
National Income Pack

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Economics
Pack 4 • Leaving Cert



JT Economics
The Business Guys

Short Questions

1) 2018 Q5

Read each statement below and indicate if the statement is **TRUE** or **FALSE**.
 [Tick () the correct box.]

STATEMENT	TRUE	FALSE
'Double counting' could occur when economic activity is measured using the expenditure method.		
Exports represent an injection into the circular flow of income.		
Gross Domestic Product (GDP) includes a provision for depreciation.		
Primary school teacher salaries are categorised as transfer payments in Ireland.		

(16 marks)

2) 2010 Q9

The Irish government is considering the reintroduction of tuition fees for third-level education.
 Outline **one** possible economic advantage and **one** possible economic disadvantage of this for the economy:

Economic advantage: _____

Economic disadvantage: _____

(17 marks)

3) 2013 Q6

Explain what is meant by the economic term 'Paradox of Thrift'.

(17 marks)

4) 2013 Q8

Define the term 'Average Propensity to Consume' (APC) **and** calculate the APC for 2012 from the information below. (Show your workings.)

WORKINGS

Year	Disposable Income	Savings
2012	€34,000	€5,200

Definition: _____

Answer: _____

(17 marks)

5) 2012 Q6

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)

6) 2010 Q2

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

Answer 1:

Answer 2

(16 marks)

7) 2010 Q6

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)

8) 2008 Q4

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)

9) 2006 Q4

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)**

10) 2005 Q9

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)**

11) 2002 Q1

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)**

12) 2002 Q8

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)

13) 2002 Q9

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)

14) 2001 Q4

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

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

(16 marks)

Long Questions**2018 Q8 (a)**

- (a) The table shows National Income (Y), Consumption (C), Investment (I), Exports (X) and Imports (M) for 2016 and 2017.

	Y	C	I	X	M
2016	?	80,000	20,000	90,000	90,000
2017	150,000	100,000	30,000	120,000	?

Calculate the following, **showing all your workings:**

- (i) the value of National Income in 2016
- (ii) the value of Net Exports in 2017
- (iii) the level of Savings in the economy in 2017
- (iv) the size of the Multiplier.

[20]

2017 Q4

- (a) (i) *One method for calculating National Income is the output method.*
 Outline **two other methods** used to calculate National Income.
 (ii) Describe the problem of 'double counting' when compiling National Income statistics.
- [20]
- (b) (i) Explain, with the aid of a diagram, the **Circular Flow of Income** in an open economy.
 (ii) Outline how **each** of the following Budget 2017 policies should affect the circular flow of income.
 - Capital spending on road and rail projects to increase by €4.5 billion.
 - A reduction in the amount of the universal social charge (USC) that workers must pay.
- [35]
- (c) *The CSO recorded an increase in GDP of 26.3% for Ireland in 2015. Experts agreed that this figure, though calculated using approved methods, overestimated the true GDP increase.*
- (i) Describe **three** uses of a country's National Income statistics.
 (ii) Outline an economic implication for the Irish Government of using an overestimated GDP figure.
- [20]
[75 marks]

2016 Q5

- (a) (i) Define the term **full employment**.
(ii) Discuss the possible economic benefits **and** economic challenges of full employment in an economy.

[25]

- (b) Use the information in the table to answer the questions below.

Marginal propensity to consume (MPC)	0.8
Marginal propensity to import (MPM)	0.2
Current equilibrium level of national income	€500m
Level of national income that would give full employment	€620m

- (i) Define the term **marginal propensity to save** (MPS).
(ii) Calculate the MPS for this economy illustrated in the table above.
(iii) Calculate the value of the multiplier in this open economy.
(iv) How much will the government have to inject into this economy if it wants the economy to operate at its full employment level? **Show your workings.**

[30]

- (c) Explain how Ireland's Gross Domestic Product (GDP) could be affected by **any two** of the following.

- (i) An increase in Child Benefit payments.
(ii) A foreign-owned company, operating in Ireland, sends back to their home country all the profits they have earned in Ireland.
(iii) An oil spill off the Irish coast costs the Irish Government significant clean-up costs.

[20]

[75 marks]

2015 Q7

- (a) (i) Explain, with the aid of a diagram, the **Circular Flow of Income** for an open economy.
(ii) Outline how **each** of the following should affect the level of National Income in Ireland:
- an increase in Irish exports
 - an increase in the level of savings.
- (35)
- (b) Discuss **four** factors which should be considered when comparing national income statistics from different countries. (20)
- (c) *The Central Bank of Ireland (CBI) raised its forecast for 2015 economic growth to 3.7% from 3.4% citing strong consumer and investment spending.*
(Central Bank Quarterly Bulletin: Q1 2015)
- (i) Define the term *economic growth*.
(ii) Discuss possible costs **and** benefits of economic growth. (20)

[75 marks]

2014 Q5

- (a) The following table shows the level of National Income (Y), Consumption (C), Investment (I), Government Spending (G), Exports (X) and Imports (M) for 2013 and 2014.

	Y	C	I	G	X	M
2013	€80,000	€?	€10,000	€40,000	€100,000	€120,000
2014	€90,000	€56,000	€15,000	€34,000	€110,000	€?

Use this data to calculate the following: (**Show all your workings.**)

- (i) The level of Consumption in 2013
- (ii) The Marginal Propensity to Consume (MPC)
- (iii) The level of Imports in 2014
- (iv) The Marginal Propensity to Import (MPM).

(20)

- (b) “Ireland heads Forbes’ list of the best countries for business.”

(Forbes Magazine Dec 4 2013)

Discuss the economic benefits Multinational Companies (MNCs) can bring to a small economy such as Ireland.

(20)

- (c) Economists use Gross Domestic Product (GDP) and Gross National Product (GNP) as measures of economic activity.

- (i) Define **each** of the underlined terms.
- (ii) Which of these terms do you consider to be a more useful measure of economic activity for Ireland? Explain your answer.
- (iii) Discuss **three** limitations of national income statistics.

(35)

[75 marks]

2014 Q7

- (a) (i) Distinguish between the terms ‘economic development’ and ‘economic growth’ with reference to Less Developed Countries (LDCs).
(ii) Outline **three** characteristics of LDCs. (25)
- (b) (i) Describe **three** types of foreign aid available to LDCs.
(ii) Discuss why foreign aid may not always result in economic growth in LDCs. (25)
- (c) “The World Trade Organisation (WTO) is the only international organisation dealing with the global rules of trade between nations.”
(i) Outline **two** economic benefits claimed for ‘free trade’.
(ii) Outline **three** reasons why countries might choose to impose barriers to free trade. (25)
[75 marks]

2013 Q5

- (a) Explain the following terms which are commonly used in estimating the National Income statistics of a country:
 - Subsidies;
 - Incomes-in-kind;
 - Net Factor Income from the Rest of the World. (15)
- (b) (i) Illustrate by means of a diagram the **Circular Flow of Income** for an open economy.
(ii) Are transfer payments an injection into, or a leakage from the Circular Flow of Income? Explain your answer.
(iii) Outline **three** current determinants of the level of consumption in the Irish economy. (35)
- (c) (i) Using the Keynesian multiplier process outline how a fiscal stimulus (i.e. a government injection) would affect an economy’s Aggregate Demand.
(ii) Explain why the Irish government might find it difficult to implement such a **Keynesian stimulus plan** at the current time. (25)
[75 marks]

2012 Q5 (b)

- (b) (i) State and explain the benefits of economic growth for developing countries (LDCs).
(ii) Discuss **one** advantage and **one** disadvantage for the Irish economy of increased growth rates in developing countries (LDCs). (25)

2011 Q7

- (a) (i) Define the following terms:
 - Gross Domestic Product at Current Market Prices;
 - Gross National Product at Factor Cost.
(ii) Explain **two** reasons why **GDP** in Ireland at present is larger than **GNP**. (30)
- (b) (i) Explain what is meant by the term ‘Multiplier’.
(ii) It has been estimated that in the Irish economy:
 $MPT = 0.22$, $MPM = 0.30$, $MPS = 0.28$.
Calculate the value of the Multiplier in the Irish economy.
(iii) Outline briefly how taxes affect the value of the Multiplier. (25)
- (c) ‘The Irish Government predicts that the rate of economic growth in 2011 will be 1.75%’.
(*The National Recovery Plan 2011-2014*)

Discuss the economic effects of an increase in the rate of economic growth on the Irish economy. (20)

[75 marks]

2010 Q5

- (a) Given that Gross National Product at Current Market Prices is €200m, price subsidies €5m, depreciation €12m and indirect taxes €30m.
Calculate the value of **each** of the following: **Show all your workings.**
- (i) Gross National Product at Factor Cost;
(ii) Net National Product at Factor Cost/National Income.
- (20 marks)*
- (b) Explain the economic effect which **each** of the following could have on the level of GNP at Market Prices:
- (i) a **reduction** in the general level of VAT;
(ii) a **reduction** in the subsidies paid to farmers.
- (20 marks)*
- (c) (i) Outline the main uses of National Income Statistics.
(ii) State and explain **four** reasons why care should be taken when using National Income Statistics as a measure of economic performance of a country.
- (35 marks)*
- [75 marks]**

2010 Q7 (b)

- (b) (i) Describe the main differences between a developed country and a developing country (LDC).
(ii) Discuss **three** measures which the governments of developed countries could take to promote economic development in developing countries (LDCs).
- (30 marks)*

2009 Q5

- (a) The following table shows the level of National Income its Consumption, Investment and Export components at the end of periods 1 and 2, and the level of Imports at the end of period 1. (For the purpose of this question you may ignore the Government sector).

	National Income	Consumption	Investment	Exports	Imports
Period 1	€40,000	€30,000	€15,000	€15,000	€20,000
Period 2	€50,000	€39,000	€18,000	€21,000	?

Calculate the following, showing all your workings:

- (i) Level of imports at the end of period 2;
- (ii) Level of savings at the end of period 2;
- (iii) Marginal Propensity to Consume (MPC);
- (iv) Size of the Multiplier.

(20 marks)

- (b) ‘Ireland is described as a small open economy and this affects the government’s ability to influence the level of aggregate demand in the country’.

Explain this statement, using the Circular Flow of Income diagram to support your answer.

(30 marks)

- (c) Outline the limitations of using Gross National Product at Current Market Prices when comparing the average standard of living between two different years.

(25 marks)
[75 marks]

2008 Q4

- (a) (i) Define the terms **Gross Domestic Product at Current Market Prices** and **National Income**.
(ii) Explain the relationship between these two terms. *(30 marks)*
- (b) The **Circular Flow of Income** for an open economy describes the flows that influence the level of National Income.
(i) State and explain **three** leakages from and **three** injections into the Circular Flow of Income in an open economy.
(ii) Outline the effect on the level of employment in the economy if leakages exceed injections. Explain your answer. *(20 marks)*
- (c) The Central Bank of Ireland has predicted a slower rate of economic growth for the Irish economy in 2008.
Discuss the economic consequences of a slower rate of economic growth for Ireland. *(25 marks)*
[75 marks]

2007 Q6

- (a) The main components of National Income are: Consumption, Investment, Government Expenditure, Exports, Imports.
- (i) Show the equation which links all of these components with the level of National Income in the economy.
 - (ii) Explain what determines/influences the size of **each** of these components of National Income.

(25 marks)

- (b) The table below shows the level of National Income, Consumption, Investment, Exports and Imports at the end of Year 1 and Year 2.
(For the purpose of this question you may ignore the government sector.)

Year	National Income	Consumption	Investment	Exports	Imports
1	€10,000	€8,600	€1,000	€1,200	€800
2	€11,200	€9,500	€1,300		€1,100

Calculate the following, showing all your workings:

- (i) The level of Exports in Year 2;
- (ii) The Marginal Propensity to Import;
- (iii) The Marginal Propensity to Save;
- (iv) The size of the Multiplier. Explain the economic meaning of this multiplier figure.

(25 marks)

- (c) Less developed countries (LDCs) are primarily concerned with achieving **economic development** while developed countries are concerned with achieving **economic growth**.
- (i) Distinguish between the two underlined terms.
 - (ii) Outline **THREE** characteristics which indicate that a country is a LDC.

(25 marks)
[75 marks]

2006 Q4

- (a) (i) Explain what is meant by the term '**National Income**'.
(ii) In Ireland at present, would you expect **GNP** to be greater than, equal to, or less than, **GDP**? Explain your answer.
- (20 marks)*
- (b) (i) Explain what is meant by the term '**the multiplier**'.
(ii) State the formula by which the multiplier is measured in an open economy.
(iii) Explain the variable elements in the formula.
(iv) It has been estimated that in the Irish economy:
 $MPM = 0.4$, $MPT = 0.24$, $MPS = 0.26$.
Calculate the value of the multiplier in the Irish Economy. Show your workings.
- (30 marks)*
- (c) Gross National Product at Current Market Prices for the year 2005 in Ireland was approximately 45% higher than the figure for the year 2000.
State and explain the relevance of **FOUR** other pieces of economic information which you would use to assess whether or not the average standard of living had also risen by approximately 45% between 2000 and 2005.
- (25 marks)*
[75 marks]

2005 Q6

- (a) (i) Explain, with the aid of a diagram of **Circular Flow of Income** for an open economy, the main elements of aggregate demand.
- (ii) Outline the expected effects which an injection of government spending into the economy, could have in each of the following cases:
- a closed economy at less than full employment;
 - an open economy at full employment.
- (30 marks)*
- (b) It has been estimated that $MPM = 0.2$, $MPT = 0.1$ and $MPC = 0.9$. Calculate the following, showing all your workings:
- (i) The size of the Multiplier;
- (ii) The increase in the level of national income if there was an injection of government spending of €500 million.
- (20 marks)*
- (c) “GNP growth of 5% is forecast for 2005”. (Report of the Central Bank and Financial Services Authority of Ireland-Autumn 2004). Discuss the economic consequences (positive **and** negative) of economic growth on the Irish economy.
- (25 marks)*
[75marks]

2004 Q5

- (a) Discuss how economic development in **less developed countries** (LDCs) might be promoted:
- (i) by their own governments;
 - (ii) by foreign governments / agencies.
- (30 marks)
- (b) (i) Discuss **THREE** economic benefits of economic development to LDCs.
 (ii) Discuss **THREE** economic costs of economic development to LDCs.
- (30 marks)
- (c) Discuss steps which could be taken to solve the debt crisis which LDCs are experiencing.
- (15 marks)

[75 marks]**2004 Q6**

- (a) Explain the following terms which are commonly used in estimating the National Income statistics of a country:
- (i) Incomes-in-kind;
 - (ii) Transfer Payments;
 - (iii) Net Factor Income from the Rest of the World.
- (20 marks)
- (b) The table below shows the levels of National Income, Consumption, Investment, Exports and Imports at the end of Year 1 and Year 2.
 (For the purpose of this question you may ignore the government sector.)

Year	National Income	Consumption	Investment	Exports	Imports
1	€5,000	€4,300	€500	€600	€400
2	€5,600	€4,750	€650	€750	

Calculate the following, showing all your workings:

- (i) The level of Imports in Year 2.
 - (ii) The Marginal Propensity to Import.
 - (iii) The Marginal Propensity to Save.
 - (iv) The size of the Multiplier. Explain the economic meaning of this figure.
- (25 marks)
- (c) National Income statistics provide important information, but are subject to certain limitations.
- (i) Explain **THREE** reasons why it is useful to have these statistics.
 - (ii) Explain **THREE** limitations as to the use of these statistics.
- (30 marks)

[75 marks]

2003 Q6

- (a) Explain the following terms and show the relationship which exists between both:
- (i) Gross Domestic Product at Factor Cost
(ii) Gross National Product at Market Prices.
- (20 marks)
- (b) Outline the effects which each of the following could have on the level of GNP at Market Prices.
- (i) a **RISE** in the general level of VAT;
(ii) a **REDUCTION** in subsidies to first-time house buyers.
- Explain your answer in each case.
- (20 marks)
- (c) Discuss the positive **and** negative economic consequences which a fall in the level of economic growth (GNP) may have on the Irish economy.
- (35 marks)
- [75 marks]**

2001 Q8

- (a) Explain by means of a diagram of **Circular Flow of Income** for an open economy the forces which influence the level of aggregate demand. (25 marks)
- (b) The following table shows the levels of National Income, Consumption, Investment, Exports and Imports at the end of Period 1 and Period 2. For the purpose of this question you may ignore the government sector.

Period	National Income	Consumption	Investment	Exports	Imports
1	£5,800	£4,800	£1,200	£1,000	£1,200
2		£5,250	£1,300	£1,200	£1,350

Calculate the following, showing all your workings:

- (i) The level of National Income in period 2.
 - (ii) The Marginal Propensity to Save.
 - (iii) The Marginal Propensity to Import.
 - (iv) The size of the Multiplier. (20 marks)
- (c) Given **Gross National Product at Current Market Prices** for the years 1990 and 2000, state and explain the relevance of **FOUR** other pieces of information in assessing changes in the average standard of living between 1990 and 2000. (30 marks)
- [75 marks]**

Short Questions Answers

1) 2018 Q5

Indicate by means of a tick (✓) which of the following statements is **TRUE** or **FALSE**.

STATEMENT	TRUE	FALSE
‘Double counting’ could occur when economic activity is measured using the expenditure method.		✓
Exports represent an injection into the circular flow of income.	✓	
Gross Domestic Product (GDP) includes a provision for depreciation.		✓
Primary school teacher salaries are categorised as transfer payments in Ireland.		✓

2) 2017 Q9

9. The Irish government is considering the reintroduction of tuition fees for third-level education. Outline **one** possible economic advantage and **one** possible economic disadvantage of this for the economy: **(17 marks)**

Possible economic advantages:

Reduced cost for taxpayers

The cost to the state for each student attending HEIs is reduced and so the taxpayer is saved this amount. Taxpayers who don't go to 3rd level won't feel aggrieved that they must pay the cost.

Opportunity costs

The provision of free higher education puts significant strain on government finances, which may be better utilised in other areas (e.g. health, social welfare, vocational training, provide money to develop research in higher education, apprenticeships).

Incentives

The charging of fees alters the incentives faced by potential students.

Those students best suited to careers that do not require a HEI education, may be deterred by the prospect of fees and instead take up opportunities in vocational training or apprenticeships.

Greater course engagement

For those students who do attend HEIs, the need to pay fees may act to encourage greater engagement with their course and higher academic attainment/Private benefit to higher education and those who benefit pay.

Fairness

Graduates from HEIs often enter professions with higher earnings than others. Graduates from HEIs are also more likely to grow their level of earnings over their career. Thus, as the greatest beneficiaries for HEI education, it is only fair that students should pay for their education.

HEI funding

Tuition fees can act as a new source of revenue for HEIs, enabling investment in greater research, better facilities, more course options targeted to industry needs, more staff etc. This can create benefits in terms of the quality of research and education provided.

Possible economic disadvantages:

Increased debt on individuals

Where students must take on debt to cover tuition fees, future consumption and access to credit may be adversely affected.

May lead to greater inequality

Tuition fees may act as a disincentive or may prohibit those from disadvantaged backgrounds from pursuing a third level education. The resulting reduction in social mobility could lead to increased inequality.

Reduced positive externalities

Third level education, through the innovations and expertise it generates, creates external benefits (i.e. benefits that do not accrue directly to the student, but are instead enjoyed by wider society).

By reducing the number of people willing to undertake a third level education, fees may also reduce the number of positive externalities such as the skills of the population and possibly discourage the location of FDIs.

Undermining of certain discipline areas that create social benefits

To ensure sufficient future income is earned in order to justify fee payments, students may be forced to opt for university courses connected with high-earning jobs. Courses in areas such as arts and humanities may as a result suffer a reduction in graduate numbers, despite the important contribution such graduates make to society.

2 points explained: 9 marks + 8 marks

First correct response: 9 marks

3) 2013 Q6

Explain what is meant by the economic term 'Paradox of Thrift'.

(17 marks)

An increase in savings by **individuals** could result in a fall in national / **total** savings due to reduced consumption, reduced demand, falling incomes, job losses and so total savings will fall. Increased savings represent a diminishing circular flow of income.

7 marks + 6 marks + 4 marks

4) 2013 Q8

Define the term 'Average Propensity to Consume' (APC) **and** calculate the APC for 2012 from the information below. (Show your workings.) (17 marks)

<u>WORKINGS</u>	Year	Disposable Income	Savings
$\text{€34,000}^* - \text{€5,200}^* = \text{€28,800}^*$ $\frac{\text{€28,800}}{\text{€34,000}} = 0.847 \text{ or } 84.7\%$	2012	€34,000	€5,200

Definition:

9 marks

The proportion / fraction of total income which is spent on goods and services.

Calculate APC:

8 marks

Each * item at 2 mark = 6 marks. 2 bolded figures at 1 mark each

5) 2012 Q6

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: $€24,000 - €15,000 = €9,000$	$\uparrow \text{in } C: €7,000$
Year 2: $€34,000 - €22,000 = €12,000$	$\uparrow \text{in } Y: = €10,000$
$MPS = \frac{€3,000}{€10,000} = 0.3 \text{ or } 30\%$	$MPC = \frac{€7,000}{€10,000} = 0.7 \text{ or } 70\%$
	$MPS = 1 - 0.7 = 0.3$

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

6) 2010 Q2

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.

7) 2010 Q6

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

8) 2008 Q4

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.

9) 2006 Q4

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.

10) 2005 Q9

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.

- (i) Gross National Product at Factor Cost.
- (ii) Net National Product at Factor Cost/National Income.

(i) Gross National Product at Factor Cost

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

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

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

17 marks graded.

11)2002 Q1

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.

12)2002 Q8

8. National Income

(i) MPC = 8 marks

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

(ii) Multiplier = 9 marks

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

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

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 \uparrow by €400
So the multiplier = $\boxed{2}$

Injections: 2 marks / \uparrow in Nat. Income: 2 marks. / Correct answer: 5 marks**17 marks**

13) 2002 Q9

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

14) 2001 Q4

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.

<u>Marking Scheme</u>

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

Long Questions Answers

2018 Q8

The table shows National Income (Y), Consumption (C), Investment (I), Exports (X) and Imports (M) for 2016 and 2017.

	Y	C	I	X	M
2016	?	80,000	20,000	90,000	90,000
2017	150,000	100,000	30,000	120,000	?

Calculate the following, showing all your workings:

- (i) **The value of National Income in 2016.**

5

$$Y = C + I + G + X - M$$

$$80,000 + 20,000 + 90,000 - 90,000 = 100,000$$

- (ii) **The value of Net Exports in 2017.**

6

Net exports = exports minus imports

First find the level of M, using equation above.

$$150,000 = 100,000 + 30,000 + (120,000 - M)$$

$$M = 100,000$$

$$\text{Net exports: } 120,000 - 100,000 = 20,000$$

- (iii) **The level of Savings in the economy in 2017.**

3

$$S = Y - C$$

$$150,000 - 100,000 = 50,000$$

- (iv) **The size of the Multiplier.**

6

$MPC = \frac{\Delta C}{\Delta Y} = \frac{20,000}{50,000} = 0.4$	$MPM = \frac{\Delta M}{\Delta Y} = \frac{10,000}{50,000} = 0.2$	$MPS = 1 - MPC = 1 - 0.4 = 0.6$
---	---	---------------------------------

Method 1	Method 2
$\frac{1}{MPS + MPM}$	$\frac{1}{1 - (MPC - MPM)}$
$\frac{1}{0.6 + 0.2}$	$\frac{1}{1 - (0.4 - 0.2)}$
$\frac{1}{0.8}$	$\frac{1}{0.8}$
1.25	1.25
$MUL = \frac{\text{Increase in Income}}{\text{Increase in injections}}$	$\frac{50,000}{10,000 + 30,000}$

20

2017 Q4

- (a) (i) *One method for calculating National Income is the output method.*
Outline **two other methods** used to calculate National Income.
(ii) Describe the problem of 'double counting' when compiling National Income statistics. [20]

Economists can measure economic activity as follows:

(i)

The Income method:

They can add up all the income earned / rent, wages, interest and profits from supplying factors of production (land, labour, capital and enterprise) in a country in a period of time.

Based on data collected by the Revenue Commissioners for the purpose of income tax assessment.

The expenditure method:

They can add the total amount of money spent on (final) goods and services in the country during the year (consumers, firms, government, and the foreign sector on domestically produced goods and services). Add the value of exports and subtract the value of imports.

2 at 6 marks each

- (ii) Describe the problem of 'double counting' when compiling National Income statistics

'Double counting' occurs if the expenditure on intermediate goods is included in the calculation of national output. When measuring economic activity using the **output method**, care needs to be taken to distinguish between final and intermediate goods to avoid the problem of double counting.

Sometimes it is very difficult to distinguish between intermediate and final goods/To avoid the problem of double counting statisticians could include the final value of all finished goods, with the value of intermediate goods excluded or sum the value added at each stage of production/As a good goes through the various stages of production, it increases in value and it is this increase in value which is included in the national income accounts.

8 marks graded

2017 Q4 Continued

- (b) (i) Explain, with the aid of a diagram, the **Circular Flow of Income** in an open economy.
- (ii) Outline how **each** of the following Budget 2017 policies should affect the circular flow of income.
- Capital spending on road and rail projects to increase by €4.5 billion.
 - A reduction in the amount of the universal social charge (USC) that workers must pay. [35]
- (i) Explain, with the aid of a diagram, the **Circular Flow of Income** in an open economy.

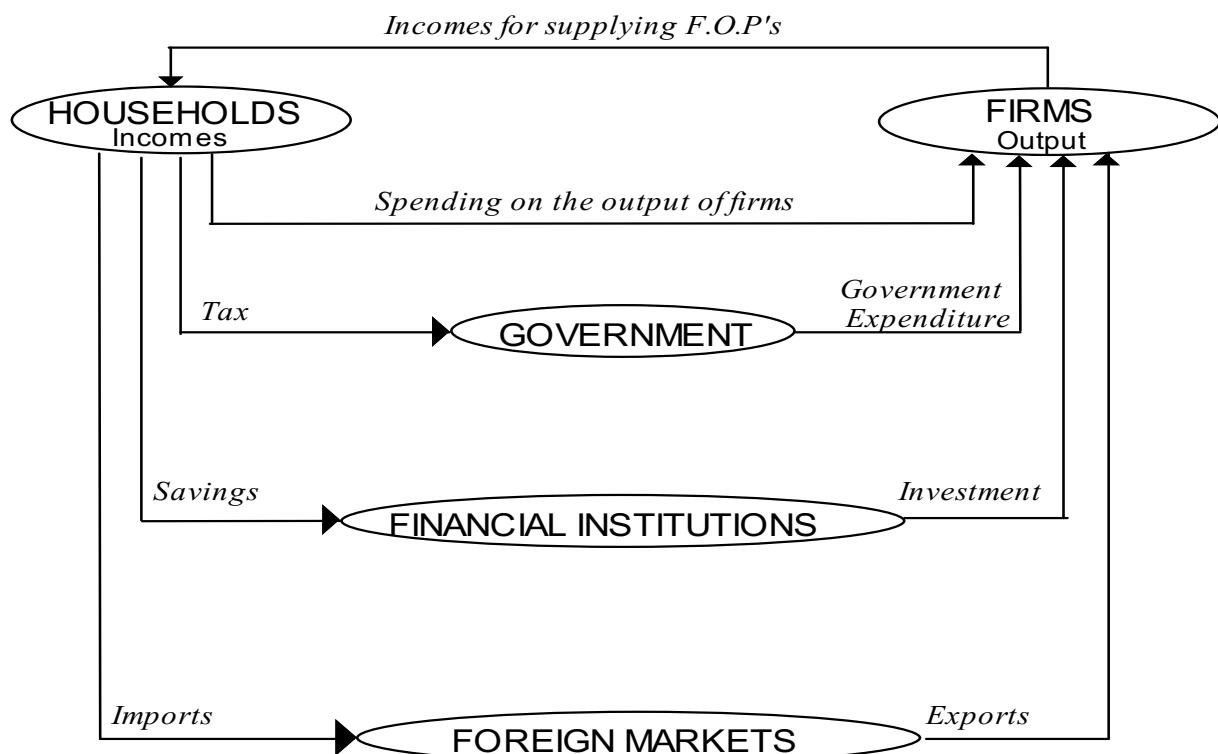


Diagram – 13 marks

	Individual mark	Total marks
Identifying the 5 sectors	5 at 1 mark each	5 marks
Identifying the correct 8 flows (component & direction)	16 at $\frac{1}{2}$ mark each	8 marks

- Households supply the factors of production to firms who, in turn, pay households for these factor inputs (wages, rent, profit and interest).
- Firms produce goods and services from the factors of production and households spend income on these goods and services.
- Not all income is spent, some is saved. Households save money with financial institutions and these institutions lend money back for investment purposes.
- The Government also affects the CFOI through taxation and government expenditure. Governments spend money on goods and services and also on transfer payments. Its expenditure is financed by raising revenue through both direct and indirect taxation .
- Finally firms export to the rest of the world and firms and households import from the rest of the world.

Explanation: 10 marks. Each bulleted point at 2 marks each.

(Ref. to Injections: consisting of G, I and X : 2 marks)

(Ref. to Leakkages consisting of T, S and I: 2 marks)

2017 Q4 Continued

- (ii) Outline how **each** of the following Budget 2017 policies should affect the circular flow of income.
- Capital spending on road and rail projects to increase by €4.5 billion.
 - A reduction in the amount of the universal social charge (USC) that workers must pay.

Increased Capital spending on road and rail projects of €4.5 billion	A reduction in the amount of the universal social charge (USC) that workers must pay.
<ul style="list-style-type: none"> • This is an injection into the circular flow of income. • Aggregate demand will increase by the injection times the multiplier to increase the Circular Flow Of Income. 	<ul style="list-style-type: none"> • This is a reduction in taxes and so a reduction in a leakage. Workers have more disposable income and this should lead to increased consumer spending. • Aggregate demand will increase by the injection times the multiplier. <p style="text-align: center;">or</p> <ul style="list-style-type: none"> • Some workers might decide to save the increase in income due to reduced USC so the increase/multiplier is less than expected.
6 marks	6 marks

2017 Q4 Continued

(c) *The CSO recorded an increase in GDP of 26.3% for Ireland in 2015. Experts agreed that this figure, though calculated using approved methods, overestimated the true GDP increase.*

- (i) Describe **three** uses of a country's National Income statistics.
(ii) Outline an economic implication for the Irish Government of using an overestimated GDP figure. [20]

- (i) Describe **three** uses of a country's National Income statistics.

Possible responses include:

- Indication of alterations in the standard of living.
- Means of comparing the standard of living in different countries.
- Assists the government in formulating economic policy/future budgetary planning/evidence on which to base economic policy.
- To evaluate economic activities/ To provide a benchmark against which progress can be monitored.
- EU Budget Contributions / Financial aid from the EU.

3 points at 5 marks each (2 + 3)

- (ii) Outline an economic implication for the Irish Government of using an overestimated GDP figure.

Possible responses include

It would make it look like our economy was growing faster than it was thus the government may spend more resulting in increased borrowing leading to increased indebtedness/ damage our international reputation

Our GDP figures are used to calculate various ratios on which monies from the EU are made available to member states. So it would mean that we receive less from the EU or contribute more to the EU's budget.

It would indicate, incorrectly, that our Debt to GDP ratio has improved. This may result in pressure from the EU to run a tighter budget policy (move to a balanced budget).

1 at 5 marks (2+3)

Other acceptable answers are marked on their merits.

2016 Q5

- (a) (i)** Define the term **full employment**.
(ii) Discuss the possible economic benefits **and** economic challenges of full employment in an economy. [25]

- (i)** Define the term **full employment**.

When everyone who seeks work can find work at existing wage levels/at the going market wage level.

5 marks

- (ii)** Discuss the possible economic benefits **and** economic challenges of full employment in an economy.

Full employment in an economy	
Economic benefits	Economic challenges
<p>Increased standard of living for citizens Higher incomes will enable the citizens to buy more goods and services.</p>	<p>Possible skilled labour shortages It may make it difficult for employers to meet production targets. Employers may need to recruit workers from overseas.</p>
<p>Fall in social welfare bill / Increase in tax revenues As more people are employed the government will be paying out less in social welfare payments. With high employment the government will collect more revenue from direct and indirect taxation.</p>	<p>Possible wage demands Where there is a shortage of workers, employers may have to increase wage rates in order to retain existing employees and attract new employees.</p>
<p>Increased aggregate demand /Economic growth Full employment will increase aggregate demand for goods & services in the economy and this will increase economic growth and GNP.</p>	<p>Pressure on the state infrastructure With more people working there will be pressure on transport, public services, housing etc.</p>
<p>Increased investment Full employment encourages further investment as demand is rising and expectations are more positive about the future.</p>	<p>Loss of service In those sectors with low wage rates it may be difficult to attract workers and the quality of service may deteriorate or discontinue.</p>
<p>An increase in confidence in the economy Both business and consumers will have more confidence in the economy which should encourage higher economic growth in the future.</p>	<p>Inflationary pressures Increasing incomes and spending tend to fuel inflation in the economy. Increasing incomes and MPM increase the demand for imports and the Balance of Trade may fall into deficit.</p>
<p>Reduces inequality and may prevent poverty When people find employment their income rises and the level of poverty in the country falls helping to reduce inequality within the country.</p>	
2 x 5 marks (2+3)	2 x 5 marks (2+3)

2016 Continued

- (b) Use the information in the table to answer the questions below.

Marginal propensity to consume (MPC)	0.8
Marginal propensity to import (MPM)	0.2
Current equilibrium level of national income	€500m
Level of national income that would give full employment	€620m

- (i) Define the term **marginal propensity to save** (MPS).
- (ii) Calculate the MPS for this economy illustrated in the table above.
- (iii) Calculate the value of the multiplier in this open economy.
- (iv) How much will the government have to inject into this economy if it wants the economy to operate at its full employment level? **Show your workings.** [30]

- (i) Define the term **marginal propensity to save** (MPS).

It is the proportion of each extra unit of income that is not consumed / that is saved.

6 marks

- (ii) Calculate the MPS for this economy illustrated in the table above.

$$\begin{aligned} \text{MPS} &= 1 - \text{MPC} \\ &= 1 - 0.8 \\ &= 0.2 \end{aligned}$$

6 marks

- (iii) Calculate the value of the multiplier in this open economy.

Method 1	Method 2
$\frac{1^*}{0.2^* + * 0.2^*}$ $\frac{1}{0.4}$ 2.5	$\frac{1}{1 - (0.8 - 0.2)}$ $\frac{1^*}{1^* - * 0.6^*}$ 2.5
* 1 mark each Correct answer: 4 marks	* 1 mark each Correct answer: 4 marks

- (iv) How much will the government have to inject into this economy if it wants the economy to operate at its full employment level? **Show your workings.**

Shortfall in national income: $\text{€}620\text{m}^2 - \text{€}500\text{m}^2 = \text{€}120\text{m}^2$

So the government must increase spending by: $\frac{\text{€}120\text{m}}{2.5^2} = \text{€}48\text{m}^2$

10 marks

2016 Continued

- (c) Explain how Ireland's Gross Domestic Product (GDP) could be affected by **any two** of the following.
- (i) An increase in Child Benefit payments.
 - (ii) A foreign-owned company, operating in Ireland, sends back to their home country all the profits they have earned in Ireland.
 - (iii) An oil spill off the Irish coast costs the Irish Government significant clean-up costs. [20]

- (i) An increase in Child Benefit payments.

This has **no** impact on GDP

Child benefit is a transfer payment i.e. it is a payment for which no good or service is given in return. It is therefore **not** included in GDP. It is financed through taxation and has no impact on GDP.

- (ii) A foreign-owned company, operating in Ireland, sends back to their home country all the profits they have earned in Ireland.

There will be **no** impact on the calculated figure for GDP when the foreign-owned company sends back to their home country all the profits. GDP measures the value of all production in Ireland regardless of who owns the productive assets. Thus profits earned by a foreign-owned company in Ireland are included in GDP. However, the returned profits will be part of net factor income from abroad and will lower the GNP figure.

- (iii) An oil spill off the coast costs the Irish Government significant clean-up costs.

This **will increase** GDP.

The extra spending by the Government on environmental clean-up is added to GDP. GDP does not take into account environmental degradation.

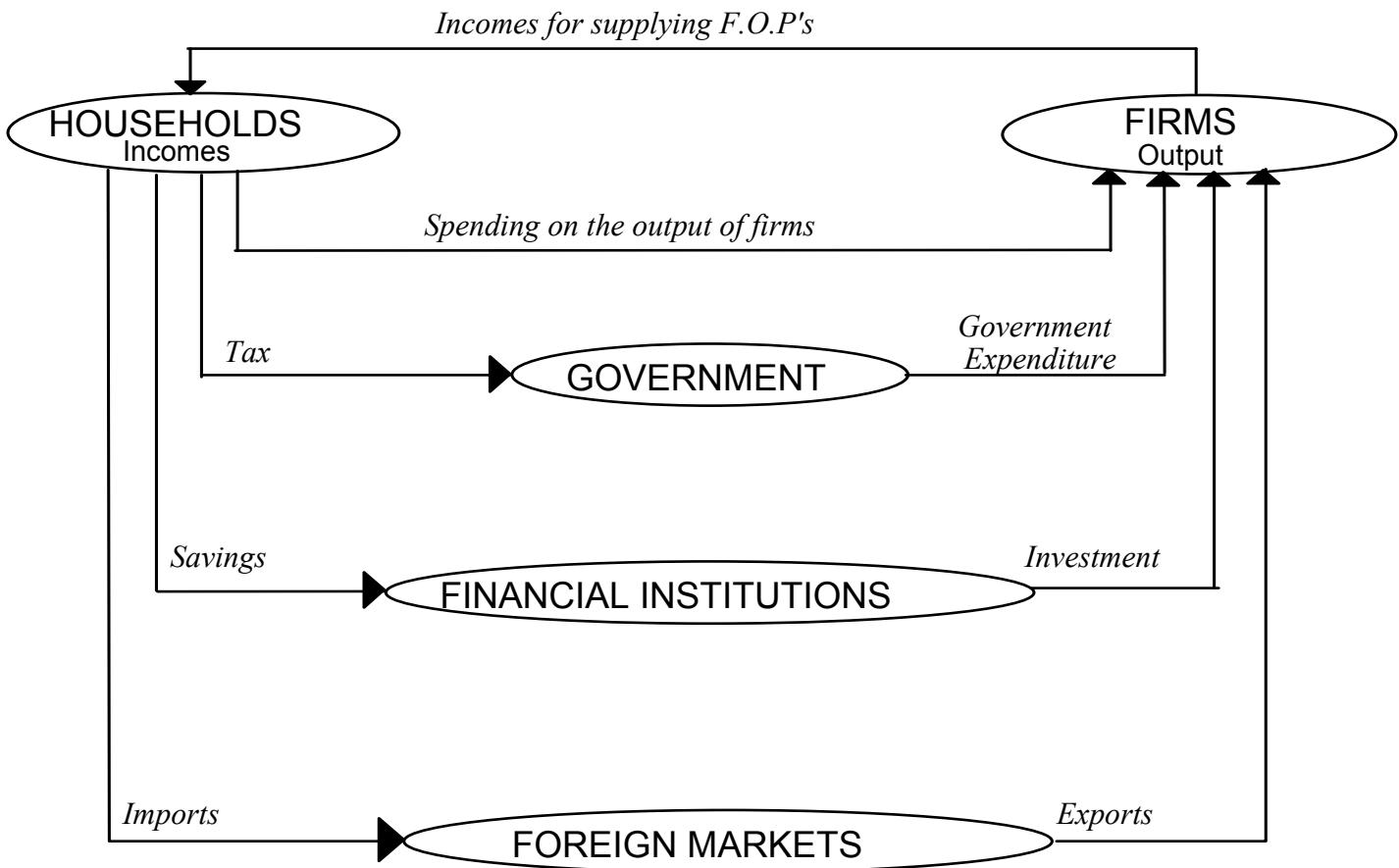
2 x 10 marks each.

Effect on GDP: 4 marks.

Explanation: 6 marks.

2015 Q7

- (a) (i) Explain, with the aid of a diagram, the **Circular Flow of Income** for an open economy.
(ii) Outline how **each** of the following should affect the level of National Income in Ireland:
an increase in Irish exports / an increase in the level of savings.
(35)
(i) Explain, with the aid of a diagram, the **Circular Flow of Income** for an open economy.

**13 marks****Households**

Households are the owners of the factors of production, which they provide/sell to the firms. In return, households get paid wages, rent, interest and profits. Households buy the output of goods and services of firms and consume goods and services. Part of their income goes in tax to the government. Part of their income will be saved in financial institutions. Part of their income will be spent on imports.

Firms

Firms produce goods and services using factors of production provided by households. Firms sell goods and services and receive household spending. The government will spend money which increases the demand for the firm's output. Financial institutions will use money saved to invest in firms. Foreigners will spend money on output from Irish firms.

10 marks (5 + 5)

2015 Continued

(ii) Outline how **each** of the following should affect the level of National Income in Ireland:

- an increase in Irish exports
- an increase in the level of savings.

An increase in Irish exports	An increase in the level of savings
This is an injection into the circular flow of income. This will lead to an increase in aggregate demand. Aggregate demand will increase by the injection times the multiplier.	This is a withdrawal from the circular flow of income. This will lead to a decrease in aggregate demand. Aggregate demand will decrease by the withdrawal times the multiplier.
6 marks (3 + 3)	6 marks (3 + 3)

(b) Discuss **four** factors which should be considered when comparing national income statistics from different countries. (20)

Population/ Should be done on a per capita basis

The population in different countries must be considered with changes in national income when assessing a country's economic performance. If national income grows at a slower rate than population, then income per head decreases and the average standard of living will fall. Per capita income is a more meaningful measure of living standards than national income.

The price levels / levels of inflation

An increase in prices will increase national income but standard of living may fall. So changes in national income must be compared with changes in prices to consider the impact on standard of living / economic performance. GDP at constant prices is a better indicator of economic growth than GDP at market prices.

Common currency/ Must express each countries National Income in a common currency

This conversion is usually by means of foreign exchange rates which are based on the prices of internationally traded goods and services/ Usually done in US dollar. Non-internationally traded goods and services form a greater part of the national product of LDCs. So these national income statistics would be understated.

Distribution of national income and poverty within each country

National Income statistics give headline figures as to the overall economic performance. Further research needs to be undertaken to find how income is distributed. E.g., two countries might have the same level of GNP. However, the income distribution might be very different in both countries with consequences for the welfare of the citizens.

Size of the black economy

The black economy is excluded from the calculation of national income. The value of unreported transactions is difficult to ascertain, thus underestimating the level of national income.

Nature of government expenditure / statistics ignore economic wellbeing

A country which spends a small amount on military equipment and a larger amount on health, education etc. will have a better standard of living than one where the reverse is the case i.e. much of its wealth is on armaments. There is a large difference in terms of relative economic well-being between the two countries yet the National Income data doesn't reflect this difference.

Government services at cost price / Non- marketable goods and services

Government services are included at cost while private services are included at selling price. A country where the government provides many services will record a lower GDP / national income.

Issues specific to individual countries which affect the standard of living in different countries:

Climate /pollution/working conditions etc.

4 points at 5 marks each (2 + 3)

2015 Continued

- (c) *The Central Bank of Ireland (CBI) raised its forecast for 2015 economic growth to 3.7% from 3.4% citing strong consumer and investment spending.* (Central Bank Quarterly Bulletin: Q1 2015)
- Define the term *economic growth*.
 - Discuss possible costs **and** benefits of economic growth. (20)

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

Economic Growth

Can be defined as an increase in real Gross National Product (GNP)/ or real Gross Domestic Product (GDP)/ an expansion in the productive capacity of the economy over a period of time.

4 marks

- (ii) Discuss possible costs **and** benefits of economic growth.

Possible benefits	Possible costs
Increased employment opportunities Economic growth will lead to increased demand with more labour being required to provide this.	Inflationary pressures With a rise in the level of economic activity the level of demand- pull inflation will rise.
Improved government finances With a rise in spending, indirect tax revenue rises; more people at work will result in an increase in direct tax revenue; expenditure on social welfare should fall.	Using up scarce resources / sustainable growth Economic growth results in an increased pressure on scarce resources such as oil and gas. As a result economic growth may not be sustainable.
Effects on Balance of Payments If the increase in the rate of economic growth is export led then our balance of payments position improves.	Labour shortages As happened in the past labour shortages may occur in those sectors where demand for labour is increasing. Structural unemployment could also occur due to changes in the nature of demand.
Increased standard of living Economic growth will result in higher incomes in the economy allowing us to buy more goods and services / better state services.	Revised expectations by citizens With economic growth citizens may revise their expectations of government and expect more services from the state e.g. revised taxes; growth in incomes; wage demands etc.
Effects on migration If jobs opportunities exist then people who had planned to emigrate may remain and more immigrants may be attracted to the economy.	Uneven distribution of wealth If the benefits of economic growth are not fairly distributed and are restricted to some groups then inequality in society can be increased.
Investment opportunities / Environmentally friendly technologies Economic growth indicates a growing economy and this may attract additional investment/higher profits. New and more environmentally friendly technologies could be developed.	Environmental consequences Growth may have a negative impact on society e.g. environmental costs/pollution and degradation of the environment.
Reduced poverty The government may through fiscal policy (expenditure increases and taxation changes) alleviate poverty within the country.	Demographic problems Economic growth may lead to increased urbanisation and the continued decline in rural areas. The gap may widen between urban and rural.
	Quality of life / pressure on infrastructure Longer hours of work, changing working conditions, traffic congestion etc. may all lead to a deterioration in the quality of life. The demand on state services may increase.
4 points at 4 marks (2 + 2) Must have a minimum of one cost / benefit	

2014 Q5

- (a) The following table shows the level of National Income (Y), Consumption (C), Investment (I), Government Spending (G), Exports (X) and Imports (M) for 2013 and 2014.

	Y	C	I	G	X	M
2013	€80,000	€?	€10,000	€40,000	€100,000	€120,000
2014	€90,000	€56,000	€15,000	€34,000	€110,000	€?

Use this data to calculate the following: (**Show all your workings.**)

- (i) The level of Consumption in 2013
- (ii) The Marginal Propensity to Consume (MPC)
- (iii) The level of Imports in 2014
- (iv) The Marginal Propensity to Import (MPM).

(20)

(i) Consumption in 2013

$$Y = C + I + G + X - M$$

$$80,000 = C + 10,000 + 40,000 + 100,000 - 120,000$$

$$80,000 = C + 30,000$$

$$80,000 - 30,000 = C$$

$$C = 50,000$$

5 marks

(ii) Marginal Propensity to Consume

$$MPC = \frac{\Delta C}{\Delta Y}$$

$$MPC = \frac{6,000}{10,000} = 0.6 (60\%)$$

5 marks

(iii) Imports in 2014

$$Y = C + I + G + X - M$$

$$90,000 = 56,000 + 15,000 + 34,000 + 110,000 - M$$

$$90,000 = 215,000 - M$$

$$M = 125,000$$

5 marks

(iv) Marginal Propensity to Import

$$MPM = \frac{\Delta M}{\Delta Y}$$

$$MPM = \frac{5,000}{10,000} = 0.5 (50\%)$$

5 marks

2014 Q5 Continued

- (b)** “Ireland heads Forbes’ list of the best countries for business.” (*Forbes Magazine* Dec 4 2013). Discuss the economic benefits Multinational Companies (MNCs) can bring to a small economy such as Ireland. (20)

Possible responses include:

Employment / improved standard of living / economic growth

Multinational companies employ many people here in Ireland particularly in the technology, pharmaceutical and medical devices, chemical industries. Employment boosts income and spending within localities. Employment will also be created in support industries.

Balance of Payments Benefits

Multinational companies have a major impact on the Balance of Payments by boosting the level of exports from Ireland and earning much needed revenue for the economy.

Investment in Research & Development and Education

The level of investment directed towards universities and other third level institutions that are involved in research and development, has increased dramatically. This in turn has meant that Ireland can continue to be at the forefront of technological advancement / new technology and management techniques leading to increased production capacity into the future.

Increased Government Revenue for the economy

As more and more multinational companies set up here, there is a greater contribution being made by these companies towards the exchequer in the form of corporation tax and both direct and indirect taxes.

Increased demand for Commercial Property

As Google, Facebook, LinkedIn etc. have decided to locate here, there has been an increase in the demand for both office space and commercial property, particularly in Dublin.

Promotes regional development

Many multinational companies have located in the West of Ireland and other peripheral locations, due to the existence of grants and advance factories thus greatly aiding the government’s aim of balanced regional development.

New technology introduced

The introduction of new technology increases the skill base of Irish workers which improves employee mobility and expertise.

Benefits to indigenous companies

With the presence of more multinational companies, there is a knock on effect for indigenous companies e.g. transport/logistics companies involved in the distribution of products together with packaging companies etc.

Improved reputation for future FDI

As more and more international / multinational firms choose to locate here, Ireland's reputation as a location to transact business improves.

Indigenous MNCs encourage more FDI

Ireland's reputation for doing large scale business here increases FDI confidence in Ireland. MNCs such as CRH, the Kerry Group, Glanbia, Paddy Power etc. encourage more inward investment.

Development of a "silicon valley" (clusters of MNCs with core competencies)

Inflow of high-tech firms in clusters. New technology firms are attracted to areas where technology firms have already located.

4 points of information: 5 marks each = 20 marks

2014 Q5 Continued

- (c) Economists use Gross Domestic Product (GDP) and Gross National Product (GNP) as measures of economic activity.
- Define **each** of the underlined terms.
 - Which of these terms do you consider to be a more useful measure of economic activity for Ireland? Explain your answer.
 - Discuss **three** limitations of national income statistics. (35)

- (i) Define **each** of the underlined terms.

Gross Domestic Product can be defined as the total output produced by the factors of production in the domestic economy irrespective of whether the factors are owned by Irish nationals or foreigners.

6 marks

Gross National Product is defined as the total output produced (value of goods and services) by Irish owned factors of production in Ireland and elsewhere. It is a measure of the income accruing to a country's residents.

6 marks

- (ii) Which of these terms do you consider to be a more useful measure of economic activity for Ireland? Explain your answer.

A possible response:

- $GNP = GDP + Net\ Factor\ Income\ from\ Abroad\ (NFIA)$
- GDP measures the value of all goods and services produced in the country in the period. It is the fundamental measure of economic activity.
- The difference between GDP and GNP is significant in Ireland as NFIA is a relatively large negative in Ireland's case.
- NFIA is negative because the profits earned by MNCs and repatriated back to their home countries exceed the profits earned by Irish MNCs located abroad and returned to Ireland and the interest payments on Irish debt held by non-residents also cause the 'Net Factor Income from Abroad' figure to be negative.
- The net repatriation of profits and the interest repayments on the national debt to non-residents are both outflows hence GDP is consistently and considerably larger than GNP in Ireland.
- Although GDP is used for comparison with other EU countries, GNP is probably a better measure of Irish economic activity as GNP reflects only the part of economic activity that is produced and shared by Irish nationals.

8 marks

2014 Q5 Continued

(iii) Discuss **three** limitations of national income statistics.

Possible responses include:

Population distortions

Population changes must be considered with changes in national income when assessing a country's economic performance. If national income grows at a slower rate than population, then average income per head may decrease and the average standard of living may fall. Per capita income may be a more meaningful measure of living standards than national income.

Constant prices and current prices / Inflation

An increase in prices will increase national income but the standard of living may fall. So changes in national income must be compared with changes in prices to consider the impact on standard of living / economic performance. GDP calculated at constant prices is a better reflection of economic growth than GDP at market prices.

Hidden social costs attached to increases in national income / externalities involved

If a firm increases output national income increases. However, a hidden cost may be increased pollution etc. Positive and negative externalities such as congestion, waste disposal and attractiveness of areas are excluded.

Distribution of national income and poverty

National Income statistics give headline figures as to the overall economic performance. Further research needs to be undertaken to find how income is distributed. e.g., two countries might have the same level of GNP. However, the income distribution might be very different in both countries with consequences for the welfare of its citizens.

Shadow economy transactions not measured

The black economy is excluded from the calculation of national income. The value of unreported transactions is difficult to ascertain thus underestimating the level of national income.

Nature of the goods produced

A country which spends a small amount on military equipment and a larger amount on health, education etc. will have a better standard of living than one where the reverse is the case i.e. much of its wealth is on armaments. There is a large difference in terms of relative economic well-being between the two countries yet the National Income data doesn't reflect this difference.

3 points of information: 5 marks each = 15 marks

Other acceptable answers marked on their merits

2014 Q7

- (a) (i) Distinguish between the terms ‘economic development’ and ‘economic growth’ with reference to Less Developed Countries (LDCs).
(ii) Outline **three** characteristics of LDCs. (25)

- (i) Distinguish between the terms ‘economic development’ and ‘economic growth’ with reference to LDCs.

Economic Development

Occurs where an increase in the level of income / standard of living/output/GNP per person in a country, accompanied by a change in the structure of society.

5 marks

Economic Growth

It can be defined as an increase in GNP per head without any changes in the structure of society.

5 marks

- (ii) Outline **three** characteristics of LDCs.

High population growth rates in LDCs

Famine in LDCs / low life expectancy

High foreign debts / lack of capital

High percentage of the population engaged in extractive / primary industries in LDCs

Poor infrastructure in LDCs

Poor levels of education / literacy in LDCs

Exploitation by multinationals, individuals within the country and foreign countries

Political corruption / less stable political institutions

3 points of information: 5 marks each = 15 marks

Other acceptable answers marked on their merits

2014 Q7 Continued

- (b) (i)** Describe **three** types of foreign aid available to LDCs.
- (ii)** Discuss why foreign aid may not always result in economic growth in LDCs. (25)

- (i)** Describe **three** types of foreign aid available to LDCs.

Direct financial aid by governments

This is also known as official development assistance, grants and loans. Governments may provide aid to help in emergency situations. They can also assist with the development of infrastructure and the provision of education, health programmes etc.

Financial aid through voluntary agencies

Various international voluntary agencies provide direct aid to LDCs on a permanent basis or in times of emergency.

Aid (other than financial aid) by foreign citizens

Foreign citizens could work in LDCs and provide a necessary service e.g. teach, build or provide healthcare etc. Foreign citizens can help by buying ‘fair trade’ products which ensure higher prices for producers and hence a better standard of living for citizens in LDCs.

Foreign citizens could donate food, clothes, livestock etc so as to improve the standard of living of citizens in LDCs.

Restructuring of national debts

If national debts of LDCs are cancelled or re-structured more funds would become available for the LDCs to use for economic development in their countries.

Multinationals setting up in LDCs

Multinationals, by providing employment opportunities, provide workers with skills. The fair wages received could help boost domestic demand, provide tax revenue for the state and boost employment.

Improve trade terms with LDCs

Most LDCs suffer from unfavourable terms of trade. If access to markets in the developed world was improved and /or the terms of trade available were more favourable then LDCs could increase exports and/or obtain higher prices for their exports boosting their national incomes.

Assist LDCs with skills and technologies

Governments or voluntary agencies could provide skills and technologies to the LDCs so that living standards could improve and this could boost their productive capacity.

3 points of information: 5 marks each = 15 marks

2014 Q7 Continued

- (ii) Discuss why foreign aid may not always result in economic growth in LDCs.

Unfair distribution of benefits / Widening poverty gap / trickle down effects

The increased wealth may not trickle down to the people who most need it and economic growth may not result. Any wealth that exists in the poorest countries is often concentrated in the hands of a small ruling elite. In many cases military dictatorships are the norm and they wish to maintain the status quo. The money may be used for the purchase of armaments and other non-essential projects.

Costs to the environment

Increased pollution, disfigurement of the landscape/environment, large scale urban sprawl may negate any positive effects from the foreign aid.

Rapid population growth / standard of living

In LDCs there are rapidly rising populations and the implications of such population growth is that any economic growth is completely outweighed by an increase in population. The impact of the foreign aid may be hard to discern as it may not improve the standard of living.

Culture of dependency rather than improvement of local economy

In some LDCs, a culture of dependency may exist and this may prove to be a major barrier to promoting economic growth and development. Entrepreneurship demands ingenuity and inventiveness. A culture of dependency reduces the desire for risk taking ventures and ultimately profit making.

Food aid dependency/ reduced incentive for production / growth

In order for economic growth to be sustained, economic projects must be undertaken and the focus on provision of food aid exclusively must be reduced. The whole notion of subsistence must be replaced by a desire for excess production and a move away from the primary production area. Secondary and tertiary sectors should be encouraged.

High profile projects

In some LDCs, the provision of adequate infrastructure together with land drainage and irrigation schemes, roads, housing, factories and communication facilities are bypassed in favour of 'high profile' projects. Governments need to prioritise those projects which will ultimately lead to economic self-sufficiency and increase the productive capacity of LDCs. The provision of skills and technologies will ultimately help with improving standards of living and increasing productive capacity.

2 points of information: 5 marks each = 10 marks

2014 Q7 Continued

- (c) “The World Trade Organisation (WTO) is the only international organisation dealing with the global rules of trade between nations.”
- (i) Outline **two** economic benefits claimed for ‘free trade’.
 - (ii) Outline **three** reasons why countries might choose to impose barriers to free trade. (25)

- (i) **Two** economic benefits claimed for ‘free trade’.

Greater choice of commodities / higher standard of living

Trade allows us benefit from a greater variety of goods and services, than would be available without trade. We lack some essential raw materials for production and thus must import these.

Trade increases our standard of living.

More competitive prices of goods and services

Trade results in greater competition on the market which should lead to more competitive prices for consumers.

Strengthens home economy / boosts employment / investment opportunities

Employment will be created in those industries which are expanding due to the benefits of trade. A healthy trading economy generates confidence in the economy and investment is thus encouraged. GDP is boosted and an incentive to grow may develop.

Companies benefit from economies of large scale production

With trade, specialisation will take place. Companies will increase production and may benefit from economies of scale. Domestic firms may become more competitive and more efficient.

2 economic benefits: 5 marks each = 10 marks

- (ii) **Three** reasons why countries impose barriers to free trade.

Protect infant industry

Small firms need to be protected to give them time to expand and gain economies of scale, which will allow them compete on an international basis.

Prevent dumping

A country may ban dumping of foreign goods on its home market if the government sees such dumping as a threat to domestic producers.

Protect employment on the domestic / home market

A country may impose restrictions on imports to protect goods which can be produced at home, thus protecting job opportunities in the home market.

Encourage the domestic production of vital goods / national security

A country may impose restrictions on the import of certain goods to reduce its dependence on foreign supplies of such goods. Governments do not want to be exclusively dependent on foreign markets for supplies of strategically important goods such as food, fuel etc. Free trade may result in the spread of animal diseases. During such crises governments may ban the importation of cattle to protect this vital industry.

3 reasons: 5 marks each = 15 marks

Other acceptable answers marked on their merits

2013 Q5

- (a) Explain the following terms which are commonly used in estimating the National Income statistics of a country: Subsidies / Incomes-in-kind / Net Factor Income from the Rest of the World. (15)

Subsidies: **5 marks**
Payments to a producer to help reduce the cost of production (price of the good)/ increase output.

Incomes-in-kind: **5 marks**

- Income / rewards received in a non-monetary form.
- Payment made in the form of goods or services.

Net Factor Income from the Rest of the World: **5 marks**
This is the difference between incomes earned by foreign factors of production in Ireland and sent abroad and income earned by Irish factors of production abroad and returned to Ireland.

- (b) (i) Illustrate by means of a diagram the **Circular Flow of Income** for an open economy.
(ii) Are transfer payments an injection into, or a leakage from the Circular Flow of Income?
Explain your answer.
(iii) Outline **three** current determinants of the level of consumption in the Irish economy. (35)

- (i) Illustrate by means of a diagram the Circular Flow of Income for an open economy.

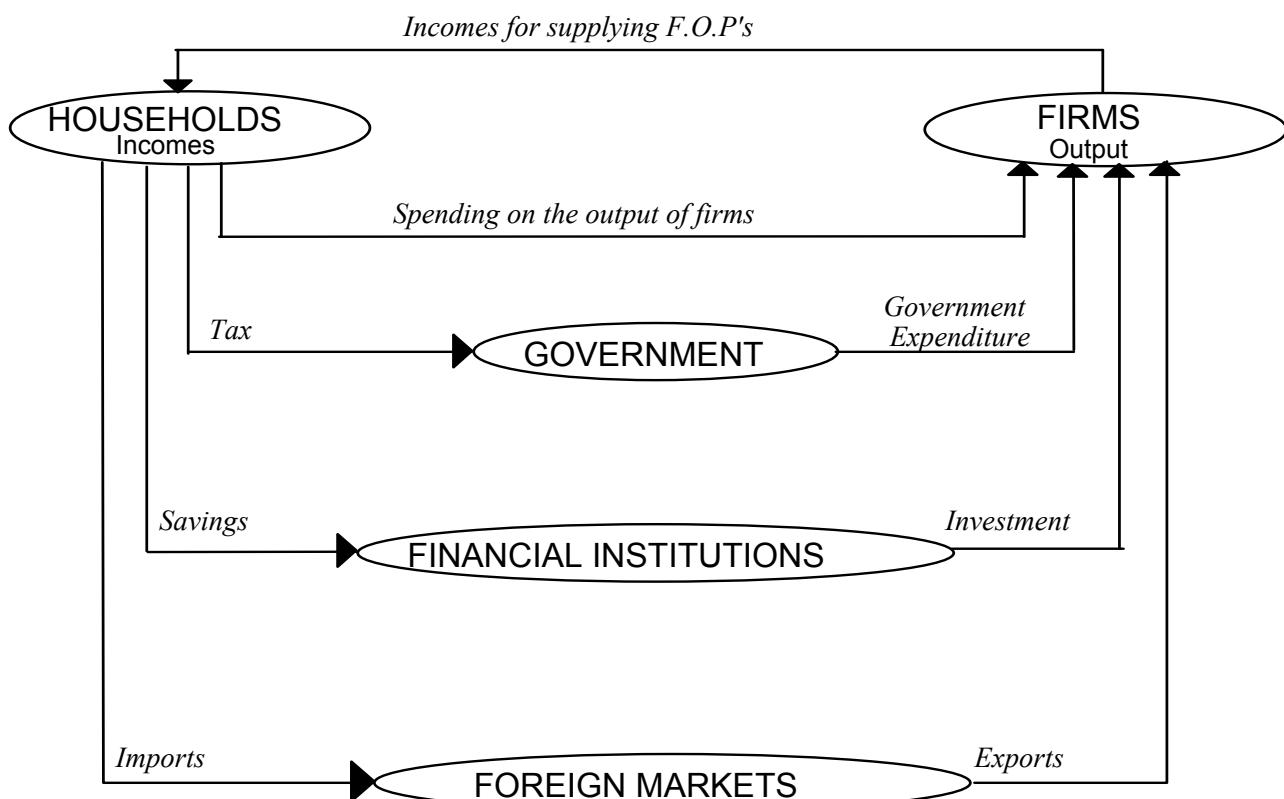


Diagram – 18 marks

	Individual mark	Total marks
Identifying the 5 ‘sectors’	5 at 2 mark each	10 marks
Identifying the correct 8 ‘flows’ (component & direction)	8 at 1 mark each	8 marks

2013 Continued

(ii) Are transfer payments an injection into, or a leakage from the Circular Flow of Income? Explain your answer.

- They are an injection into the circular flow of income.
- They become incomes for the recipients which they spend, and this increases aggregate demand.

5 marks (2+3)

(iii) Outline **three** current determinants of the level of consumption in the Irish economy.

1. Levels of incomes (irrespective of source)

Incomes are currently low / decreasing and resulting in a fall in consumer expenditure.

2. Interest rates

Interest rates are currently at a low level. Savers will have a lower incentive to save money as the return they are getting is lower, hence they are likely to spend more money in theory.

3. Access to / availability of credit

Consumers need to be able to access credit to buy larger items. If banks are not lending money then consumption in the Irish economy will be curtailed.

4. Rates of taxation

Taxation in Ireland is increasing. Disposable income is falling resulting in a decline in spending.

5. Consumer confidence

The less confident consumers are about future the less likely they are to spend.

6. MPC

The lower the MPC then the lower will be the level of consumption.

3 points at 4 marks (2+2) each

2013 Continued

- (c) (i) Using the Keynesian multiplier process outline how a fiscal stimulus (i.e. a government injection) would affect an economy's Aggregate Demand.
- (ii) Explain why the Irish government might find it difficult to implement such a **Keynesian stimulus plan** at the current time. (25)

- (i) Using the Keynesian multiplier process outline how a fiscal stimulus (i.e. a government injection) would affect an economy's Aggregate Demand.
- The initial increase in government expenditure will **have a greater final increase** in aggregate demand. **4 marks**
 - Increase in aggregate demand = initial increase in government expenditure x by the multiplier. **9 marks**

Example

Government injects €10m.

Multiplier is 2.

So increase in Aggregate Demand = €10m x 2 = €20m.

or

- (ii) Explain why the Irish government might find it difficult to implement such a **Keynesian stimulus plan** at the current time.

1. Ireland is in a bailout programme / Current Budget Deficit currently

The Irish Government is relying on funding from the IMF/EU/ECB to run the country. Even if a fiscal stimulus was appropriate, the Irish Government would have to seek permission (and money) to do it.

2. Ireland is an open economy

The value of the multiplier falls when imports are taken into account. This is because imports are a leakage from the circular flow of income. If the Irish Government increased spending some of that spending would leak out of the Irish economy due to the purchase of imports.

3. Ireland needs a global recovery

Ireland cannot recover on its own. It needs a global economic recovery. Growth in our national income depends on both a strong domestic and a strong international economy.

4. Reaction of the public

If the public don't believe that the fiscal plan is credible then it has a much less likely chance of working. If the Government did try to expand the economy they would need to convince Irish people that the plan would work and that the Government would be able to pay back the debt incurred by the increased spending.

5. Current economic climate / expectations of citizens

Citizens are fearful of the future. If the government injected money into the economy citizens may save more rather than spend. So the MPS may rise while the MPC may fall.

12 marks. 2 points

First point 8 marks (4+4)

Second point 4 marks (2+2)

2012 Q5 (b)

- (b)** (i) State and explain the benefits of economic growth for developing countries (LDCs).
(ii) Discuss **one** advantage and **one** disadvantage for the Irish economy of increased growth rates in developing countries (LDCs). (25)

(i) State and explain the benefits of economic growth for developing countries (LDCs).

1. Increased standard of living

Higher incomes will enable people buy more goods and services and so their standard of living will increase.

2. Better services

Better education, improved health services, better housing should mean increased life expectancy.

3. Employment / less reliance on primary sector

Increased opportunities for employment through increased demand.

Less reliance on agriculture / the primary sector to create jobs.

4. Resources available to the government

Increased tax revenues will allow the government scope for further investment in the country.

5. Alleviation of poverty

More schools and houses and other essentials services will help reduce poverty.

6. Investment in Research & Development

More monies should become available for investment in R & D which will increase economic growth.

7. Reduced reliance on foreign aid / borrowing

With economic growth LDCs will need less foreign aid / may be able to reduce foreign borrowing.

3 points at 5 marks each.

(ii) **One** advantage and **one** disadvantage for the Irish economy of increased growth rates in LDCs.

Advantages	Disadvantages
Increased exports / larger market With higher incomes people in LDCs may be able to buy more exports resulting in increased economic growth in Ireland.	Re-location of companies Some MNCs / Irish firms may re-locate to LDCs resulting in unemployment in Ireland.
Lower Irish consumer prices LDCs may be able to sell their commodities in Ireland at cheaper prices than domestically produced goods.	Greater import bill If the goods from LDCs are cheaper it may result in increased imports, a higher import bill, job losses in Ireland.
Employment If exports increase then the opportunities for jobs in Ireland increases.	Increased demand for resources LDCs will be increasing their demand for scarce resources and this may increase prices e.g. oil prices.
Less need for Irish state aid / opportunity cost If LDCs experience growth then this may reduce the need for the Irish government to fund development / the government can use this money for something else.	Increased world pollution Economic growth may cause increased pollution with the consequent necessity of Ireland having to address this / increased carbon emissions.
Disposable incomes in Ireland There may be less need to give financial aid and so Irish citizens may have increased disposable income.	
Economies of Scale If Irish firms increase production to supply the LDCs they may benefit from economies of scale.	
1 at 5 marks.	1 at 5 marks.

2011 Q7

- (a) (i) Define the following terms:
- Gross Domestic Product at Current Market Prices;
 - Gross National Product at Factor Cost.
- (ii) Explain **two** reasons why **GDP** in Ireland at present is larger than **GNP**. (30)

(i)

Gross Domestic Product at Current Market Prices:

The total output produced by the factors of production in the **domestic economy** irrespective of whether the **factors are owned by Irish nationals or foreigners at current market prices**.

7 marks

Gross National Product at Factor Cost:

The total output produced (value of goods & services) by **Irish owned** factors of production **in Ireland and elsewhere** **valued at payments to the factors of production**.

7 marks

(ii) Explain **two** reasons why **GDP** in Ireland at present is larger than **GNP**

1. Repatriation of profits by foreign multinationals in Ireland.
2. Repayment of interest on the foreign element of our National Debt.
3. Remittances of immigrants in Ireland sent abroad.

16 marks

2011 Continued

- (b)**
- (i) Explain what is meant by the term ‘Multiplier’.
 - (ii) It has been estimated that in the Irish economy:
 $MPT = 0.22$, $MPM = 0.30$, $MPS = 0.28$.
Calculate the value of the Multiplier in the Irish economy.
 - (iii) Outline briefly how taxes affect the value of the Multiplier. (25)

- (i) The multiplier:

The multiplier shows the relationship between an (initial) injection into the circular flow of income and the eventual total increase in national income resulting from the injection.

8 marks

- (ii) Calculate the multiplier

Method 1	Method 2
	$MPC = 1 - MPS = 1 - 0.28 = 0.72$
$\frac{1}{MPS + MPT + MPM}$	$\frac{1}{1 - (MPC - MPT - MPM)}$
$\frac{1}{0.28 + 0.22 + 0.3}$	$\frac{1}{1 - (0.72 - 0.22 - 0.3)}$
$\frac{1}{0.8}$	$\frac{1}{0.8}$
1.25	1.25
8 marks	8 marks

- (iii) Outline briefly how taxes affect the value of the Multiplier

1. Taxes decrease spending within the economy / taxes are a leakage from the circular flow of national income.
2. When spending decreases less economic activity is generated within the economy.
3. The value/the magnitude of the multiplier decreases.

9 marks

2011 Continued

- (c) ‘The Irish Government predicts that the rate of economic growth in 2011 will be 1.75%’.
(The National Recovery Plan 2011-2014)

Discuss the **economic effects** of an increase in the rate of economic growth on the Irish economy. (20)

Positive economic effects	Negative economic effects
Increased employment Economic growth will lead to increased demand with more labour being demanded to produce this.	Inflationary pressures With a rise in the level of economic activity the level of demand- pull inflation will rise.
Improved government finances With a rise in spending – indirect tax revenue rises; more people at work will result in an increase in direct tax revenue; expenditure on social welfare should fall.	Use of scarce resources Economic growth results in an increased demand for scarce resources e.g. oil. The increased demand may involve damage to the environment.
Effects on Balance of Payments If the increase in the rate of economic growth is export led then the balance of payments position improves.	Increased demand for imports Economic growth increases incomes and spending power and demand for imports may rise, worsening the balance of payments position.
Improved standard of living Economic growth will result in increased wealth in the economy allowing us to buy more goods and services / a reduction in poverty / better state services.	Revised expectations by citizens With economic growth citizens may alter their expectations of government and expect more services from the state e.g. revised taxes; growth in incomes; wage demands etc.
Effects on migration If jobs opportunities exist then people who had planned to emigrate may stay here and more immigrants may be attracted to the economy.	Uneven distribution of wealth If the increase in wealth is not fairly distributed then the gap between rich and poor may widen.
Investment opportunities Economic growth indicates a growing economy and this may attract additional investment.	

4 points x 5 marks each

2010 Q5

- (a) Given that Gross National Product at Current Market Prices is €200m, price subsidies €5m, depreciation €12m and indirect taxes €30m.

Calculate the value of **each** of the following: **Show all your workings.**

- (i) Gross National Product at Factor Cost;
- (ii) Net National Product at Factor Cost/National Income.

(20 marks)

(i) Gross National Product at Factor Cost – 10 marks

$$\text{GNP @ Market Prices} + \text{Price Subsidies} - \text{Indirect Taxes} = \text{GNP @ Factor Cost}$$

$$\text{€200 million} + \text{€5 million} - \text{€30 million} = \text{€175 million*}$$

↓ ↓ ↓ ↓
2 marks **2 marks** **2 marks** **4 marks**

(ii) Net National Product at Factor Cost/National Income – 10 marks

$$\text{GNP @ Factor Cost} - \text{Depreciation} = \text{NNP @ FC}$$

$$\text{€175 million*} - \text{€12 million} = \text{€163 million}$$

↓ ↓ ↓
3 marks **3 marks** **4 marks**

- (b) Explain the economic effect which **each** of the following could have on the level of GNP at Market Prices:

- (i) a **reduction** in the general level of VAT;
- (ii) a **reduction** in the subsidies paid to farmers.

(20 marks)

	Reduction in general level of VAT		Reduction in subsidies paid to farmers	
Effect on GNP at Market Prices	Will decrease	4 marks	Will increase	4 marks
Explanation	The reduction in VAT will decrease the prices for goods & services which consumers must pay in the market place	6 marks	The reduction in subsidies paid to farmers will increase GNP at market prices as prices for agricultural products will rise in the market place	6 marks
		10 mks		10 mks

2010 Q5 Continued*or***The Long run**

	Reduction in general level of VAT		Reduction in subsidies to paid to farmers	
Effect on GNP at Market Prices	Will increase	4 marks	Will decrease	4 marks
Explanation	With lower prices consumers may buy more goods and services, aggregate demand increases and so GNP increases.	6 marks	Prices will rise and so demand for their commodities will decrease resulting in a reduction in consumption and so GNP will decrease.	6 marks
		10 mks		

- (c) (i) Outline the main uses of National Income Statistics.
(ii) State and explain **four** reasons why care should be taken when using National Income Statistics as a measure of economic performance of a country. (35 marks)

- (i) Outline the main uses of National Income Statistics.

1. Indication of alterations in our standard of living

Any change in our national income figures will indicate the level of economic growth, or otherwise, within the country from one year to the next, and give a general indication of changes to the standard of living, if any. Used by trade unions to justify wage demands.

2. Means of comparing the standard of living in different countries.

We can use the national income statistics to compare the standard of living in our country with that of other countries.

3. Assists the government in formulating economic policy.

Governments have a greater influence on the development and growth of the economy. To effectively plan for this governments' need information about our economy such as that provided by the National Income statistics.

4. Evaluate economic policy

To assess changes to the economy and economic changes in the various sectors, and to provide a benchmark against which progress can be monitored, it is useful to have national statistics.

5. EU Budget Contributions / Benefits

The wealth revealed in our national income statistics will determine the contribution, if any, which Ireland must make to the EU budget.

The figure will also be used within the EU to determine those countries which require financial aid from the EU and the amount of that aid.

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

2010 Q5 Continued

- (ii) **Four** reasons why care should be taken when using National Income Statistics as a measure of economic performance of a country.

- **Population changes**

If national income grows at a slower rate than population, then national income per head decreases and the average standard of living will fall. Hence population changes must be considered with changes in national income when assessing a country's economic performance.

- **Inflation/deflation**

An increase in prices will increase national income but standard of living may fall. So, changes in national income must be compared with changes in prices to determine the impact on standard of living / economic performance.

- **Employment / Unemployment**

If a person is unemployed rising national income will not necessarily mean that this person's average standard of living is rising.

- **Levels of taxation**

When considering a person's standard of living one should take into account rates of income tax and levels of indirect tax within the country. An increase in either of these may result in a drop in a person's standard of living.

- **Levels of social welfare**

For a person who is unemployed the rates of social welfare payable is of more relevance than the average standard of living in the country.

- **Measures flow of wealth not welfare**

Rising GNP may be accompanied by changing working/living conditions which may cause a loss of welfare e.g. more traffic congestion and so a person's standard of living may fall.

- **Hidden social costs attached to increases in national income.**

If a firm increases output national income increases. However, a hidden cost may be increased pollution etc.

- **Distribution of national income.**

If increases in national income make their way into the pockets of a small minority, there may be no improvement in the standard of living of the whole community.

- **Exclusion of important activities from calculation of national income.**

The black economy is excluded from the calculation of national income.

The work of housewives & voluntary activities is also excluded. Such activities are important to the welfare of its citizens.

- **Nature of the goods produced**

A country which spends a small amount on military equipment and a large amount on health, education etc. will have a better standard of living than one where the reverse is the case.

- **Government services at cost price.**

Government services are included at cost while private services are included at selling price. A country where the government provides many services will record a lower GDP / national income.

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

2010 Q7 (b)

- (b) (i) Describe the main differences between a developed country and a developing country.
(ii) Discuss three measures which the governments of developed countries could take to promote economic development in developing countries. (30 marks)

- (i) Describe the main differences between a developed country and a developing country.

High population growth rates in less developed countries LDCs.

Rates of population growth are highest in developing countries (LDCs) resulting in economic problems which governments find hard to resolve.

Famine in LDCs.

Too frequently famine occurs in LDCs resulting in disease and death at early age.

High foreign debts.

These are higher in LDCs relative to national income and their repayment uses up government revenue which could have used for more productive uses.

More uneven distribution of wealth in LDCs

In some LDCs, a minority of the population may control a large part of the country's wealth resulting in poverty for the vast majority of the population.

Over-dependence on one crop in LDCs.

Some LDCs are over-dependent on one crop. The country is therefore subject to crop failure and/or a wide variation in export prices.

High percentage of the population engaged in extractive/primary industries in LDCs.

This results in not enough workers in secondary & tertiary sectors, resulting in an overall low standard of living. Undeveloped industrial base.

Unfavourable Terms of Trade for LDCs.

LDCs may suffer from low export prices and high import prices and hence the gains from trade are reduced for these countries in comparison with developed nations.

Poor infrastructure in LDCs.

A large proportion of the population may live in poor conditions with no water or dirty water and poor sanitation.

Lack of capital / Low levels of investment in LDCs.

LDCs lack the capital essential for economic development & employment generation. Limited access to technological advances.

Low per capita incomes in LDCs.

This results in a poor standard of living and a consequent low demand for goods and services relative to developed countries

Poor levels of education/literacy in LDCs.

Educational opportunities are very limited. This acts as an impediment to economic development and contributes to continuing high unemployment.

Political corruption / less stable political institutions.

Some LDCs spend a lot on bureaucratic administration / military spending which results in civil unrest. In some the political institutions are unstable and this hinders investment.

Exploitation by multinationals of LDCs.

May take the form of low wage rates; lack of care for the environment; control over key exports.

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

2010 Q7 (b) Continued

(ii) Discuss **three** measures which the governments of developed countries could take to promote economic development in developing countries

1. Assist foreign aid programmes / capital provision.

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 their national debts.

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

3. Improve trading opportunities.

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

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

4. Encourage multinationals to set up firms there.

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

5. Assist LDCs with skills / technologies.

The provision of skills / technologies to the LDCs would help with improving 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 the movement towards political stability.

3 at 5 marks each.

State: 2 marks. Explain: 3 marks.

2009 Q5

- (a) The following table shows the level of National Income, its Consumption, Investment and Export components at the end of periods 1 and 2, and the level of Imports at the end of period 1. (For the purpose of this question you may ignore the government sector.)

	National Income	Consumption	Investment	Exports	Imports
Period 1	€40,000	€30,000	€15,000	€15,000	€20,000
Period 2	€50,000	€39,000	€18,000	€21,000	?

Calculate the following, showing all your workings:

- (i) The level of imports at the end of period 2;
- (ii) The level of savings at the end of period 2;
- (iii) The Marginal Propensity to Consume;
- (iv) The size of the Multiplier.

(i) Imports at the end of period 2

$$GNP = C + I + X - M$$

$$50,000 = 39,000 + 18,000 + 21,000 - M$$

$$50,000 - 39,000 - 18,000 - 21,000 = -M$$

$$50,000 - 78,000 = -M$$

$$-28,000 = -M$$

$$M = 28,000$$

(ii) Savings at the end of period 2

$$GNP - C = S$$

$$50,000 - 39,000 = S$$

$$S = 11,000$$

(iii) Marginal Propensity to Consume

$$MPC = \frac{\Delta C}{\Delta GNP}$$

$$MPC = \frac{9,000}{10,000}$$

$$MPC = 0.9$$

(iv) Size of the Multiplier

$$\frac{1}{1 - (MPC - MPM)}$$

$$\frac{1}{1 - (0.9 - 0.8)}$$

$$\frac{1}{1 - 0.1} = \frac{1}{0.9} = 1.11$$

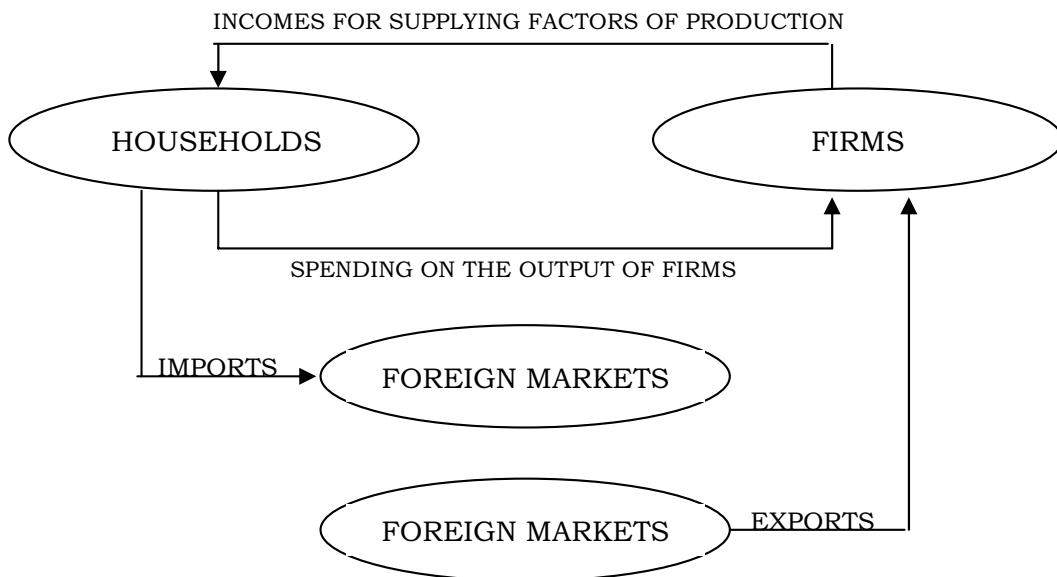
$$MPM = \frac{\Delta M}{\Delta GNP}$$

$$MPM = \frac{8,000}{10,000}$$

$$MPM = 0.8$$

2009 Continued

- (b) ‘Ireland is described as a small open economy and this affects the government’s ability to influence the level of aggregate demand in the country’.
 Explain this statement using the Circular Flow of Income to support your answer.



Circular Flow Diagram – 14 marks graded.

- As an open economy, Ireland is heavily dependent on imports and exports to achieve economic growth.

Imports are a leakage.

- If the government injects money (through C, I or G) into the circular flow, some of it will leave the economy due to the MPM and reduce the circular flow of income. Thus aggregate demand will not grow by the anticipated amount / aggregate demand will fall.

Exports are an injection.

- The government has little direct control/influence over exports except through offering tax incentives to exporters. If demand for Irish exports increases then this will increase the circular flow of income. This will lead to extra income in Ireland and an increase in aggregate demand.
- The ability of the government to influence aggregate demand is hindered by the extent of foreign trade, particularly imports. If imports exceed exports aggregate demand will fall. If exports exceed imports aggregate demand will increase.

Explanation: 16 marks graded.

2009 Continued

- (c) Outline the limitations of Gross National Product at Current Market Prices when comparing the average standard of living between two different years.

- **Population changes**

If GNP grows at a slower rate than population, then GNP per head decreases and the average standard of living will fall.

- **Inflation**

An increase in prices will automatically increase GNP at current market prices. Therefore it is better to consider GNP at constant market prices.

- **Employment / Unemployment**

If a person is unemployed rising GNP per head will not necessarily mean that this person's average standard of living is rising.

- **Levels of taxation**

When considering a person's standard of living one should take into account rates of income tax and levels of indirect tax within the country. An increase in either of these may result in a drop in a person's standard of living.

- **Levels of social welfare**

For a person who is unemployed the rates of social welfare payable is of more relevance than the average standard of living in the country.

- **Measures flow of wealth not welfare**

Rising GNP may be accompanied by changing working or living conditions which may cause a loss of welfare e.g. traffic congestion.

- **Hidden social costs attached to increases in GNP**

If a firm increases output GNP increases. However, a hidden cost may be increased pollution etc.

- **Distribution of GNP**

If increases in GNP make their way into the pockets of a small minority, there may be no improvement in the standard of living of the general community.

- **Exclusion of important activities from calculation of GNP**

The black economy is excluded from the calculation of national income. The work of housewives & voluntary activities is also excluded. Such activities are important to the welfare of its citizens.

- **Nature of the goods produced**

A country which spends a small amount on military equipment and a large amount on health, education etc. will have a better standard of living than one where the reverse is the case.

- **Government services at cost price.**

Government services are included at cost while private services are included at selling price. A country where the government provides many services will record a lower GDP.

5 points @ 5 marks each graded

2008 Q4

- (a) (i) Define the terms **Gross Domestic Product at Current Market Prices** and **National Income**.
 (ii) Explain the relationship between these two terms. (30 marks)

National Income

The income accruing to the permanent residents of a country from current economic activity during a specified period, usually one year.

Gross Domestic Product at Current Market Prices

It is the total value of input / expenditure within the country as a result of engaging in current economic activity in one year at current market prices.

or

The output produced by the factors of production in the domestic economy irrespective of whether the factors are owned by Irish nationals or foreigners at current market prices.

**1st correct answer at 12 marks graded.
 2nd correct answer at 6 marks graded.**

- (ii) **Explain** the relationship between these two terms.

GDP at current market prices
± Net Factor Income from abroad
= GNP at current market prices
Less indirect taxes
Plus subsidies
= GNP at Factor Cost
Less Depreciation
= Net National Product at Factor Cost

Relationship correctly explained 12 marks graded.

2008 Continued

- (b) (i) State and explain three leakages from and three injections into the Circular Flow of Income in an open economy.
- (ii) Outline the effect on the level of employment if leakages exceed injections.
Explain your answer. (20 marks)

(i)

Injections	Leakages
Government Spending	Taxation
All money spent by the government, both current and capital. It will increase the circular flow of income	A contribution required of persons, groups, or businesses for the support of a government. It reduces spending within the economy and thus reduces the circular flow of income.
Investment Expenditure	Savings
Money invested by individuals, financial institutions and businesses/spending on capital goods. It will increase the circular flow of income.	The proportion of income not spent. It reduces spending within the economy and thereby reduces the circular flow of income.
Exports	Imports
Money spent by foreign individuals on goods/services produced within Ireland. It will increase the circular flow of income within Ireland.	Money spent by Irish citizens on goods/services produced outside Ireland. It will reduce the circular flow of income.

3 leakages and 3 injections at 12 marks graded.

- (ii) Outline the effect on the level of employment if leakages exceed injections.
Explain your answer.

If leakages are greater than injections then national income will fall, leading to a drop in demand for goods and services/economic activity and thus a fall in the demand for labour. The level of employment will fall.

8 marks graded.

2008 Continued

- (c) The Central Bank of Ireland has predicted a slower rate of economic growth for the Irish economy in 2008. Discuss the economic consequences of a slower rate of economic growth for Ireland. (25 marks)

Any 5 points (positive or negative) at 5 marks each graded.

Positive economic consequences	Negative economic consequences
Lower Inflation A slower increase in GNP should reduce demand inflation as demand for goods and services begin to decline.	Increased unemployment A slower increase in GNP will lead to reduced demand and fewer workers will be required, increasing the level of unemployment.
Labour shortages The fall in demand for goods & services may decrease the demand for labour in certain sectors, easing labour shortages.	Falling government finances With a fall in spending, indirect tax revenue falls; less people at work will result in a decrease in direct tax revenue; expenditure on social welfare could increase.
Falling Demand for wage increases Expectations by workers may decrease with respect to pay increases.	Lower standard of living Slower growth in GNP will result in reduced wealth in the economy which means fewer goods/services bought / an increase in poverty / deterioration in state services.
Expectations of citizens During an economic downturn expectations fall. Citizens may revise their expectations downwards.	Effects on migration If job opportunities no longer exist then more people may emigrate and fewer immigrants may be attracted to the economy.
Less Pressure in housing market The slower growth in GNP may decrease spending power; demand for housing will begin to fall, resulting in surplus housing stock and decreasing prices.	Investment opportunities A slower growth in GNP may indicate the economy heading into recession and potential investors may be deterred from investing in Ireland.
Reduced demand for imports A reduction in GNP lowers incomes and spending power and demand for imports may fall leading to improved Balance of Payment position.	Funding difficulties for infrastructure The fall in state finances will make it more difficult to fund major infrastructural developments e.g. road infrastructure.

2007 Q6

- (a) Components of National Income are: Consumption; Investment; Government Expenditure; Exports, Imports.
- (i) Show the equation which links all these components with the level of National Income in the economy.

$$\mathbf{Y = C + I + G + X - M} \quad \mathbf{5 \text{ marks}}$$

- (ii) Explain what determines/influences the size of **each** of these components of National Income. (25 marks)

Consumption: 2 at 3 marks each graded.

- **Levels of incomes (irrespective of source):** as income rises, the level of spending tends to rise.
- **MPC:** the higher the MPC, the higher will be the level of spending.
- **Availability of credit:** as credit becomes more easily available the level of spending will rise.
- **Rate of interest:**
Currently interest rates are increasing and with borrowing falling, spending will fall.
- **Rates of (income) taxation:** if these increase, disposable income falls and spending will fall.

Investment: 2 at 2 marks each graded.

- **Rate of Interest / MEC:**
as interest rates rise, borrowing becomes more expensive and investment tends to fall.
- **Expectations of business people:**
are they optimistic about the future? Does government policy favour risk taking; are the levels of taxation conducive to risk-taking etc.

Government Expenditure: 1 at 2 marks graded.

- Primarily depends on the **political decisions of the government** and the type of fiscal policy being pursued by the state.

Exports: 2 at 2 marks each graded.

- **Income levels in our export markets:** if high then the demand for Irish exports may increase.
- **Competitiveness of Irish exports:** levels of domestic inflation v. international rates.
If our goods are competitive on export markets then demand may increase.
- **Value of the euro** in relation to other currencies e.g. the US dollar / Pound Sterling.

Imports: 2 at 2 marks each graded.

- **Levels of incomes (irrespective of source):**
as income rises, the level of spending on imports tends to rise.
- **MPM:** the higher the MPM the higher will be the demand for imports.
- **Value of the euro** in relation to other currencies e.g. the US dollar / Pound Sterling.

- (b) The table shows the level of National Income, Consumption, Investment; Exports, and Imports at the end of Year 1 & Year 2.

Year	National Income	Consumption	Investment	Exports	Imports
1	€10,000	€8,600	€1,000	€1,200	€800
2	€11,200	€9,500	€1,300		€1,100

Calculate the following, showing all your workings:

- (i) The level of Exports in Year 2;
- (ii) The Marginal Propensity to Import;
- (iii) The Marginal Propensity to Save;
- (iv) The size of the multiplier. Explain the economic meaning of this multiplier figure.

(25 marks)

2007 Continued

(i) Level of Exports in Period 2 – 5 marks

$$\begin{array}{rcl} Y & = & C + I + X - M \\ \text{€11,200} & = & \text{€9,500} + \text{€1,300} + X - \text{€1,100} = \boxed{\text{€1,500}} \end{array}$$

(ii) MPM – 5 marks

$\frac{\text{€300}}{\text{€1,200}} = 0.25$
--

(iii) MPS – 5 marks

$\frac{\text{€300}}{\text{€1,200}} = 0.25$	$MPS = 1 - MPC$ $1 - 0.75$ 0.25
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(iv) The Multiplier – 5 marks

Method 1

Injections = €600. The increase in national income = €1,200. So the injections have doubled national income. The multiplier is **2**

Method 2

$$MPC = \frac{\text{€900}}{\text{€1,200}} = 0.75 \quad \text{Multiplier} = \frac{1}{1 - (75\% - 25\%)} = \boxed{2}$$

Method 3

$$\frac{1}{MPS + MPM} \quad \frac{1}{0.25 + 0.25} = \boxed{2}$$

The economic meaning of this figure:

This figure [2] means that for any given injection into the economy, national income will increase by twice the original injection.

5 marks.

2007 Continued

- (c) Less developed countries (LDCs) are primarily concerned with achieving **economic development** while developed countries are concerned with **economic growth**.

- (i) Distinguish between the two underlined terms.

Economic Development	Economic Growth
An increase in the level of income / standard of living / output / GNP per person in a country, accompanied by a change in the structure of society.	An increase in GNP per head, without any changes in the structure of society.

13 marks graded.

- (ii) Outline **THREE** characteristics which indicate that a country is a LDC.

High rate of population growth.

Rates are very high resulting in economic problems which the government finds hard to resolve.

Famine.

Too frequently famine occurs in LDCs resulting in disease; deaths at early age; high medical costs.

Foreign Debts.

These are very high. Their repayment uses up government revenue and their repayments can cripple the economy.

Uneven distribution of wealth.

In some LDCs, a minority may control a large part of the country's wealth resulting in widespread poverty.

Over-dependence on one crop.

Some LDCs are over-dependent on one crop. The country may be subject to crop failure and/or a wide variation in export prices .

High percentage of the population engaged in extractive/primary industries.

This results in not enough workers in secondary & tertiary sectors, resulting in low standards of living.

Poor Terms of Trade.

LDCs may suffer from low export prices and high import prices and hence the gains from trade are reduced.

Poor living conditions / Inadequate infrastructure.

A large percentage of the population live in shanty towns with no water and poor sanitation.

Lack of capital.

LDCs may lack the capital which is essential for economic development & employment generation.

Low per capita income for the majority of the population.

This results in a poor standard of living and a consequent low demand for goods and services.

Poor levels of education/literacy.

This will act as an impediment to economic development, resulting in high unemployment.

Political corruption.

Some LDCs spend a lot on bureaucratic administration / military spending which can result in civil unrest.

Exploitation by multinationals of LDCs / Economic Dualism.

This may take the form of low wage rates; lack of care for the environment; control over key exports etc.

3 points at 4 marks each graded.

2006 Q4

- (a) (i) Explain what is meant by the term '**National Income**'.
(ii) In Ireland at present, would you expect **GNP** to be greater than ,equal to, or less than, **GDP**?
Explain your answer. (20 marks)

- (i) National Income

The income accruing to the permanent residents of a country from current economic activity, during a specified period which is usually one year.

9 marks graded

- (ii) In Ireland at present, would you expect **GNP** to be greater than, equal to, or less than, **GDP**?
Explain your answer

- **GNP is less than GDP** at the moment, because
- **Net Factor Income** from the Rest of the World **is negative**.
This is due to:
 - the repatriation of profits by companies resident in Ireland
 - the repayments on the foreign element of our National debt.
 - the remittances of immigrants in Ireland sent abroad

11 marks graded

- (b) (i) Explain what is meant by the term 'the multiplier'.
(ii) State the formula by which the multiplier is measured in an open economy.
(iii) Explain the variable elements in the formula.
(iv) It has been estimated that in the Irish economy: MPM = 0.4, MPT = 0.24, MPS = 0.26.
Calculate the value of the multiplier in the Irish economy. Show your workings. (30 marks)

- (i) Explain what is meant by the term 'the multiplier'

The multiplier shows the precise relationship between an initial injection into the circular flow of income and the eventual total increase in national income resulting from the injection.

8 marks graded

- (ii) State the formula by which the multiplier is measured in an open economy.

Formula : $\frac{1}{MPS+MPM}$ or $\frac{1}{1 - (MPC-MPM)}$

4 marks

2006 Continued

- (iii) Explain the variable elements in the formula.

MPC – Marginal Propensity to Consume

- This is the proportion of each additional unit of income which is spent.

MPM – Marginal Propensity to Import

- This is the proportion of each additional unit of income which is spent in imports.

MPS – Marginal Propensity to Save

- This is the proportion of each additional unit of income which is saved.

2 terms at 4 marks each graded = 8 marks

- (iv) It has been estimated that in the Irish economy: MPM = 0.4, MPT = 0.24, MPS = 0.26.
Calculate the value of the multiplier in the Irish economy. Show your workings.

$$\text{MPC} = 1 - \text{MPS} = 1 - 0.26 = 0.74$$

$$\frac{1}{1 - (\text{MPC} - \text{MPM} - \text{MPT})} = \frac{1}{1 - (0.74 - 0.4 - 0.24)} = \frac{1}{0.9} = 1.1$$

or

$$\frac{1}{\text{MPS} + \text{MPM} + \text{MPT}} = \frac{1}{0.26 + 0.4 + 0.24} = \frac{1}{0.9} = 1.1$$

10 marks graded

2006 Continued

- (c) Gross National Product at Current Market Prices of the year 2005 in Ireland was approximately 45% higher than the figure for the year 2000.

State and explain the relevance of FOUR other pieces of economic information which you would use to assess whether or not the average standard of living has also risen by approximately 45% between 2000 and 2005. (25 marks)

1. Population changes

If GNP grows at a slower rate than population, then GNP per head decreases and the average standard of living will fall.

2. Inflation

An increase in prices will automatically increase GNP at current market prices. So it is better to consider GNP at constant market prices.

3. Employment / Unemployment

If a person is unemployed rising GNP per head will not necessarily mean that this person's average standard of living is rising.

4. Levels of taxation

When considering a person's standard of living one should take into account rates of income tax and levels of indirect tax within the country. An increase in either of these may result in a drop in a person's standard of living.

5. Levels of social welfare

For a person who is unemployed the rates of social welfare payable is of more relevance than the average standard of living in the country.

6. Measures flow of wealth not welfare

Rising GNP may be accompanied by changing working or living conditions which may cause a loss of welfare e.g. traffic congestion.

7. Hidden social costs attached to increases in GNP

If a firm increases output GNP increases. However, a hidden cost may be increased pollution etc.

8. Distribution of GNP

General living standards depend on its distribution. If increases in GNP make their way into the pockets of a small minority, there may be no improvement in the standard of living of the whole community.

9. Exclusion of important activities from calculation of GNP

The black economy is excluded from the calculation of national income.

The work of housewives and much of the work of voluntary activities is also excluded. Such activities are most important to the welfare of its citizens.

10. Nature of the goods produced

A country which spends a small amount on military equipment and a large amount on health, education etc. will have a better standard of living than one where the reverse is the case i.e. much of its wealth on armaments.

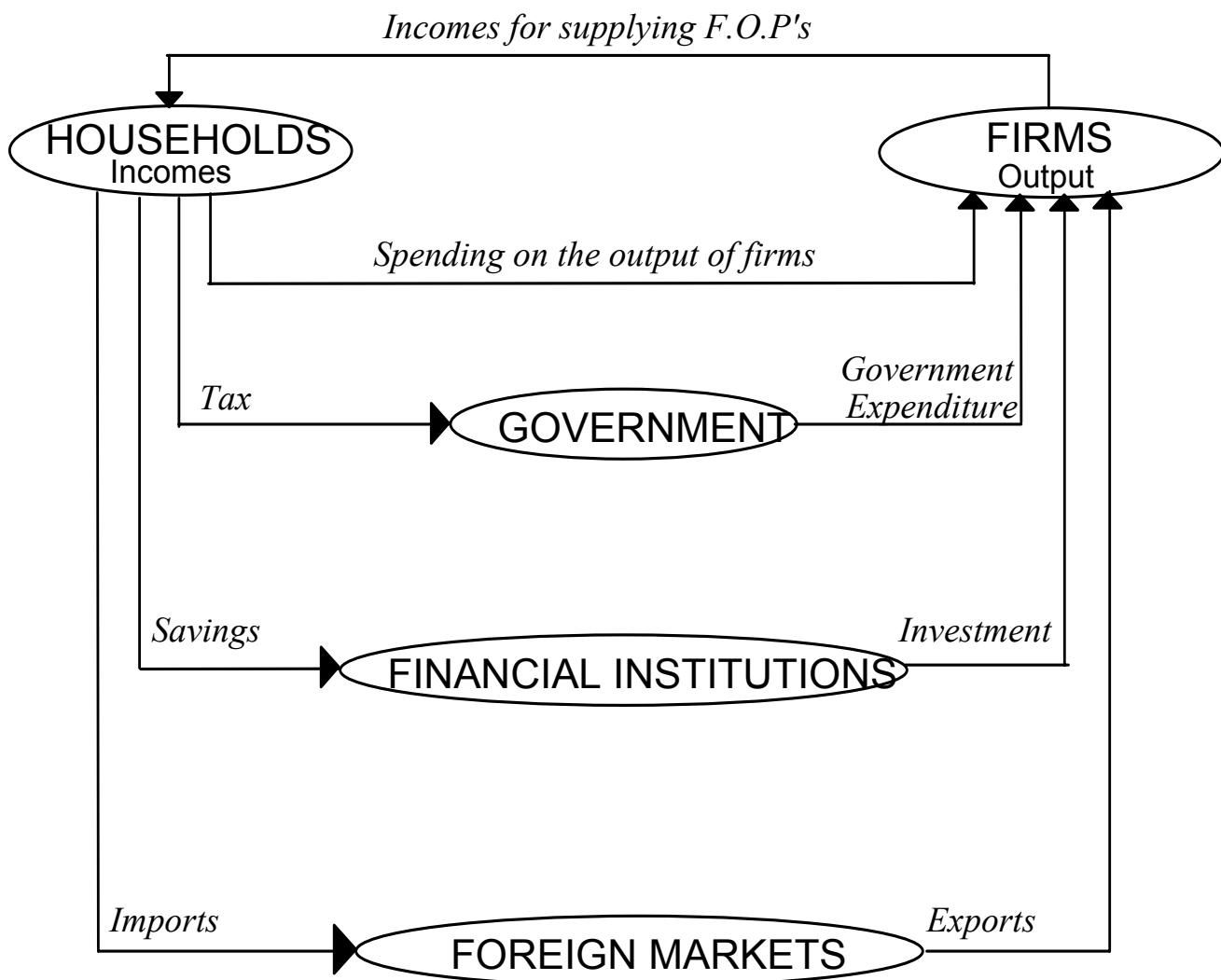
11. Government services at cost price

Government services are included at cost while private services are provided at selling price. A country where the government provides many services will record a lower GDP.

Marking Scheme: 4 points at 6 + 6 + 6 + 7 marks graded.

2005 Q6

- (a) (i) Explain, with the aid of a diagram of **Circular Flow of Income** for an open economy, the main elements of aggregate demand.



Marks: Diagram – 12 marks graded

Explanation of the main elements of aggregate demand: 10 marks graded.

- (ii) Outline the expected effects which an injection of government spending into the economy, could have in each of the following cases:

- a closed economy at less than full employment;
- an open economy at full employment.

(30 marks)

A closed economy at less than full employment	An open economy at full employment
1. Increase in level of aggregate demand	1. Increase in level of aggregate demand
2. Increase in the level of employment	2. Increase in the level of imports .
3. Increase in the level of savings within the economy	3. Increase in the level of savings within the economy
4. Increase in the level of inflation.	4. Increase in the level of inflation.
8 marks graded	

2005 Continued

- (b) It has been estimated that in an economy, MPM = 0.2, MPT = 0.1 and MPC = 0.9.

Calculate the following, showing all your workings:

- (i) The size of the multiplier.

$$\frac{1}{1 - (\text{MPC} - \text{MPM} - \text{MPT})} = \frac{1}{1 - (0.9 - 0.2 - 0.1)} = \frac{1}{0.4} = \boxed{2.5}$$

or

$$\frac{1}{\text{MPS} + \text{MPM} + \text{MPT}} = \frac{1}{0.1 + 0.2 + 0.1} = \frac{1}{0.4} = \boxed{2.5}$$

10 marks graded

- (ii) The increase in the level of national income if there were an injection of government spending of €500 million.

$$\begin{array}{lcl} \text{Injection} & \times & \text{Multiplier} = \text{Overall Increase in National Income} \\ \text{€500m} & \times & 2.5 = \text{€1,250m} \end{array}$$

10 marks graded

2005 Continued

- (c) “GNP growth of 5% is forecast for 2005”.
 (Report of the Central Bank & Financial Services Authority of Ireland – Autumn 2004).
 Discuss the economic consequences (positive **and** negative) of economic growth on the Irish economy.(25)

Positive economic consequences of Economic growth	Negative economic consequences of Economic growth
<p><u>Increased employment.</u> A rise in GNP will lead to increased demand for goods/ services with more labour being demanded to produce these.</p>	<p><u>Inflationary pressures.</u> With the rise in the level of economic activity the level of demand inflation will rise.</p>
<p><u>Improved government finances.</u> With a rise in spending – indirect tax revenue rises; more people at work will result in an increase in direct tax revenue; expenditure on social welfare should fall; greater government services possible.</p>	<p><u>Labour shortages.</u> The increased demand for goods & services may increase the demand for labour in certain sectors, resulting in labour shortages.</p>
<p><u>Effects on Balance of Payments.</u> If the extra GNP results from increased output and if some of this output is exported then our Balance of Payments position improves.</p>	<p><u>Demand for wage increases.</u> Expectations by workers may increase with respect to pay increases.</p>
<p><u>Improved standard of living.</u> Higher GNP will result in increased wealth in the economy allowing consumers to buy more goods and services / a reduction in poverty.</p>	<p><u>Increased demand for imports.</u> An increase in GNP increases incomes and spending power and demand for imports may rise, worsening the Balance of Payment position.</p>
<p><u>Effects on migration.</u> If job opportunities exist then people who had planned to emigrate may remain in Ireland and more immigrants may be attracted into the economy.</p>	<p><u>Pressure in housing market.</u> The rise in GNP increases spending power further fuelling demand for houses, resulting in shortages and increasing prices.</p>
<p><u>Investment opportunities.</u> Rising GNP indicates a growing economy and this may attract further investment into the economy.</p>	<p><u>Increased immigration / Displacement of Population.</u> Rising GNP increases demand and provides more opportunities for employment leading to a possible rise in immigration / and the displacement of population (movement to urban centres).</p>
<p><i>Minimum of TWO either side required</i></p>	<p><u>Pressure on state infrastructure.</u> Higher GNP results in greater demand for scarce resources / more damage to the environment / higher incomes will increase demand for commodities i.e. cars etc.</p>

2004 Q5

- (a) Discuss how economic development in **less developed countries** (LDCs) might be promoted:
- by their own governments;
 - by foreign governments / agencies.
- (30 marks)*

<i>Own Governments</i>	<i>Foreign Governments / Agencies</i>
<i>3 points at 5 marks graded.</i>	<i>3 points at 5 marks graded.</i>
<p><u>1. Promote population control.</u> Governments could encourage a reduction in population by various measures including: educating the population [in methods of family planning]; improving the welfare of its citizens; providing better social services for its citizens</p>	<p><u>1. Assist foreign aid programmes.</u> Governments can continue with aid to help in emergency situations. They can also provide more long term aid to help with the development of the infrastructure / provision of education etc.</p>
<p><u>2. Improve basic infrastructure.</u> Provision of clean water & proper sanitation. Development of public housing. Development of roads, power supplies etc.</p>	<p><u>2. Restructure their national debts.</u> If the respective national debts were cancelled then these funds would become available for the country to use for development.</p>
<p><u>3. Promote land/ agricultural reform.</u> Decrease emphasis on one crop - diversify production. Try to spread ownership of land. Improve production methods - modernise the agricultural industry.</p>	<p><u>3. Improve trading opportunities.</u> Improve access to markets in the developed world - outlet for their exports. Improve the terms of trade available - higher prices for their exports.</p>
<p><u>4. Improve education.</u> 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.</p>	<p><u>4. Encourage multinationals to set up firms there.</u> These could provide the workers with skills . The (fair) wages received could help boost domestic demand and provide tax revenue for the state.</p>
<p><u>5. Incentives for development of enterprise.</u> Try to foster a movement away from a dependency culture and encourage enterprise. Use borrowings to encourage enterprise so as to create sustainable employment.</p>	<p><u>5. Assist LDC's with available technologies.</u> The provision of simple technologies to the LDC's would help with improving standards of living ; increase productive capacity .</p>
<p><u>6. State bureaucracy / corruption; Spending on arms.</u> 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.</p>	<p><u>6. Assist peace measures and promote political stability.</u> Economic development requires a peaceful environment. Foreign countries could provide peacekeeping troops and encourage the movement towards political stability.</p>

2004 Q5 Continued

- (b) (i) Discuss THREE economic benefits of economic development to LDCs.
 (ii) Discuss THREE economic costs of economic development to LDCs. (30 marks)

<i>Economics benefits</i>	<i>Economic Costs</i>
<u>3 points at 5 marks graded.</u>	<u>3 points at 5 marks graded.</u>
<u>1. Increased standard of living</u> Better education, improved health services, increased life expectancy, better housing, incomes should improve.	<u>1. Unfair distribution of benefits / Widening poverty gap.</u> The increased wealth may not trickle down to the people who most need it.
<u>2. Employment.</u> Increased opportunities for employment through increased demand.	<u>2. Costs to environment.</u> Increased pollution, Disfigurement of the landscape; large scale urban sprawl.
<u>3. Increased resources available to the governments.</u> Tax revenue will allow the government scope for further investment .	<u>3. Migration.</u> Large scale movement from rural to urban areas. Loss of traditional values.
<u>4. Alleviation of poverty.</u> More schools and houses and other essentials services will help reduce poverty.	<u>4. Welfare may not improve.</u> The increase in wealth may have been brought about through changed working practices ; movement of the population ; crime in areas etc.
<u>5. Investment in Research & Development</u> More monies should become available for investment which will increase economic growth.	<u>5. Scarcer resources.</u> By achieving economic development these countries further use up the scarce resources of the world.

2004 Q5 Continued

(c) Discuss steps which could be taken to solve the debt crisis which LDCs are experiencing.

(15 marks)

1. Abolish the outstanding debt.

The quickest and simplest way to solve the debt crisis is to ‘write-off’ the existing debts of these countries and start afresh.

2. Re-schedule the capital repayments.

Allow these countries to extend the length of the repayment period, allowing payment at a time more suitable / reducing the annual repayments charges.

3. Lower the annual interest repayments.

Reduce the interest repayments on the existing debt.

4. Replace existing ‘dear’ debt.

By replacing existing debts with new loans carrying lower rates of interest the annual interest charges and capital repayments will fall.

5. Place a limit on interest repayments

The amount of interest to be paid could be limited to a percentage of export earnings by that country.

6. Barriers to prevent the flight of capital

Governments in LDC’s could erect barriers to prevent those wealthy enough to do so, from moving their wealth to bank accounts in other countries.

7. Debt swaps

Change debt for investment in firms in the debtor countries / or for the right to conserve large areas of habitat in danger i.e. the Tropical Forests

8. Debt buybacks

When a debt is bought back by the debtor country at a discount.

9. Reform of IMF / World Bank

Critics of IMF / World Bank policies say that their decisions are too much influenced by US Policy. If these institutions were reformed and their lending policies adjusted – it might go some way towards alleviating the debt problems of LDC’s.

3 x 5 marks graded.

2004 Q6

- (a) Explain the following terms which are commonly used in estimating the National Income statistics of a country.
- Incomes-in-kind;
 - Transfer Payments;
 - Net Factor Income from the Rest of the World.
- (20 marks)*

(i) Incomes-in-kind: 6 marks

- Income received in a non-monetary form**
- Payment made in the form of goods or services**

(ii) Transfer Payments: 6 marks

- Payments received for which no factor of production has been supplied /**
- Income which people receive for which they did not supply goods/services.**

(iii) Net Factor Income from the Rest of the World: 8 marks

- This is the difference between incomes earned by foreign factors of production in Ireland and send abroad and income earned by Irish factors of production abroad and returned to Ireland.**

- (b) The table below shows the levels of National Income, Consumption, Investment, Exports and Imports at the end of Year 1 and Year 2.
 (For the purpose of this question you may ignore the government sector.)

Year	National Income	Consumption	Investment	Exports	Imports
1	€5,000	€4,300	€500	€600	€400
2	€5,600	€4,750	€650	€750	

Calculate the following, showing all your workings:

- The level of Imports in Year 2.
- The Marginal Propensity to Import.
- The Marginal Propensity to Save.
- The size of the Multiplier. Explain the economic meaning of this figure.

(25 marks)

2004 Q6 Continued

(i) Level of Imports in Period 2:

$$\begin{array}{rcl} Y & = & C + I + X - M \\ \text{€5,600} & = & \text{€4,750} + \text{€650} + \text{€750} - M = \boxed{\text{€550}} \end{array}$$

5 figures at 1 mark each = **5 marks**. Signs must be correct

(ii) MPM

$\frac{\text{€150}}{\text{€600}} = 0.25$	2 figures at 2 marks each + 1 mark for correct answer = <u>5 marks</u>
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(iii) MPS

$\frac{\text{€150}}{\text{€600}} = 0.25$	$MPS = 1 - MPC$	2 figures at 2 marks each + 1 mark for correct answer <u>= 5 marks</u>
	$1 - 0.75$	
	0.25	

(iv) The Multiplier

Method 1

Injections = €300. The increase in national income = €600. So the injections have doubled national income. The multiplier is **2**

Reference to injections: 2 marks
Reference to national income doubling: 2 marks
Correct answer to size of multiplier: 1 mark

Method 2

$$MPC = \frac{\text{€450}}{\text{€600}} = 0.75 \quad \text{Multiplier} = \frac{1}{1 - (75\% - 25\%)} = \boxed{2}$$

Correct figures / signs inserted for multiplier: 4 marks
Correct answer for multiplier: 1 mark.

The economic meaning of this figure:

This figure [2] means that for any given injection into the economy, national income will increase by twice the original injection.

5 marks

2004 Q6 Continued

- (c) National Income statistics provide important information, but are subject to certain limitations.
- (i) Explain **THREE** reasons why it is useful to have these statistics.
- (ii) Explain **THREE** limitations as to the use of these statistics. *(30 marks)*

(i) Reasons why it is useful to have these National Income statistics

3 points x 5 marks graded.

1. Indication of alterations in our standard of living

Any change in our GNP figures will indicate the level of economic growth within the country from one year to the next, and give a general indication of changes to our standard of living – if any.

2. Means of comparing the standard of living in different countries.

We can use the GNP statistics to compare the standard of living in our country with that of other countries.

3. Assist the government in formulating economic policy.

Governments now play a greater influence in the development and growth of the economy. To effectively plan for this governments need information about our economy such as that provided by the National Income statistics.

4. Evaluate economic policy

To assess changes to the economy and economic changes in the various sectors, and to provide a benchmark for against which progress can be monitored – it is useful to have these statistics.

5. EU Budget Contributions / Benefits

The wealth revealed in our national income statistics will determine the contribution (if any) which Ireland must make to the EU budget.

The figure will also be used within the EU to determine those countries which require aid from the EU and the amount of that aid.

2004 Q6 Continued

(ii) THREE limitations as to the use of National Income these statistics

3 points x 5 marks graded.

1. Population changes

If GNP grows at a slower rate than population, then GNP per head decreases and the average standard of living will fall.

2. Inflation

An increase in prices will automatically increase GNP at current market prices.
So it is better to consider GNP at constant market prices.

3. Employment / Unemployment

If a person is unemployed rising GNP per head will not necessarily mean that this person's average standard of living is rising.

4. Levels of taxation

When considering a person's standard of living one should take into account rates of income tax and levels of indirect tax within the country. An increase in either of these may result in a drop in a person's standard of living.

5. Levels of social welfare

For a person who is unemployed the rates of social welfare payable is of more relevance than the average standard of living in the country.

6. Measures flow of wealth not welfare

Rising GNP may be accompanied by changing working / living conditions which may cause a loss of welfare.

7. Hidden social costs attached to increases in GNP

If a firm increases output GNP increases. However a hidden cost may be increased pollution.

8. Distribution of GNP

General living standards depend on its distribution. If increases in GNP make their way into the pockets of a small minority, there may be no improvement in the standard of living of the whole community.

9. Exclusion of important activities from calculation of GNP

The black economy is excluded from the calculation of national income.

The work of housewives and much of the work of voluntary activities is also excluded.

Such activities are most important to the welfare of its citizens.

10. Nature of the goods produced

A country which spend a small amount on military equipment and a large amount on health, education etc. will have a better standard of living than one where the reverse is the case i.e. much of its wealth on armaments.

11. Government services at cost price.

Government services are included at cost while private services are provided at selling price. A country where the government provides many services will record a lower GDP.

12. International comparisons

When comparing the GNP of one country with that of another the following precautions are necessary:

- Conversion of currencies to a common denominator
- The extent to which a country is self-sufficient
- The needs of the people in each country e.g. in countries with hot climates less will be spent on heating.

2003 Q6

(a) Explain the following terms and show the relationship which exists between both:

- (i) Gross Domestic Product at Factor Cost
- (ii) Gross National Product at Market prices. (20 marks)

Gross Domestic Product at Factor Cost: *7 marks graded*

It is the total value of input / expenditure / within the country as a result of engaging in current economic activity in one year, valued at payments to factors of production.

Or

²⁰
the output produced by the factors of production in the domestic economy irrespective or whether the factors are owned by Irish nationals or foreigners, valued at payments to factors of production.

Gross National Product at Market Prices: *7 marks graded*

It is the value of total output / expenditure valued at today's market prices, produced by Irish owned factors of production, before any adjustments are made for taxation, subsidies or depreciation.

Or

It is the value of the total goods and services produced in an economy in a year valued at current/today's market prices, produced by Irish owned factors of production.

Relationship: *6 marks graded*

G.D.P. at Factor Cost

+/- Net Factor Income from Rest of the World

= G.N. P. at Factor Cost

+ Indirect taxes : .

- Subsidies : .

= G.N.P. at Market Prices

2003 Continued

(b) Outline the effects which each of the following could have on the level of GNP at Market Prices.

- (i) a **RISE** in the general level of VAT;
- (ii) a **REDUCTION** in subsidies to first-time house buyers.

Explain your answer in each case. (20 marks)

Short-term:

	RISE in general level of VAT	REDUCTION in subsidies to first-time house buyers
Effect on GNP at Market Prices	Will increase	Will increase
Explanation	The increase in VAT will increase the prices for goods & services which consumers must pay in the market place	The decrease in first-time house buyers subsidies will increase GNP at market prices as house prices will rise in the market place
	<u>10 marks graded</u>	<u>10 marks graded</u>

or

Long-term:

	RISE in general level of VAT	REDUCTION in subsidies to first-time house buyers
Effect on GNP at Market Prices	Will decrease	Will decrease
Explanation	The increase in VAT will increase the prices of goods & services which consumers must pay in the market place. Thus, demand falls and output falls. Real output falls by more than the increase in the price level.	The decrease in first-time house buyers' subsidies will decrease GNP at market prices as house prices will rise in the market place. Producers lose this subsidy and so the output of houses falls. Decline in real activity exceeds the elimination of the subsidy element.
	<u>10 marks graded</u>	<u>10 marks graded</u>

2003 Continued

(c) Discuss the positive **and** negative economic consequences which a fall in the level of economic growth (GNP) may have on the Irish economy. (35 marks)

Positive consequences	Negative consequences
<u>1. Moderation in price increases.</u> With the fall in the level of economic activity the level of demand induced inflation will fall.	<u>1. Unemployment</u> A reduction in GNP reduces demand and this may lead to a reduction in employment.
<u>2. Reduction in labour shortages.</u> The fall in demand for goods & services may decrease the demand for labour in certain sectors, easing labour shortages.	<u>2. Strain on government finances.</u> The government may suffer a decline in their tax revenues and an increase in current spending on social welfare will put a strain on government finances.
<u>3. Moderation in wage demands.</u> Expectations by workers may decline with respect to pay increases.	<u>3. Reduced investment opportunities.</u> With lower GNP and contracting demand entrepreneurs may have fewer opportunities for profitable investments.
<u>4. Revised expectations by citizens.</u> During an economic boom our expectations grow and may conflict. With falling GNP we may revise our expectations downwards i.e. expect less investment in infrastructure.	<u>4. Reduction in standard of living.</u> The fall in GNP lowers average incomes and this will reduce the average standard of living.
<u>5. Reduced demand for imports.</u> A reduction in GNP lowers incomes and spending power and demand for imports may fall thus improving our Balance of Payment position.	<u>5. Provision of state services / infrastructure</u> The dis-improvement in state finances will make it more difficult to fund improvements in current state services i.e. the health and education sectors and may make it more difficult to fund major infrastructural developments e.g. our road infrastructure.
<u>6. Restore balance in the housing market</u> The fall in GNP will reduce spending power and help reduce inflation in this market, easing it towards equilibrium	<u>6. Private sector workers targeted</u> With falling GNP businesses may rationalise and hence private sector employees may be affected more adversely, than public sector employees.
<u>7. Reduced immigration</u> Reduced GNP will lower demand and reduce opportunities for employment, leading to a possible fall in immigration	
<u>8. Less pressure on state infrastructure</u> Lower GNP results in less demand for scarce resources/ less damage to the environment/ lower incomes will reduce demand for commodities i.e. cars	

*5 points at 7 marks each graded.
Minimum: of 2 positive/negative consequences required.*

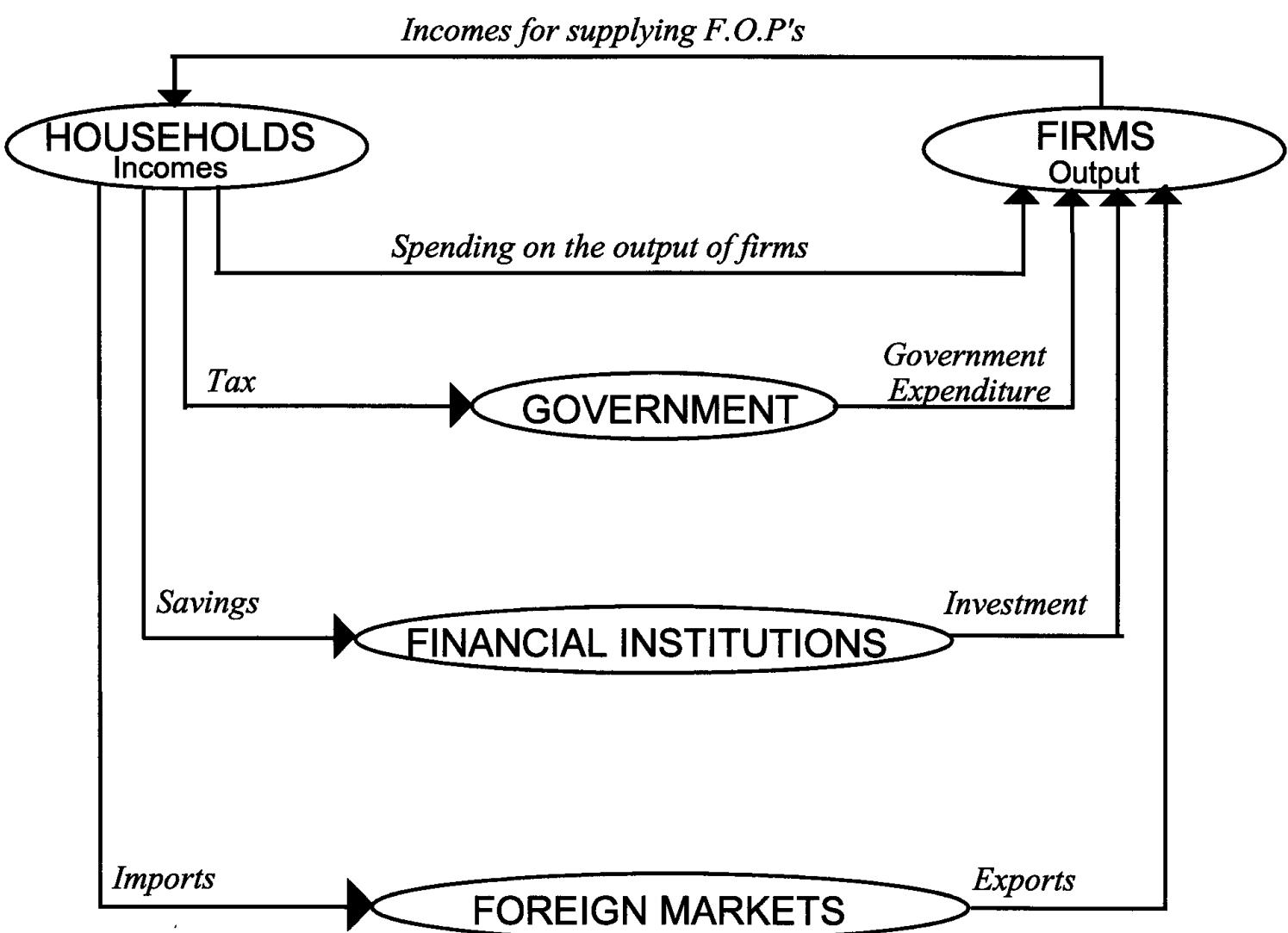
2001 Q8

- (a) Explain by means of a diagram of Circular Flow of Income for open economy the forces which influence the level of aggregate demand.

(25 marks)

Marking scheme

Identifying the 5 'sectors':	5 at 1 mark each	= 5 marks
Identifying the 8 'flows':	8 at 1 mark each	= 8 marks
Identifying correct direction of each flow:	8 directions at 1 mark each	= 8 marks
Reference to Leakkages (T, S and M):		= 2 marks
Reference to Injections (G, I and X):		= 2 marks



2001 Continued

(b) Given the following information:

Period	National Income	Consumption	Investment	Exports	Imports
1	£5,800	£4,800	£1,200	£1,000	£1,200
2		£5,250	£1,300	£1,200	£1,350

Calculate the following showing all your workings:

- (i) The level of National Income in Period 2.
(ii) The Marginal Propensity to Save.
(iii) The Marginal Propensity to Import.
(iv) The size of the multiplier. (20 marks)

(20 marks)

Answers:

Year	Y	C	I	X	M	S = (Y - C)
1	£5,800	£4,800	£1,200	£1,000	£1,200	£1,000
2	£6,400	£5,250	£1,300	£1,200	£1,350	£1,150
Change	£600	£450	£100	£200	£150	£150

(i) National Income in Year 2:

$$Y = C + I + X - M$$

$$\text{£}5,250 + \text{£}1,300 + \text{£}1,200 - \text{£}1,350 = \boxed{\text{£}6,400}$$

5 figures @ 1 mark each = 5 marks. Signs must be correct

(ii) MPS

$$\frac{\text{£150}}{\text{£600}} = .25$$

2 figures at 1 mark each + 3 marks for correct answer = 5marks

(iii) MPM

$$\frac{\text{£}150}{\text{£}600} = .25$$

2 figures at 1 mark each + 3 marks for correct answer = 5 marks

2001 Continued

(iv) The Multiplier

Method 1

Injections = £300. The increase in national income = £600. So the injections have doubled national income. The multiplier is **[2]**

Reference to injections: 2 marks

Reference to national income doubling: 2 marks

Correct answer for multiplier: 1 mark

Method 2

$$\text{MPC} = \frac{\text{£450}}{\text{£600}} = .75 \quad \text{Multiplier} = \frac{1}{1 - (75\% - 25\%)} = [2]$$

Correct figures inserted for multiplier: 4 marks

Correct answer for multiplier : 1 mark.

(c) Given Gross National Product at Current Market Prices for the years 1990 and 2000, state and explain the relevance of **FOUR** other pieces of information in assessing changes in the average standard of living between 1990 and 2000. **(30 marks)**

1. Population changes

If GNP grows at a slower rate than population, then GNP per head decreases and the average standard of living will fall.

2. Inflation

An increase in prices will automatically increase GNP at current market prices. Therefore it is better to consider GNP at constant market prices.

3. Employment / Unemployment

If a person is unemployed rising GNP per head will not necessarily mean that this person's average standard of living is rising.

2001 Continued

4. Levels of taxation

When considering a person's standard of living one should take into account rates of income tax and levels of indirect tax within the country. An increase in either of these may result in a drop in a person's standard of living.

5. Levels of social welfare

For a person who is unemployed the rates of social welfare payable is of more relevance than the average standard of living in the country.

6. Measures flow of wealth not welfare

Rising GNP may be accompanied by changing working or living conditions which may cause a loss of welfare e.g. traffic congestion.

7. Hidden social costs attached to increases in GNP

If a firm increases output GNP increases, however a hidden cost may be increased pollution.

8. Distribution of GNP

If increases in GNP make their way into the pockets of a small minority, there may be no improvement in the standard of living of the whole community.

9. Exclusion of important activities from calculation of GNP

The black economy is excluded from the calculation of national income.

The work of housewives and much of the work of voluntary activities is also excluded. Such activities are most important to the welfare of its citizens.

10. Nature of the goods produced

A country which spends a small amount on military equipment and a large amount on health, education etc. will have a better standard of living than one where the reverse is the case i.e. much of its wealth on armaments.

11. Government services at cost price.

Government services are included at cost while private services are provided at selling price. A country where the government provides many services will record a lower GDP.

12. Degree of market orientation.

As an economy develops, an increasing amount of activities take place within the market and hence GNP rises. This does not necessarily mean that our standard of living increases.

As more women join the workforce, increased usage of child minding services/facilities is required. While GNP increases this does not necessarily mean that our standard of living is rising

<h3><u>Marking Scheme</u></h3> <p>4 points at 8 + 8 + 7 + 7 marks each <u>State:</u> 4 points at 3 marks each = 12 marks <u>Explain clearly:</u> 4 points at 5 + 5 + 4 + 4 marks each</p>
