishing different brand names for the products

Packaging: use of distinctive packaging to clearly distinguish one product from another

Competitive Advertising: helps create differences between products in the minds of consumers

Opening hours: offer extended opening hours for consumers

Quality of service: improve staff service; improve layout of premises

Sponsorship: local / national events

Special offers: free gifts/ money-coupons/ loyalty cards etc.

2 at 2 marks each.

5. State **three** economic reasons why entrepreneurship is important to the development of the Irish economy.

1. Creates employment

Entrepreneurs need workers to produce goods/services. Takes pressure off the government by creating a healthy private sector which creates jobs.

2. Organises production

Entrepreneurs organise the other factors of production into production units.

3. Decides what commodities will be produced

Entrepreneurs decide which goods and services are going to be produced and in what quantities, by anticipating consumer demand.

4. Decides what prices to be charged

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

5. Encourages further investment

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

6. Provides an outlet for savers funds

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

7. Generates revenue for the government

Entrepreneurs help generate revenue for the government through taxation revenues.

8. May increase exports

If the goods produced are exported this will help improve the balance of payments position.

9. Creates wealth within the country

Successful entrepreneurs create wealth which helps increase the standard of living.

3 points: 6 marks + 5 marks each + 5 marks each = 16 marks.

6. It is estimated that in the Irish economy: MPS = 0.25, MPM = 0.3, MPT = 0.2. Calculate the value of the Multiplier in the Irish economy. Explain the economic meaning of the Multiplier figure. **Show your workings.**

$$\frac{1}{0.25 + 0.3 + 0.2} = 1.33$$

5 marks: 1 mark for each item.

This means that for any given injection into the economy national income will increase by 1.33 times

12 marks

7. Outline **two** limitations is using the Live Register as a means of measuring unemployment.

- (a) It includes people who are legitimately working part-time and signing on part-time:
- All those on Jobseekers Benefit, excluding systematic short-time workers
 - All those on Jobseekers Allowance, excluding smallholders/farm assists and self-employed persons
 - Part-time workers (those who work up to 3 days a week), seasonal and casual workers entitled to Jobseekers Allowance or Benefit.
- (b) It includes people who may be drawing social welfare but who may also be working in the black economy at the same time.
- (c) It includes people who may not be actively seeking employment.
- (d) It includes those signing on only for 'PRSI credits' and are not unemployed.

2 points: 9 marks + 8 marks.

8. Explain, with the aid of an example, the meaning of the term '**Rent of Ability**'

Economic rent/SNP earned by an entrepreneur/labour/human effort due to their business acumen / innate talent/natural talent

12 marks

Premier League footballer – superior physical ability.

Example: any appropriate example – 5 marks.

9. 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.

2009

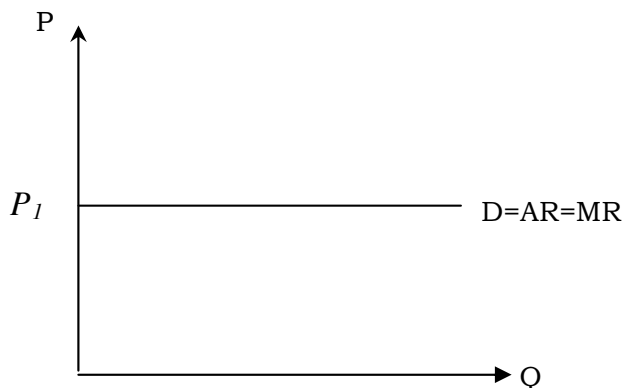
1. Outline **two** non-insurable risks faced by entrepreneurs.

- Loss of profits due to falling demand
- Poor decision-making / poor management.
- Industrial relations disputes.
- Changes in consumers taste or fashion.
- Entry of competition into the industry.
- Changes in competitive conditions e.g. new legislation.

2 points @ 8 marks each for development

(16 marks)

2. The diagram below represents the demand curve facing a firm in Perfect Competition.



This demand curve is;

(✓ correct answer)

- Unitary Elastic
- Perfectly Inelastic
- **Perfectly Elastic**

State the reason for your choice:

- Any deviation in price from P_1 will result in quantity demand falling to zero.

Perfectly elastic: **4 marks** and bulleted point above: **12 marks**

(16 marks)

3. Ireland has a mixed economy. What do you understand by the underlined term? State **one** economic advantage, and **one** economic disadvantage of this economic system.

Explanation:

An economy that incorporates elements of both central planning (government involvement) and private enterprise in its economic system.

Advantage:

- Benefit from efficiency encouraged by free enterprise with regulation from central government.
- Entrepreneurial talent is encouraged.
- Ensures a fairer distribution of wealth within the country.
- Regulation by the government is essential to limit possible abuses of the market.
- Provision of essential services may be provided by government.

Disadvantage:

- The government may be forced to financially support unsuccessful enterprises in the short-term which will cost the public in the long-term.
- A large public sector and private sector may be politically divisive which could affect how economic problems are solved.
- State intervention may result in higher taxes / bureaucracy / inefficiencies.
-

**Explanation: 8 marks. one advantage @ 4 marks and one disadvantage @ 4 marks
(16 marks)**

4. Define cost-push inflation. Identify **two** sources of this form of inflation in the Irish economy.

Definition:

Any increase in the general level of prices due to an increase in the costs of production/costs of inputs faced by the producer.

Sources:

- Increased wage demands due to minimum wage or social partnership agreements.
- Indirect taxes imposed on business such as VAT and excise duties on goods.
- Increased prices for raw materials e.g. oil.
- Increased costs of production e.g. utility charges; costs of rent; insurances etc.

Definition: 8 marks. two sources @ 4 marks each.

(16 marks)

5. The demand for land is derived demand. Explain what is meant by the underlined term with reference to land.
- Where a factor of production is demanded for its contribution to the production process.
 - The demand for land will decrease if there is a decrease in the demand for housing.

Explanation: 16 marks graded

(16 marks)

6. Outline **two** possible economic effects of UK Sterling (£) falling in value relative to the euro (€) for the Irish economy.
- **Import Prices Cheaper**
Price of imports from UK has decreased. This has resulted in a lower import bill for Irish producers / increase in imports from the UK / more Irish people holidaying in the UK.
 - **Exports Prices Dearer**
Price of exports from Ireland to UK has increased and therefore have become less competitive. This has resulted in reduced exports to the UK / less UK visitors holidaying in Ireland.
 - **Employment**
With a reduction in exports, employment in those industries which depend on Irish exports to the UK will fall e.g. food production such as pork products.
 - **Slowdown in rate of economic growth**
With the loss of jobs, spending within the economy falls. Expenditure by the government on social welfare increases. Combined, these will negatively impact on the rate of economic growth.
 - **UK Investment in Ireland discouraged**
It will be more costly for UK firms to purchase capital goods/invest in Ireland.

2 points: 17 marks graded.

(17 marks)

7. (a) State the **Law of Diminishing Marginal Utility**.

This law states that as a consumer consumes additional units of a good the marginal utility/ extra satisfaction derived from each additional unit consumed will eventually decline.

Definition @ 9 marks

(b) The table below illustrates the Law of Diminishing Marginal Utility.

Number of units consumed	1	2	3	4	5	6
Total Utility in units	30	65	85	100	110	115
Marginal Utility in units	30	35	20	15	10	5

5 figures @ 1mark each= 5 marks

Complete the table and state the point after which diminishing utility set in.

Diminishing utility sets in after the consumption of the 2nd unit/when the 3rd unit is consumed.

3 marks

(17 marks)

8. Define ‘economic development’. Explain **two social costs** of economic development.

Definition:

An increase in GNP per head of population, which is accompanied by a fundamental change in the structure of society.

Explain two social costs:

- Pollution of air/water e.g. water pollution in Galway.
- Disfigurement of the landscape e.g. construction of roads disfigures the landscape.
- Possible loss of cultural heritage e.g. the construction of M3 through Hill of Tara.
- Traffic congestion in cities and towns with resulting problems.
- Global warming: increased carbon emissions will affect global weather patterns.
- Reduction in public amenities / urban sprawl/communities have less public spaces.

Definition: 8 marks.

2 Social Costs: 5 marks + 4 marks.

(17 marks)

9. Economists have commented on Ireland's 'greying population', i.e. the structure of Ireland's population is getting older. Outline **two** economic effects of this development for the Irish economy.
- The participation rate falls: as more people reach retirement age, the supply of labour may be affected. Some may wish to work part-time. Some may retire.
 - Reduced mobility of labour: as people get older they are less likely to move to a different location seeking work.
 - Possible increased tax burden: with larger numbers of people over 65 the dependency ratio may increase, resulting in the need for higher taxes in the working population.
 - Increased government expenditure: the government may spend a greater proportion of its revenue on the provision of services for the elderly such as medical care, free transport etc.
 - Pressure on provision of state pensions: the government may encourage individuals, through tax incentives, to avail of private pensions in order to reduce the pressure on the government to provide state pensions.
 - Changing pattern of demand: demand for certain goods and services required by older people will increase e.g. nursing homes; medication etc.

2 points @ 17 marks graded

(17 marks)

2008

1. State **three** factors that determine the efficiency of labour:
 1. **Education**: the level / quality of education attained by the worker.
 2. **Training**: the quality / extent of training available to the worker which may improve the worker's skill.
 3. **Innate talent of the worker**: some workers may possess innate talents making them highly efficient.
 4. **Quality of the other factors**: if these are exceptional in quality then the worker's efficiency will be enhanced.
 5. **Quantity of other factors available**: efficiency will be improved if the worker has sufficient quantity of other FOPs available for use.
 6. **Living conditions of the workforce**: if workers are healthy, well nourished and have decent accommodation then they will work in a more efficient manner.
 7. **Degree of specialisation**: by concentrating on performing a single task workers become faster and more skilful and therefore are more efficient.
 8. **Climatic conditions**: if a place of work is too hot or too cold then this may affect the workers effort.
 9. **Management expertise**: good managers can get the best out of their workforce, leading to efficiencies, improved staff morale/staff motivation.
 10. **Commitment of the worker** : if workers are highly motivated and committed to work then they will operate more efficiently

16 marks graded.

2. 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.

3. A firm manufacturing 100 school desks weekly has the following total costs of production: Labour €2,000 (hired weekly); Raw Materials: €3,500; Normal Profit €1,500; Rent €3,000. What is the minimum price per school desk this firm could charge in the **short run**?

Workings / Explanation	€
Labour	2,000
+ Raw Materials	3,500
Total Cost	5,500
Cost per unit	<u>5,500</u>
	100
Cost per unit	55
A firm must cover its variable costs in the short run.	

16 marks graded.

4. 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.

5. Free Enterprise is defined as an economic system in which:

The market mechanism operates; the factors of production are privately owned; there is limited government interference; resources are allocated by a decentralised decision making process and citizens are motivated by self-interest.

One economic advantage of this system:

Choice: Consumers with income have a wide choice of goods and services.

Efficiency: Incentives exist for producers to be efficient. Those who are inefficient will be forced out by lower costs.

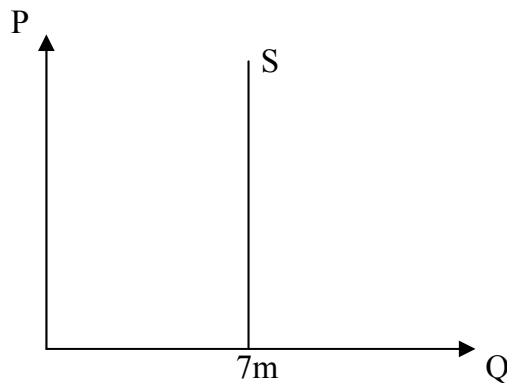
Innovation: Producers who are innovative will be rewarded through increased sales in the market.

Economic Growth: As all individuals are motivated by self-interest, each will strive towards their maximum efficiency and so aid economic growth.

Less Bureaucracy: As decisions are made by individuals within the society, the costs of a large administration to administer matters is significantly reduced.

16 marks graded.

6. China will host the Beijing Olympic Games in August 2008 and 7 million tickets are available for the event. On the diagram below draw the supply curve for tickets and explain the reason for its shape.



Complete correct diagram: 5 marks graded.

Explanation:

The supply of tickets available for the Olympics is fixed at 7 million. Regardless of price this seating capacity will remain unchanged.

12 marks graded.

7. 'Ireland's current account in the **Balance of Payments** is in deficit'. Explain the meaning of this statement and state **two** reasons why this situation exists

Explanation: Total imports exceed total exports

9 marks graded.

Reasons:

1. Invisible imports exceed invisible exports.
2. Increase in the value of the euro has resulted in a decline in exports from Ireland /increase in imports from US/UK.
3. Repatriation of profits by multinationals operating in Ireland
4. Repayments on external portion of national debt
5. Greater disposable incomes in Ireland which results in an increase in the level of imports.

2 reasons at 4 marks each graded.

8. The diagram below represents the long run equilibrium of a firm in imperfect competition, which seeks to maximise profits. Label the diagram and use it to describe the long run equilibrium position for a firm in imperfect competition

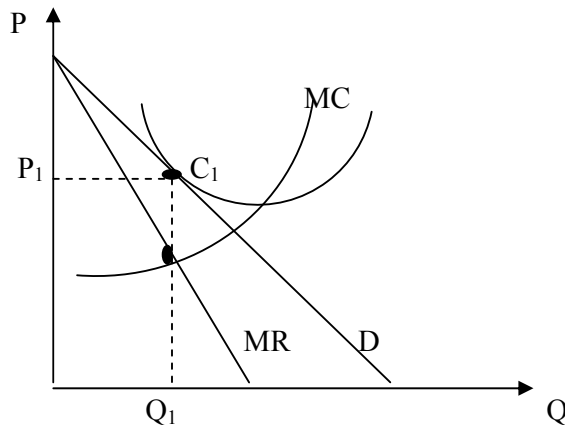


Diagram 5 marks graded.

Conditions:

1. $MR = MC$, profit maximisation, equilibrium
2. Equilibrium price = P_1
3. Equilibrium quantity = Q_1
4. Normal profit $AR = AC$ /Cost of production C_1
5. Not producing at lowest point of AC curve (inefficient).

4 conditions: 12 marks graded.

9. State **two** economic reasons for increased oil prices

1. **Greater demand for oil:** Newly industrialised countries such as China, India (BRIC).
2. **Affluence/Economic Growth:** with higher disposable incomes/greater purchasing power, as a result of economic growth there is a greater demand for bigger vehicles, more airline travel driving up oil prices.
3. **Reserves of oil declining/ high cost of extraction:** Oil is a non-renewable resource.
4. **Green taxes/excise duties:** In many countries a percentage of the price is a form of taxation.
5. **Lack of production in Middle East;** e.g. Iraq conflict, political uncertainty.
6. **Speculation:** investors are speculating on future prices of oil in world markets.

One Social Cost:

1. **Environmental damage:** Oil exploration increases as reserves run low (Irish coastline)/destroying rain forests in order to grow crops for bio fuels.
2. **Loss of excise duty:** If people cut back on use of oil, government loses tax revenue
3. **Increasing inflation;** The rising price of oil has added to inflationary pressures in some economies and a consequent fall in economic growth.
4. **Rising world food prices:** As countries switch production to crops for bio fuels, food prices rise.
5. **Shortage of food** particularly in developing nations.

One Social Benefit:

1. **Environment:** there may be a reduction in pollution as people cut back on use thus helping environment/greater economy in the use of oil.
2. **Public transport:** If oil costs rise consumers may be more willing to use public transport.
3. **Less traffic congestion:** Consumers cut back on use of cars
4. **Incentive to source alternative sources of energy:** As oil becomes expensive other sources of energy may become a more viable solution.

17 marks graded.

2007

1. State **FOUR** possible economic effects of rising **price inflation** on the Irish economy.

1. **Reduced standard of living:** due to reduced purchasing power.
2. **Increased wage demands:** workers will try to negotiate wage increases.
3. **Loss of competitiveness:** if inflation in Ireland is higher than with our trading partners / ↓ exports.
4. **Loss of employment:** Employers may be forced to reduce costs and reduce the numbers employed.
5. **Government Finances:** as prices rise, the government may collect increased indirect tax revenues/ if wages do increase people may move to a higher tax rate and revenue increases.
6. **Savings discouraged:** the real rate of interest available to savers may fall, discouraging savings.
Speculation encouraged: people may invest in property to protect the value of their investment.
7. **Borrowing encouraged:** the real rate of interest charged on borrowings falls, encouraging borrowing
8. **Increased disparity between sectors of the population:** Poorer sections suffer most when inflation increases.
9. **Pressure on social partnership/ industrial relations unrest:** trade unions may want a free for all.
10. **Balance of Payments problems:** if our volume of exports falls & volume of imports rise.
11. **Uncertainty for investment decisions makers:** business planning & profit calculation difficult.

16 marks graded.

2. State **THREE** assumptions underlying the **Law of Comparative Advantage**.

1. Transport costs do not exist.
2. The law of diminishing marginal returns (LDMR) does not apply.
3. Free trade takes place.
4. The complete mobility of labour/factors of production exists.
5. Alternative employment is available.
6. An equal distribution of benefits occurs.

16 marks graded.

3. Consumers buy 50 units of a product when the price is €1.50. When the price is reduced to €1 the consumer buys 90 units. Using an appropriate formula, calculate the consumers' PED. Show your workings and explain your answer.

$$\frac{40}{-0.50} \times \frac{1.50 + 1.00}{50 + 90} \frac{[2.50]}{140} = - / 1.43$$

9 marks graded.

PED is elastic. Why? Because the PED is greater than 1.
Normal good. Why? The PED is negative.

6 marks graded.

4. Firms attempting to enter a **monopoly** market must overcome barriers to entry. Outline **THREE** such barriers to entry.
1. **Legal / Statutory / Government Monopoly:**
Government confers the sole right to supply a good or service/ CIE.
 2. **Ownership of a patent / copyright:** A firm has the sole right to a manufacturing process.
 3. **Sole rights to raw materials:** Firm may have complete control over the source of raw materials
 4. **Large capital investment:**
 - minimum size of a firm required to operate efficiently is so large there is no room for competitors.
 - competitors are discouraged from entering because of the high initial start-up costs.
 5. **Entering Trade agreements [collusion / cartels]:**
ensures that no competition exists within members' segments of the market.
 6. **Mergers / takeovers:**
A firm may ensure their survival by merging / taking over other (rival) firms in the same line of business, such that it becomes a monopolist and no competition exists within the industry.
 7. **Brand proliferation:**
Through advertising a firm's consumers are convinced that there is no suitable alternative to their particular brands

16 marks graded.

5. Outline **THREE** functions / responsibilities of the **European Central Bank (ECB)**.
1. **Maintain Price Stability:**
Monitor inflation in member countries and adjusts the base ECB interest rate so as to adjust spending.
 2. **Implements EU's monetary policy:**
ECB monitors and advises on: rates of interest, money supply, credit availability & protects the value of the euro.
 3. **Holds and manages the official reserves of the euro area countries:**
These are the EUs official holdings of gold, foreign currencies and other reserves held as security against the issue of the euro. The ECB manages these reserves on behalf of the countries.
 4. **Financial stability and supervision:**
The member authorities must provide prudential supervision of credit institutions and ensure stability in the financial system.
 5. **Sole right to issue euro currency:**
The ECB has exclusive right to issues euro bank notes and coins within the euro area.

16 marks graded.

6. Outline **TWO** circumstances under which a factor of production can earn **Economic Rent**.
1. **Shortage in the supply of any factor of production:**
if land / labour is in short supply – its price will increase.
 2. **Possession of a rare skill or talent:** if a person has a skill which is in great demand e.g. a professional soccer player then they can command high fees.
 3. **Rent of Ability:** an entrepreneur who invents a much sought after commodity may command high income e.g. Bill Gates and the invention of the ‘windows’ operating systems.
 4. **Completely specific factors of production:** there is no opportunity cost in the use of an existing factor of production which is completely specific (not adaptable to other uses e.g. a railway station).
If a payment is made for the use of this specific factor then this entire payment would be economic rent as the opportunity cost is zero.
 5. **Super normal profits earned in the short run** (will be eliminated with the entry of firms) / **long run if barriers to entry exist** e.g. in monopoly.

17 marks graded.

7. ‘An Irish banking group owns thirty branch offices. There is no opportunity cost to the banking group using these offices as they are fully owned.

True / **False** **1 mark**

The branch offices could be sold and the money invested or
The branch offices could be rented out and an income earned.

16 marks graded.

8. Define **Social Costs**. State **TWO** significant examples currently facing the Irish economy.

Definition: Cost/Price which society has to pay for the existence of a particular product.

9 marks graded.

TWO significant examples:

1. Pollution of air/water e.g. the current water pollution in Galway.
2. Disfigurement of the landscape e.g. construction of roads disfigures the landscape.
3. Possible loss of cultural heritage e.g. the construction of M3 through Hill of Tara.
4. Traffic congestion in cities and towns with resulting problems.
5. Reduction in public amenities / urban sprawl: communities have less public spaces.
6. Global warming: increased carbon emissions affects global weather patterns.

8 marks graded.

9. Energy costs (e.g. electricity) increased significantly in Ireland during 2006. Outline **TWO** economic reasons for the increase and **TWO** economic consequences of this specific development for the Irish economy.

TWO economic reasons for the increase:

1. **Increase in international oil prices:** caused by political instability and supply shortages.
2. **Increase in wage costs within the industry:**
workers wage increases are passed on in the form of higher prices.
3. **Further regulation by government:**
the addition of surcharges e.g. public service obligations levy by the ESB.
4. **Increased investment costs in the industry:**
Firms must invest for future production.
5. To **make the company a more profitable investment** opportunity for investors.

TWO economic consequences of this specific development for the Irish economy:

Positive consequences	Negative consequences
<ol style="list-style-type: none"> 1. Increased emphasis in efficiency in producing this resource. 2. Greater awareness by consumers of the scarcity of the resources / efficient consumption. 3. Greater investment in R&D into renewable / alternative resources. 4. Government policy maybe re-evaluated resulting in policies which strive for better energy use. 5. Increased government revenue through higher VAT revenues. 	<ol style="list-style-type: none"> 1. Inflationary pressures / decrease in the standard of living. 2. Loss of competitiveness of Irish industry. 3. Possible re-location of mobile industry to cheaper locations. 4. Job losses if industry closes or re-locates.

17 marks graded.

2006

1. State **THREE** economic uses for a census of population in Ireland.
 1. Demographic changes:
It provides information on demographic changes both nationally and on a regional basis.
 2. Infrastructural requirements:
It helps the economy plan for future infrastructural requirements.
 3. Planning and the Provision of Essential services:
It indicates if additional investment in services is required i.e. health, education etc.
 4. Regional policy:
The government may be prompted to change/develop regional policy if some counties experience depopulation.
 5. Pension planning:
It can influence the provision of pension funds.
 6. Future levels of consumer demand: Producers can predict more accurately future demand.
 7. Labour market:
The data can be used to predict and make provision for future labour requirements.
 8. Profiling of the population:
The population can be profiled by age, gender, nationality; place of residence, marital status, number of children, religion, ethnic background etc.

16 marks graded

2. State three reasons why **profits** are important in a **market economy**.
 1. Encourages risk taking: Profits are a pre-requisite for undertaking risks.
 2. Indicates the best use of resources / consumer demand:
Profits indicate what goods and services consumers demand.
 3. Encourages investment: profits may encourage entrepreneurs to invest further in ventures.
 4. Provides funds for expansion: Existing business expansion or diversification.
 5. Continuity of production: If normal profit is not earned production ceases.
 6. SNPs reward entrepreneurs' innovations:
Those firms which are most efficient / or which minimise costs may earn SNPs.
 7. Source of revenue for the government:
Government earns tax revenues for the benefit of citizens.
 8. SNP's may promote Mergers / Takeovers:
Existing profitable firms may be taken over by multinationals.

16 marks graded

3. A firm wishes to attract more labour. In order to increase its labour force from 5 to 6 employees, the firm must increase the weekly wage rate from €400 to €440 per employee. Calculate the firm's **marginal cost of labour**. **Show your workings.**

$5 \times €400 = €2,000$ $6 \times €440 = \underline{€2,640}$ Marginal Cost of labour = $\underline{€ 640}$ 16 marks graded	$€40 \times 6 = €240$ $\underline{\quad\quad\quad} + €400$ Marginal Cost of labour = $\underline{€ 640}$ 16 marks graded
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4. Define **economic development**. State **TWO** policies by which governments of developed countries could promote economic development in less developed countries (LDCs).

An increase in the level of income / standard of living / output / GNP per person in a country which is accompanied by a change in the structure of society.

TWO policies by which governments could promote economic development in LDCs

1. **Assist foreign aid programmes.**

Governments can continue with aid to help in emergency situations.

They can also provide more long term aid to help with the development of infrastructure/provision of education, health programmes etc.

2. **Restructure national debts.**

If the respective national debts were cancelled then these funds would become available for the country to use for developments.

3. **Improve trading opportunities.**

Improve access to markets in the developed world – provide outlet for their exports.

Improve the terms of trade available – provide higher prices for their exports.

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

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

5. **Assist LDC's with available technologies.**

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

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

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

16 marks graded.

5. Define **internal economies of scale**. State **TWO** examples.

These are forces within a firm which cause the average / unit costs of that firm to decline as the firm grows in size.

Examples

1. Increased use of specialised machinery/equipment resulting in lower unit costs.
2. Labour economies / specialisation of workers:
Dividing a job into distinct components may result in lower unit costs.
3. Construction economies: Larger plants cost less per cubic metre to construct than smaller ones.
4. Purchasing economies: Larger discounts are received from bulk purchasing.
5. Economies in distribution: Bulk delivers result in a lower unit cost of transport.
6. Financial economies: Bigger firms may avail of more competitive rates of interest.
7. Managerial economies:
As a firm grows its management costs may not grow at the same rate as the firm grows.
8. Production Process economies:
A large firm may be able to run one process into the next without costly discontinuities.
9. Indivisibility problems reduced: Expansion may allow for continuous production.
10. Marketing economies: Firms may experience saving in the costs of advertising.
11. Reduction in Waste: Large firms, with more lines of production, may reduce waste costs / less wastage of materials.

16 marks graded.

6. In equilibrium a consumer buys 8 bars of chocolate at €1.00 each and 12 sandwiches at €4.00 each. The marginal utility of the eighth bar of chocolate is 10 utils. Using the Equi-Marginal Principle of Consumer Behaviour - calculate the marginal utility of the twelfth sandwich. Show all your workings.

$$\frac{\text{Marginal Utility of Chocolate}}{\text{Price of Chocolate}} = \frac{\text{Marginal Utility of Sandwiches}}{\text{Price of Sandwiches}}$$

$$\frac{10 *}{€1.00 * } = \frac{MU_s}{€4.00 * } \quad \text{so} \quad MU_s = \boxed{40 \text{ utils}}$$

17 marks graded

7. Define price discrimination.

State **TWO** conditions under which it would be possible for a firm to price discriminate.

When goods or services are sold to different consumers in different markets at varying ratios between marginal cost and price/ the price difference is not due to difference in the cost of production.

1. Monopoly Power.

If freedom of entry existed into the industry, competitors would enter where the firm was charging the higher price and earning SNP and this would continue until only normal profit was earned.

2. Separation of markets.

This ensures that the good bought in the low priced market cannot be offered for resale in the higher priced market. If it was not possible to separate the markets then the above would occur until no price difference existed.

3. Different consumer elasticities of demand.

Consumers with the greater price elasticity of demand are charged the lower prices for their goods e.g. students are assumed to have lower incomes and so are not in the position to pay the full price for certain goods and services.

4. Consumer Indifference.

The difference in price may be so small that consumers are indifferent and so don't mind paying the slightly higher price.

5. Lack of awareness by consumers.

Consumers may be unaware that the good is available elsewhere at a lower price.

6. Consumer attitudes to the goods.

A consumer may be willing to pay a higher price for a good which they consider to be in fashion / provide status e.g. young people and their desire for 'branded' products.

17 marks graded.

8. 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

9. 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

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

1. Opportunity costs of these bonus payments for government / savers:
The government / individuals could have used the funds for other purposes.
2. Inequitable: Only those people who could afford to do so availed of the scheme while the money being used by the government to make the bonus payments comes from general taxpayers.
3. Inflation when the SSIAs mature:
Spending of the SSIAs will cause inflationary pressures within the economy.
4. Property prices:
SSIAs used as deposits for house purchases will further fuel inflation in house prices.
5. Imports: Spending of the SSIAs on imports may lead to Balance of Payments difficulties.
6. Difficulty of meeting expectations / demand:
With the increase in demand for goods and services producers/suppliers may not be able to meet this demand e.g. builders and house renovations.

17 marks graded.

2005

1. Explain the concept Opportunity Cost. Why is this concept central to the study of Economics?

Opportunity Cost is the cost of foregone alternatives.

This concept is central to the study of economics because:

Economics studies the allocation of scarce resources, which have alternative uses.

The allocation of these resources involves making a choice.

16 marks graded.

2. Outline THREE reasons for the survival of small firms in the Irish economy, even though they do not have the benefits of economies of scale.

1. Small size of market

The restricted size of the market may not facilitate the operation of large scale business e.g. in a rural area a small shop may be viable while a large supermarket may not.

2. Personal Services

Consumers may desire personal attention in the provision of goods or services and a small firm may be the only type of business which can provide this e.g. a plumber providing repair services to households.

3. Consumer Loyalty

A small firm may have built up a reputation over the years in the provision of goods and services to its customers and consumers may respond by being loyal to that firm, making it difficult for other firms to gain entry.

4. Viable Community

Citizens in smaller communities may support local business so that the continuity of supply is ensured. e.g. in many areas throughout Ireland communities wish to maintain the existence of 'community' hospitals. Enterprise Boards encourage individuals to establish small businesses.

5. Traditional / Niche markets

- The type of product / service being supplied might make it more suitable for a small firm. Examples include: wedding planners; handmade/ craft products; perishable products etc.
- A small firm may find that it easier to locate close to the market where it might be difficult for a larger firm to do so e.g. roadside sellers of local produce can be flexible in choosing their location.

6. Nature of the commodity

Heavy goods which are costly to transport may be manufactured locally on a small scale to supply local markets e.g. the manufacture of concrete blocks in areas which service local markets.

7. Membership of voluntary groups/Alliances between firms at different stages of production

Some firms producing on a small scale may offset the disadvantage they have in competition with large producers by adopting a joint marketing strategy with other small suppliers e.g. hotel groups, individually owned grocery shops trading under a shared name.

16 marks graded.

3. Explain what is meant by Consumer Surplus.

The benefit to consumers due to the difference between what consumers actually pay to consume a good and what they would have been willing to pay, rather than go without the good.

16 marks graded.

4. A consumer in equilibrium buys 10 cups of coffee at €2 each and 10 phone cards at €6 each. The marginal utility of the cups of coffee is 5 utils. What is the marginal utility of phone cards? Show your workings.

$$\frac{\text{Marginal Utility of coffee}}{\text{Price of Coffee}} = \frac{\text{Marginal Utility of Phone Cards}}{\text{Price of Phone Cards}}$$

$$\frac{5}{€2} = \frac{\text{MU}_{\text{PC}}}{€6} \quad \text{so} \quad \text{MU}_{\text{PC}} = \boxed{15 \text{ utils}}$$

16 marks graded.

5. 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.

6. For a composite (weighted) price index covering the three types of expenditure given in the following table, calculate the price index for the current year. The base year is 100.

Category	% income spent on item(s)	Prices of item(s) Base Year	Prices of item(s) Current Year	Calculation of Simple Price Index	Weight	Result
		€	€			
Food	30%	10.00	11.50	$\frac{11.50 \times 100}{10.00} = 115.00$	x 30%	34.5
Clothing & Footwear	20%	40.00	36.00	$\frac{36.00 \times 100}{40.00} = 90.00$	x 20%	18.0
Other Items	50%	20.00	22.00	$\frac{22.00 \times 100}{20.00} = 110.00$	x 50%	55.0
	100%			Price Index for the Current Year	→	107.5

17 marks graded.

7. “When a firm produces at a level of output at which marginal cost is greater than marginal revenue the firm is maximising profit (or minimising losses)”. True / **False**

(Place a circle around your choice and write a one-sentence explanation of your answer)

False. The extra cost of producing further units of output is greater than the extra revenue generated therefore the firm could increase its profits by producing less output. The increased output adds more to cost than to revenues earned. Profits are maximised where MC=MR.

17 marks graded.

8. Outline THREE key ideas, which John Maynard Keynes contributed to economic thought.
- National income could reach equilibrium without reaching full employment.
 - The level of national output is demand determined.
 - He favoured government intervention in the economy.
 - The job of the government is to manage the economy.
 - The government can use fiscal policy to create full employment.
 - (The size of national income depends on expenditure and hence employment depends on expenditure).
 - He stated that investment by entrepreneurs depended more on businessmen's expectations than on the rate of interest.
 - Investment could be less than savings and cause a leakage in spending which decreases national income and employment.
 - He created new economic tools to explain his theories- the multiplier, MPC, MPM, etc.
 - The multiplier: any initial increase in spending will cause a greater increase in GNP.
 - The liquidity preference theory: people desired to hold their wealth in money form for three reasons: transactionary, speculative and precautionary.
 - He favoured a managed system of foreign exchange rates rather than the gold standard.

17 marks graded

9. Given that Gross National Product at Current Market Prices is €180 million; Price Subsidies €4 million; Depreciation €15 million; Indirect Taxes €25 million; Complete the following calculations. Show your workings.
- Gross National Product at Factor Cost.
 - Net National Product at Factor Cost/National Income.

(i) Gross National Product at Factor Cost

$$\begin{array}{rclclcl} \text{GNP @ Market Prices} & + & \text{Price Subsidies} & - & \text{Indirect Taxes} & = & \text{GNP @ Factor Cost} \\ \text{€180 million} & + & \text{€4 million} & - & \text{€25 million} & = & \text{€159 million} \end{array}$$

(ii) Net National Product at Factor Cost/National Income

$$\begin{array}{rcl} \text{GNP @ Factor Cost} & - & \text{Depreciation} & = & \text{NNP @ FC} \\ \text{€159 million*} & - & \text{€15 million} & = & \text{€144 million} \end{array}$$

17 marks graded.

2004**1. Outline FOUR factors that affect the supply of a good, other than the price of the good itself.**

1. The cost of producing the product.
2. The state of the firm's production technology.
3. The price of related / other goods.
4. Unplanned factors.
5. Government Policy such as: rates of taxation / availability of state subsidies.
6. Number of sellers in the industry.
7. Objectives of the firm.

*Marking Scheme: 4 points x 4 marks each = 16 marks***2. 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.

3. Name the economist PRIMARILY associated with the following ideas: 16 marks graded

	<i>Idea</i>	<i>Economist</i>
(i)	Iron Law of Wages	Robert Thomas Malthus
(ii)	Law of Comparative Advantage	David Ricardo
(iii)	Laissez Faire	Adam Smith
(iv)	Liquidity Preference Theory	John Maynard Keynes

4. Identify FOUR features of an oligopolistic market:

- 1. Few Sellers in the industry***
- 2. Interdependence between firms***
- 3. Product Differentiation occurs / firm sells close substitutes***
- 4. Barriers to entry exist – such as Limit Pricing.**
- 5. Collusion may occur.**
- 6. Non-price competition is more common than price competition.**
- 7. Pursuing objectives other than profit maximisation.**
- 8. Existence of Price Rigidity / ‘Sticky Prices’.**

*Marking Scheme: 4 points x 4 marks each = 16 marks
Must list 2 of the top 3 points above + any 2 others*

5. State THREE limitations on the power of the banks to create credit.**1. Availability of creditworthy customers**

Loans can only be given to those people who are in a position to repay them.

2. Availability of Cash Deposits

A bank can only give loans provided that they can attract cash deposits.

3. Customers' Demands for Cash | Liquidity Ratios – PLR & SLR|

The bank must keep sufficient cash so as to be able to meet the demands of its customers for cash

4.[European] Central Bank guidelines

Commercial banks must note the guidelines of the Central Bank.

5. Demand for loans by customers.

A bank is limited in the amount of loans it creates by the demand for loans.

In a recessionary period the demand for loans will fall.

3 points at 6 + 5 + 5 marks each = 16 marks.

6. Define the **Law of Diminishing Marginal Utility** and state **TWO** assumptions underlying the law.

Definition: ***9 marks graded***

Assumptions: ***8 marks: 2 x 4 marks each.***

The law of diminishing marginal utility states that as a consumer consumes additional units of a good their marginal utility for this good will eventually decline.

Assumptions:

- 1. It applies only after a certain point called the origin.**
- 2. It does not apply to addictive goods.**
- 3. Sufficient time has not elapsed for circumstances to change i.e. change in tastes / change in incomes/ change in the nature of the product/ no gap in time between the consumption of successive units.**

2 x 4 marks each = 8 marks

7. 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

8. **“There is no opportunity cost to a firm in using an asset which it already owns”**. True / False
(Place a circle around your choice and give a one sentence explanation of your answer).

Correct Answer: False: 1 mark

Explanation: 16 marks graded.

**The asset could be sold and the money invested *or*
The asset could be rented out and an income earned**

9. **State FOUR reasons why different categories of workers are paid at different wage rates.**

1. **The Marginal Revenue Productivity of the worker.**
2. **Different skills attaching to different jobs / degree of specialisation involved.**
3. **Length of training period involved.**
4. **Educational qualifications.**
5. **Nature & Conditions of the job / degree of risk involved.**
6. **Negotiating strength of the workers trade union / Benchmarking mechanism.**
7. **Tradition attaching to certain jobs.**
8. **Possession of innate talents.**
9. **Gender Bias: discrimination in relation to payment to women in the workforce.**
10. **Monetary / non-monetary benefits attaching to the job.**

4 points = 17 marks graded.

2003**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

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

3. Monetary Policy is defined as

Those actions by the ECB, which influence the money supply, interest rates or the availability of credit.

TWO measures by which the ECB implements monetary policy within the euro zone countries:

1. Monitoring the growth of the money supply (relative to its value)
2. Altering interest rates.
3. Engaging in Open Market Operations
(incl. Main refinancing operations (MRO's) & Longer-term refinancing operations (LTRO's))
4. The use of Standing Facilities
(the marginal lending facility and the deposit facility)
5. Minimum Reserve Requirements.

Correct definition: 12 marks graded + 2 examples

4. The term 'Balance of Payments on Capital Account' means:

This is a record of a country's inflow and outflow of capital/items of a non-recurring nature

This is a record of a country's receipts and payments for capital items

TWO examples of items that may appear in it are:

1. Investments by foreign companies/residents in Ireland.
2. Investments by Irish companies /residents abroad.
3. Borrowings / grants from foreign sources.
4. Grants/loans to foreign recipients.

The examples given by candidates may be stated as follows:

Capital account

1. Amounts receivable under the EU Regional Development Fund & Cohesion Fund.
2. Migrants transfers (net worth of immigrants and emigrants)
3. Acquisitions and disposals of non-produced, non-financial assets (patents, copyrights)

Financial account

1. Transactions in foreign financial assets and foreign liabilities.
2. Direct investment i.e. net investment by foreign companies in Ireland.
3. Portfolio investment: acquisition & disposal of equity and debt.
4. Other investment: loans, currency & deposits, financial derivatives & other accounts receivable and payable.
5. Reserve assets: qualifying assets under the control of the Central Bank of Ireland

Correct definition: 12 marks graded + 2 examples

5. THREE economic reasons why entrepreneurs are important to the development of an economy:

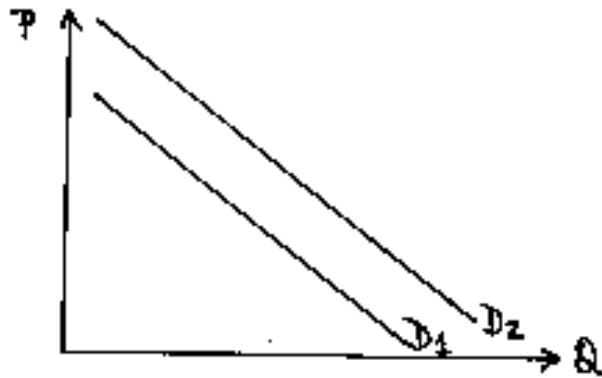
1. Organise the other factors of production into productive units.
2. Decide which goods and services are to be produced and in what quantities.
3. Decide on the prices to be charged for goods and services hoping there will be a demand at these price levels.
4. Encourage further investment in the economy, if successful: by investing both money and skills in the business and making a profit they may encourage further investment in the economy.
5. Provide an investment outlet for savers.
6. May improve the Balance of Payments: if some of the wealth produced is exported.
7. Relieve the government of the need to become involved in business by creating a healthy private sector.

8. Generate revenue for the government through taxation revenues.
9. Help create employment: by establishing businesses they create jobs.
10. Introduce competition into the market place thus leading to more efficient use of scarce resources.

3 reasons: 6 + 5 + 5 marks = 16 marks

6. Using the diagram, explain how higher consumers' incomes (other factors unchanged) may affect the demand curve for mobile phones in Ireland.

Complete Diagram



As consumers' incomes grow, the increased purchasing power will give 'new' consumers the ability to purchase mobile phones, and/or existing customers the ability to update their models.

Correctly labeled diagram + Explanation: 17 marks graded

7. FOUR economic assumptions used for analysing consumer behaviour:

1. The consumer has a limited income.
2. The consumer aims to get maximum satisfaction / utility from that income.
3. The consumer acts rationally.
4. The consumer is subject to the Law of Diminishing Marginal Utility.

4 points: 5 + 4 + 4 + 4 = 17 marks

8. Social benefits are defined as:

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:

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

Correct definition: 12 marks graded and 2 examples

9. A firm wishes to attract more labour. In order to increase its labour force from 7 to 8 employees the firm must increase the weekly wage rate from €250 to €300 per worker. Calculate the firm's **marginal cost of labour**. Show all your workings.

$7 \times \text{€}250 = \text{€}1,750$ $8 \times \text{€}300 = \underline{\text{€}2,400}$ Marginal Cost of labour = <u>€ 650</u>	$\text{€}50 \times 7 = \text{€}350$ $\quad \quad \quad \underline{\quad \quad \quad} + \text{€}300$ Marginal Cost of labour = <u>€ 650</u>
<u>6 correct figures at 2 marks each = 12mks</u> <u>+ 5 marks for correct answer = 17m</u>	<u>4 correct figures at 3 marks each = 12mks</u> <u>+ 5 marks for correct answer = 17m</u>

2002**1. Economic development is defined as:**

An increase in the level of income / standard of living / output / GNP per person in a country is accompanied by a change in the structure of society.

12 marks**Two policies, which might promote economic development****(i) Promote population control.****(ii) Improve basic infrastructure.**

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

(iii) Promote land/ agricultural reform.

Decrease emphasis on one crop - diversify production.
Try to spread ownership of land.
Improve production methods - modernise the agricultural industry.

(iv) Improve education.

Start with a basic literacy programme to improve literacy skills.
Provide primary education.

(v) 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.

(vi) State bureaucracy / corruption/ Spending on arms.

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

2 policies at 2 marks each = 4 marks.**2. FOUR steps involved in calculating a Composite Price Index:**

Step 1: Choose a base year/period.

Step 2: Select those goods which are to be included in the index.

Step 3: Determine the price of each item in the base period.

Step 4: Calculate a Simple Price Index for each individual commodity.

Step 5: Attach a weight to each commodity i.e. the proportion of income spent on each commodity.

Step 6: Multiply the SPI for each commodity by its appropriate weight and add to get the resulting Composite Price Index.

16 marks

3. Occupational mobility of labour:

The ease of movement of a worker from one job to another.

8 marks

The factors, which influence occupational mobility include:

1. Level of education attained
2. Level of training available
3. Restrictions on entry to a particular occupation: legislation/trade unions/
professional associations.
4. Degree of specialisation of the workers i.e. an unskilled worker may be more
mobile.
5. State of the economy: high wages may attract workers into certain occupations.

2 factors x 4 marks each

4. THREE key ideas, which J.M.Keynes contributed to economic thought.

- (a) National income could reach equilibrium without reaching full employment.
- (b) The level of national output is demand determined.
- (c) He favoured government intervention in the economy.
The government can use fiscal policy to create full employment.
- (d) He did not accept the view of classical economists that a flexible rate of interest ensured
that all savings were invested.
- (e) He stated that investment by entrepreneurs depended more on businessmen's expectations
than on the rate of interest.
- (f) Investment could be less than savings and cause a leakage in spending which decreases
national income and employment.
- (g) He utilised economic tools to explain his theories- the Multiplier, MPC, MPM etc.
- (h) He developed a liquidity preference theory / Savings theory.
- (i) He favoured a managed system of foreign exchange rates rather than the gold standard.

3 key ideas: 6 marks + 5 marks + 5 marks each

5. TWO benefits of non-price competition to consumers.

- (a) **Stability in prices:** non-price competition means unchanging prices for the consumer
- (b) **Better quality:** commodity; service; after sales service.
- (c) **Benefits of advertising / Sponsorship:** improved range/quality of service i.e. media.
- (d) **Consumer more informed:** advertising provides consumers with information.
- (e) **Consumer loyalty rewarded:** allows consumers get 'free' gifts.

2 benefits x 8 marks each

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**7. (a) State the Diminishing Marginal Returns****10 marks**

As more units of a variable factor of production are added to other (constant) factors of production the returns to the variable factor will eventually fall.

(b) The table below illustrates the Law of Diminishing Returns

Number of persons employed	1	2	3	4	5
Total Output, in units	12	27	47	63	73
Marginal Output, in units	12	15	20	16	10

4 correct figures x 1 marks each = 4 marks

State the point after which Diminishing Returns set in.

When the 4th person is employed/ After the 3rd person

3 marks**8. National Income**

(i) MPC = 8 marks

$$(i) \text{ MPC} = \frac{300 \text{ (2m)}}{400 \text{ (2m)}} = 75\% = .75 \text{ (4 marks for correct answer)}$$

(ii) Multiplier = 9 marks

$$\text{Method 1: } \frac{1^*}{1^* - (.75^* - .25^*)} = \boxed{2}$$

4 figs. @ 1 mark each. Correct answer: 5 marks

$$\text{Method 2: } \frac{1^*}{.25 + 25^*} = \boxed{2}$$

2 figs. @ 1 mark each. MPS = 2 marks. Correct answer: 5 marks

Method 3: Injections = €200. National Income ↑ by €400
So the multiplier = $\boxed{2}$

Injections: 2 marks / ↑ in Nat. Income: 2 marks. / Correct answer: 5 marks

17 marks

9. GNP and GDP

GNP rather than GDP is generally regarded as a better measure of average standard of living in Ireland because it takes account of:

Incomes earned by Irish factors of production abroad and returned to Ireland less those incomes earned by foreign factors of production in Ireland and sent out of Ireland.

Or

Net / factor from the rest of the world and whether it is positive or negative.

Or

**Net repatriation of profits / incomes and
The interest repayments on the foreign element of the National debt.**

17 marks

2001

1. What is meant by the concept 'consumer surplus'? 16 marks
 This is the difference between what the consumer actually pays for the good & what he/she would be willing to pay for the good, rather than do without the good.

Marking scheme: 16 marks graded
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- 16 marks
2. State TWO non-insurable risks, which an entrepreneur faces.
1. Loss of profit / Increases in the costs of production.
 2. Bad decision-making.
 3. Industrial relations disputes / strikes.
 4. Changes in taste or fashion.
 5. Entry of competition into the industry.
 6. Changes in competitive conditions i.e. new legislation; new trading agreements.

<u>Marking Scheme</u>

2 points at 8 marks each graded
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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.

4. State **THREE** economic benefits of economic development to the citizens of underdeveloped countries. 16 marks

1. Improved standard of living / increased GNP per head.
2. Increased Employment opportunities.
3. Increased resources available to the governments / infrastructural developments – internally (extra tax revenue) / externally (development agencies).
4. Alleviation of poverty.
5. Investment in research and development/ more monies available for investment – aiding economic growth.
6. Improved quality of life/welfare e.g. improved health/education/increased leisure time.
7. Improved opportunities for trade – more scope for exports.

Marking Scheme

3 clearly stated points: 6 + 5 + 5 marks = 16 marks

5. Identify **TWO** means by which semi-state companies which are monopolies could be made operate more cost effectively. 16 marks

1. Allow more competition in the sector / deregulation / e.g. electricity provision.
2. Allow the companies form strategic alliances e.g. Aer Lingus
3. Rationalise the company: reduce labour costs / discontinue unprofitable services.
4. Appoint only those members to the boards who have proven expertise in the relevant areas.
5. Reduce the extent of government interference in the day to day running of the companies e.g. Aer Lingus / RTE
6. Privatise the company – this will enforce efforts towards costs reduction.

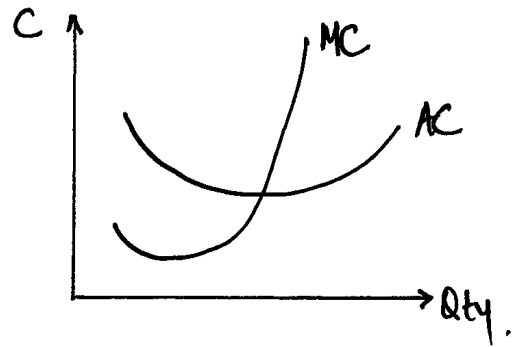
Marking Scheme

2 points at 8 marks each graded

6. With the aid of a clearly labelled diagram, explain the relationship between the average and marginal costs. (17 marks)

Diagram : (8 marks)

- Cost axis: 2 marks
 Quantity Axis: 2 marks
 AC : 2 marks
 MC : 2 marks [-2]



MC must cut AC at its lowest point.

Explanation : (9 marks)

- When $MC > AC$ then AC is rising : 3 marks
- When $MC < AC$ then AC is falling : 3 marks
- When $MC = AC$ then AC is at a minimum/ constant : 3 marks

7. State THREE roles of profits in a market economy. (17 marks)

1. Encourages risk taking.
2. Indicates the best use of resources / consumer demand (what goods and services consumers want)
3. Encourages investment.
4. Provides funds for expansion.
5. Normal profit ensures that production continues.
6. SNP is the reward for cost reduction and the development of new ideas / reward for efficiency.
7. Source of revenue for the government.
8. SNP's act as a signal to other firms to join the industry.

Marking Scheme

3 clearly stated points : 6 + 6 + 5 = 17 marks

8. State THREE contributions made to economic thought by the Monetarists (17 marks)

1. Monetary policy
should be the main instrument used by the government to manage the economy.
2. Control of money supply
monetarists suggest strict control so as to control inflation.
3. Reduced inflation

this increases competitiveness and may lead to increased exports.

4. Laissez faire principles

favour a return to laissez faire principles - with minimum state intervention - e.g. they favour privatisation.

5. Supply side policies

do not favour attempts to influence the supply of labour i.e. reducing the ability of trade unions to interfere with the labour market.

Marking Scheme

3 points: 6 + 6 + 5 = 17 marks

A full statement is required in each case.

9. A country is said to be overpopulated in the economic sense when: (17 marks)

- It has too many people in relation to the other production resources.

2 underlined terms: 9 marks + 8 marks

- The resources of a country are incapable of supporting any more people.

2 underlined terms: 9 marks + 8 marks

- An increase in population leads to a decrease in GNP per head.

2 underlined terms: 9 marks + 8 marks

- Diminishing returns to labour given the existing economic resources.

2 underlined terms: 9 marks + 8 marks