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# Government and the Economy Pack

Mr Traynor©

Economics  
Pack 6 • Leaving Cert

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# JT Economics

# The Business Guys

## Short Questions

### 1) 2018 Q6

State and explain Adam Smith's **four** Canons of Taxation.

- (i) \_\_\_\_\_  
\_\_\_\_\_
- (ii) \_\_\_\_\_  
\_\_\_\_\_
- (iii) \_\_\_\_\_  
\_\_\_\_\_
- (iv) \_\_\_\_\_  
\_\_\_\_\_

**(17 marks)**

### 2) 2018 Q7

**(a)** Outline **two** policies a government could consider to reduce income inequality.

- (i) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- (ii) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**(b)** Outline **one** possible challenge for the Irish economy of reducing income inequality.

- \_\_\_\_\_  
\_\_\_\_\_

**(17 marks)**

3) 2018 Q8

Outline **three** economic consequences of raising the retirement age for public sector workers to 70 years.

**Economic consequences:**

(i) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(ii) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(iii) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**(17 marks)**

4) 2017 Q3

(a) Distinguish between Direct Taxation and Indirect Taxation **and** state **one** example of each.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(b) Why are Indirect Taxes sometimes seen as inequitable? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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**(16 marks)**

5) 2017 Q8

Explain how the following Government policy objectives may conflict with each other.

Economic growth *versus* Balance of Payments equilibrium: \_\_\_\_\_

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Economic growth *versus* a Just Social Policy: \_\_\_\_\_

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**(17 marks)**

6) 2017 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: \_\_\_\_\_

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Economic disadvantage: \_\_\_\_\_

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**(17 marks)**

7) 2016 Q8

(a) Outline **two** possible economic effects of the Irish government introducing a levy on home insurance premiums to help address damage caused by the recent flooding crisis in Ireland.

(i) \_\_\_\_\_

\_\_\_\_\_  
(ii) \_\_\_\_\_

(b) Suggest **one** alternative method for addressing the flooding crisis in Ireland.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**(17 marks)**

8) 2016 Q9

“The national minimum wage is increased by 50 cent, bringing it to €9.15 in a bid to make work pay.”  
(Source: *Irish Independent*, October 2015)

Outline **three** possible economic impacts of this measure on the Irish economy.

(i) \_\_\_\_\_

\_\_\_\_\_  
(ii) \_\_\_\_\_

\_\_\_\_\_  
(iii) \_\_\_\_\_

\_\_\_\_\_  
**(17 marks)**

9) 2015 Q3

- (a) Outline the primary responsibility of the National Treasury Management Agency (NTMA).

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*“The NTMA sells bonds worth €4bn at a low yield (0.867%) in 2015.”*

*(Report: Irish Times, January 2015)*

- (b) Is selling bonds at a low yield good or bad for the Irish Government? Explain your answer.

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**(16 marks)**

10) 2015 Q5

*“Indirect taxes can be regressive but they also have advantages for governments.”*

- (a) Explain what is meant by a *regressive tax*.

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- (b) Outline **two** advantages of *indirect taxation* for governments:

(i) \_\_\_\_\_

\_\_\_\_\_

(ii) \_\_\_\_\_

\_\_\_\_\_ **(16 marks)**

11)2014 Q8

Ireland recently emerged from the EU/IMF/ECB ‘Troika Bailout Programme’.

(December 15<sup>th</sup> 2013)

Outline **two** possible economic implications for the Irish economy of having exited this programme.

(i) \_\_\_\_\_

\_\_\_\_\_

(ii) \_\_\_\_\_

\_\_\_\_\_

**(17 marks)**

12)2014 Q9

Outline **two** possible social costs and **two** possible social benefits of an investment by ‘EirGrid’ in upgrading Ireland's electricity network by erecting high-voltage power lines (pylons).

**Social Costs:**

(i) \_\_\_\_\_

\_\_\_\_\_

(ii) \_\_\_\_\_

\_\_\_\_\_

**Social Benefits:**

(i) \_\_\_\_\_

\_\_\_\_\_

(ii) \_\_\_\_\_

\_\_\_\_\_

**(17 marks)**

13)2013 Q9

A recent report to the Irish government highlighted the growing issue of alcohol abuse in Ireland.

- (a) Outline **one** private cost and **one** social cost related to excessive alcohol consumption.
- (b) Describe **one** advantage and **one** disadvantage of the government imposing a minimum price on alcohol products.

(a) **Private Cost:** \_\_\_\_\_

**Social Cost:** \_\_\_\_\_

(b) **Advantage:** \_\_\_\_\_

**Disadvantage:** \_\_\_\_\_

(17 marks)

14)2012 Q3

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

**Reason 1:** \_\_\_\_\_

**Reason 2:** \_\_\_\_\_

**Effect 1:** \_\_\_\_\_

**Effect 2:** \_\_\_\_\_

(16 marks)

15)2012 Q9

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

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

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

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

\_\_\_\_\_  
\_\_\_\_\_

(17 marks)

16) 2011 Q4

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

- (i) \_\_\_\_\_
  - (ii) \_\_\_\_\_
  - (iii) \_\_\_\_\_
- (16 marks)**

17) 2011 Q9

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

**Reasons:**

- (i) \_\_\_\_\_
  - (ii) \_\_\_\_\_
- Actions:**
- (i) \_\_\_\_\_
  - (ii) \_\_\_\_\_
- (17 marks)**

18) 2010 Q2

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

**Answer 1:**

\_\_\_\_\_  
\_\_\_\_\_

**Answer 2**

\_\_\_\_\_  
\_\_\_\_\_

**(16 marks)**

19) 2010 Q9

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

(i) \_\_\_\_\_

\_\_\_\_\_

(ii) \_\_\_\_\_

\_\_\_\_\_

(iii) \_\_\_\_\_

\_\_\_\_\_

(17 marks)

20) 2008 Q2

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

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

**Explanation:** \_\_\_\_\_

**Method:** \_\_\_\_\_

(16 marks)

21) 2006 Q8

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

**Function 1:** \_\_\_\_\_

**Function 2:** \_\_\_\_\_

(17 marks)

22) 2006 Q9

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

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

**Advantages:**

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

**Disadvantages:**

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

**(17 marks)**

23) 2005 Q5

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**(16 marks)**

24) 2004 Q2

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

\_\_\_\_\_  
\_\_\_\_\_

Example: \_\_\_\_\_

**(16 marks)**

25) 2004 Q7

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

Private benefits:

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

Social benefits:

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

**(17 marks)**

26) 2003 Q1

Define regressive tax and state **TWO** examples of this type of tax.

**Definition:** \_\_\_\_\_

\_\_\_\_\_

**Example 1:** \_\_\_\_\_

**Example 2:** \_\_\_\_\_

**(16 marks)**

27) 2003 Q2

State **FOUR** economic aims of government.

(i) \_\_\_\_\_

(ii) \_\_\_\_\_

(iii) \_\_\_\_\_

(iv) \_\_\_\_\_

**(16 marks)**

28) 2003 Q8

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

**Definition:** \_\_\_\_\_  
\_\_\_\_\_

**Example 1:** \_\_\_\_\_

**Example 2:** \_\_\_\_\_  
**(17 marks)**

29) 2002 Q6

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
**(17 marks)**

30) 2001 Q3

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

.....  
.....

Example (i) .....

Example (ii) .....

**(16 marks)**

## Long Questions

### 2018 Q2 (c)

- (c) *'Motor insurance providers in Ireland targeted in anti-cartel inquiry.'*  
(Source: *The Irish Times*, July 2017)
- (i) Explain the likely effects on consumers if collusion (e.g. cartel agreement) existed in the motor insurance industry.
- (ii) Suggest **two** measures the government could consider to discourage anti-competitive practices in industry. Explain your answer. [20]

### 2018 Q5

- (a) (i) Explain the terms **fiscal policy** and **monetary policy**.  
(ii) Outline how Ireland's membership of the Eurozone affects the operation of the Government's monetary policy **or** fiscal policy in Ireland. [20]
- (b) *Indirect taxes are frequently used as a government policy instrument to change certain consumer behaviour.*
- (i) Explain the term **indirect tax**.  
(ii) Explain how **indirect taxes** could be used to change certain consumer behaviour, using examples to support your answer.  
(iii) Outline **one** intervention, other than taxation, that a government could consider to change consumer behaviour. [25]
- (c) *In 2016, the Government [budget] deficit was €1.8 billion, an improvement on the 2015 deficit of €5.0 billion.*  
(Source: CSO, July 2017)
- (i) Define the term **budget deficit**.  
(ii) Discuss the possible economic consequences of a reduction in the budget deficit for the Irish economy.  
(iii) Is a budget deficit always bad for an economy? Outline **two** reasons for your answer. [30]
- [75 marks]

**2018 Q7**

- (a) Assess the performance of the Irish economy in the past 12 months in **each** of the following areas.
- (i) Economic growth
  - (ii) Employment / unemployment
  - (iii) Inflation
  - (iv) The size of the National Debt. [20]
- (b) Outline the economic advantages of effective regulation of the banking sector. Your answer should include advantages for citizens **and** advantages for the banking industry. [25]
- (c) *The Government's Summer Economic Statement has confirmed that it will increase capital spending by €500m each year from 2019 to 2021.*  
(Source: [www.rte.ie](http://www.rte.ie), 2017)
- (i) Explain **three** economic arguments in favour of an increase in government capital expenditure in the Irish economy.
  - (ii) Discuss how this planned expenditure on capital projects (i.e. large infrastructural projects) by the Irish government may conflict with any **two** other government objectives. [30]
- [75 marks]

**2018 Q8 (c)**

- (c) *'Official greenhouse gas emission projections indicate that Ireland will fail to meet the EU 2020 targets by a substantial margin.'*  
(Source: Climate Change Advisory Council)
- (i) Outline **three** economic reasons why protection of the environment is an increasing concern for governments.
  - (ii) Explain **one** measure **each** of the following could take to help achieve Ireland's EU targets (i.e. reduce carbon emissions):  
Individuals; Firms; the Irish Government. [30]

**2017 Q7 (a) + (b)**

(a) Explain the following terms:

- National Debt
- Fiscal Policy
- Budget Deficit
- Tax Avoidance.

[20]

(b) *The National Broadband Plan is the government's commitment, over the next five years, to bring high speed broadband to every home and business in rural Ireland.*

*In July 2016 the government announced that this national infrastructure will be privatised when built.*

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

(ii) State and explain the economic arguments for **and** against privatisation using any Irish example.

[30]

**2016 Q7**

(a) In the case of any **two** of the following three pairs, distinguish between the two concepts.

- (i) Income and wealth
- (ii) Progressive taxes and regressive taxes
- (iii) Impact of taxation and incidence of taxation.

[20]

(b) (i) Outline **two** economic policies which the Irish Government could consider to address inequality in Ireland.

(ii) Policies introduced to reduce inequality may make it more difficult for the government to achieve other economic aims. Explain this statement, using examples to support your answer.

[30]

(c) A clean and healthy environment is a scarce and valuable resource. Outline actions the Irish government could take to protect the environment.

[25]

**[75 marks]****2016 Q8 (b)**

(b) *“The government will run a budget deficit of only 1% of GDP next year, while gross debt will fall to 89% of GDP by the end of 2016.”* (Source: Irish Examiner, November 2015)

- (i) Discuss how the Irish Government has achieved reductions in the budget deficit **and** gross debt in recent years.
- (ii) Outline the possible costs to Irish society in achieving these reductions.

[35]

**2015 Q1 (c)**

- (c) *Following recent sharp increases in the price of private rented accommodation, calls have been made for the Irish Government to introduce price/rent controls (a rent ceiling).*

Advise the Minister for the Environment on the possible economic consequences of the Government intervening in the market by imposing a price ceiling for private rented accommodation.

(15)

**2015 Q2 (c)**

- (c) *The Commission for Energy Regulation (CER), Ireland's independent energy regulator, has been appointed as the independent economic regulator for Ireland's public water services.*

Discuss whether or not Irish Water (Uisce Éireann), Ireland's new water utility company, should be regulated.

(15)

**2015 Q8 (a) + (b)**

- (a) *"A Budget deficit stimulates the economy and therefore should be encouraged."*

Discuss this statement with reference to the Irish economy. You may agree or disagree. (20)

- (b) (i) Outline **three** policies the Irish Government could consider to achieve balanced regional development.  
 (ii) Outline **two** economic benefits to rural communities of balanced regional development. (25)

**2014 Q4 (c)**

- (c) (i) State and explain **three** factors that caused the price of residential property to fall considerably in Ireland in the years following 2007.  
 (ii) Mortgage arrears (i.e. the inability to meet mortgage loan obligations) is the biggest single personal debt issue for many households.

Discuss **one** possible economic impact of **mortgage arrears** on **each** of following:

- the household
- the banking sector
- the Irish Government.

(30)

**2014 Q6**

- (a) (i) State and explain **four** current economic aims/objectives of the Irish Government.  
(ii) Outline **two** possible conflicts that could arise between some of these Government aims/objectives. (30)
- (b) Discuss arguments for **and** against the privatisation of state assets. (20)
- (c) In *The Irish Times* (November 2013) the economist Joseph Stiglitz predicted a "lost decade" for the Irish economy, due to the extended period of austerity. (25)

(Austerity refers to government measures introduced to reduce a Budget Deficit.)

Outline **four** possible economic consequences for the Irish economy arising from the austerity measures introduced in recent Irish Government budgets. (25)  
**[75 marks]**

**2014 Q8**

- (a) Explain the relationship between a government Budget Deficit and the National Debt. (20)
- (b) "The Irish Tax system has evolved over time to reflect changing economic and social conditions and will need to be equally responsive to new developments in the future."  
*(Commission on Taxation Report, 2009)*
- (i) Discuss Adam Smiths' **four** Canons of Taxation in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776).  
(ii) Outline **two** other principles which could be considered in a modern tax system. Justify your answers. (35)
- (c) Outline possible economic consequences of the Irish Government shifting the burden of taxation from direct taxation to indirect taxation. (20)

(20)  
**[75 marks]**

### **2013 Q4**

- (a) 'The Exchequer deficit in December 2012 was €14.89bn'.  
(Department of Finance, January 2013)
- (i) Discuss **four** possible economic consequences of the Government Current Budget Deficit for the Irish economy.
  - (ii) Explain how a government budget could be used to reduce income inequalities in an economy. (30)
- (b) (i) State and explain **two** reasons why the government increased taxes on cigarettes and alcohol in its most recent budget.
- (ii) Outline **three** economic impacts for the Irish economy of an increase in Motor Tax. (30)
- (c) 'The Public Capital Programme must make a further contribution to budgetary consolidation'.  
(Infrastructure and Capital Investment, 2012 – 2016)

As an Advisor to the Minister for Public Expenditure and Reform, discuss **two** economic arguments in favour of a reduction in capital expenditure in the Budget.

(15)

**[75 marks]**

### **2013 Q8 (b)**

- (b) 'Ireland's National Debt was €137.6bn at the end of December 2012'.  
(National Treasury Management Agency)
- (i) Discuss the disadvantages for Ireland of having a high National Debt.
  - (ii) Outline **two** means by which Ireland's National Debt may be made more sustainable. (30)

**2012 Q6**

- (a) One of the economic aims of the Irish Government at present is to decrease government current expenditure.  
Discuss **four** other economic aims of the Government **and** use relevant statistics/information to justify your choice. (20)
- (b) ‘Most eurozone countries with large deficits are using VAT to generate revenue.’  
(Irish Tax Institute, The Irish Times, November 2011)
- (i) Explain, using examples, the difference between direct taxes and indirect taxes.  
(ii) Discuss the economic advantages **and** disadvantages for the Government of increasing VAT rates instead of income tax rates in its most recent budget.  
(iii) Outline how imposing a tax on sugary foods (e.g. fizzy drinks) could benefit the Irish economy. (35)
- (c) State and explain **two** economic arguments in favour of and **two** economic arguments against third level students contributing to the cost of their higher education. (20)

**[75 marks]****2011 Q3 (c)**

- (c) Advise the Minister for Transport on **two** possible economic advantages and **two** possible economic disadvantages of investing in public transport, rather than investing in the construction of new roads. (20)

**2011 Q5**

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

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

(30)

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

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

(25)

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

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

(20)

**[75 marks]****2011 Q8 (c)**

(c) *'The unemployment rate in Ireland in December 2010 was 13.6%'.*

*(The Central Statistics Office)*

- (i) Discuss **two** economic measures which the Government could take in order to reduce the level of unemployment in Ireland.

At the end of the year 2010, the EU and the IMF agreed €85bn of financial support for Ireland.

- (ii) Discuss the economic effects of this financial support on the Irish economy.

(30)

**2010 Q1 (c)**

- (c) Many health advisors wish to reduce the consumption of soft drinks. Advise the Minister for Health and Children on possible economic actions that the Government could take to reduce the consumption of soft drinks.

*(15 marks)***2010 Q3 (c)**

- (c) Ireland's 'Black Economy' (underground economy) activity results in a loss of up to €6.1bn to the Exchequer annually, according to the economist Friedrich Schneider.

- (i) State and explain **three** economic effects of this activity in Ireland.  
 (ii) Outline **two** economic measures the Irish Government could take to discourage this activity.

*(25 marks)***2010 Q4**

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

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

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

*(30 marks)*

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

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

*(25 marks)*

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

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

*(20 marks)*  
**[75 marks]**

**2010 Q6 (b)**

- (b) (i) State and explain what you consider to be the **three** most important economic aims of the Irish Government.
- (ii) Outline **two** examples of possible conflicts between government economic aims/objectives.

*(25 marks)*

**2009 Q6**

- (a) Define **each** of the following terms:
- (i) Current Budget Deficit;
- (ii) Exchequer Borrowing Requirement;
- (iii) Public Sector Borrowing Requirement;
- (iv) National Debt.

*(20 marks)*

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

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

*(35 marks)*

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

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

*(20 marks)*

**[75 marks]**

**2008 Q5 (c)**

- (c) It is becoming more difficult to attract Foreign Direct Investment (multinational companies) into Ireland. Discuss the economic reasons for this development.

*(25 marks)*

**2008 Q6**

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

**2008 Q7 (a) + (b)**

- (a)
- (i) Explain the term 'Privatisation' and state **two** examples of companies that have been privatised in Ireland.
  - (ii) Outline **two** arguments in favour of Privatisation and **two** arguments against Privatisation for the Irish economy.
- (30 marks)*
- (b) One of the economic aims of the government is 'Balanced Regional Development'.
- (i) Explain the meaning of the underlined term.
  - (ii) Outline **two** policies which the government could implement to promote regional development.
  - (iii) 'Balanced Regional Policy has an opportunity cost'. Explain this statement, using an example to support your answer.
- (25 marks)*

**2007 Q5**

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

- (i) **Government Current Budget;**
- (ii) **Government Capital Budget;**
- (iii) **Revenue Buoyancy;**
- (iv) **Regressive Taxation.**

*(25 marks)*

(b) State and explain how a **government budget** could be affected by each of the following developments:

- (i) a rise in interest rates in the economy;
- (ii) a fall in the rate of stamp duty on property purchased;
- (iii) the introduction of subsidised child care for all families within the state.

*(30 marks)*

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

*(20 marks)*

**[75 marks]**

**2007 Q8 (b) + (c)**

(b) (i) State and explain **FOUR** economic aims of the Irish government.

(ii) Discuss **TWO** examples where economic policies introduced to achieve one economic aim, may make it more difficult to achieve one of the other aims.

*(25 marks)*

(c) ‘The **National Debt / GDP ratio** has fallen from over 90% during the first half of the 1990’s to an estimated 25.1 % at the end of 2006’. (National Treasury Management Agency)

(i) Briefly explain each of the underlined terms.

(ii) Outline the economic benefits of this changed situation for the Irish economy.

*(30 marks)*

**2006 Q5**

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

**2006 Q8 (a) + (c)**

- (a) The government announced plans to **decentralise/re-locate** many government departments and state agencies throughout the country. Discuss **TWO** possible economic advantages and **TWO** possible economic disadvantages of this policy for the development of the Irish economy.
- (20 marks)*

**2006 Q8 (a) + (c)**

- (c) There has been high expenditure in recent years on developing transport and communications infrastructure in Ireland. With the use of examples, outline **TWO** possible social costs and **TWO** possible social benefits of these developments.
- (30 marks)*

**2005 Q1 (c)**

- (c) Assume that the average spending on energy by a low-income family is €40 weekly. The price of energy rises by 20% so that the same consumption by a low-income family would now cost €48 weekly.

The government is considering introducing one of the following policy measures to assist low-income families:

- giving low- income families an increased allowance of €8 weekly (income supplement);
- subsidising the producers of energy so that energy can continue to be sold at the initial price (price subsidy).

Which policy measure would you advise the government to take? Explain the economic reasons for your answer.

*(20 marks)*

**2005 Q4**

- (a) In each of the following distinguish between the terms:

- (i) monetary policy and fiscal policy;
- (ii) progressive taxation and regressive taxation;
- (iii) tax avoidance and tax evasion.

*(30 marks)*

- (b) There has been an increase in government income from taxation in the past year.

- (i) Outline **THREE** reasons for this outcome.
- (ii) State **ONE** revenue opportunity and **ONE** expenditure opportunity for the government arising from this increased income. Which of these would you consider a priority?  
Explain your choice.

*(25 marks)*

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

*(20 marks)*

**[75marks]**

**2005 Q8 (c)**

- (c) (i) One of the government's economic aims is to achieve balanced regional development. Outline **FOUR** possible government policies to achieve this aim.
- (ii) "Policies to achieve balanced regional development may make it more difficult for the government to achieve other economic aims". Explain this statement, using examples to support your answer. *(30 marks)*

**2004 Q8 (b) + (c)**

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

**2003 Q7 (b)**

- (b) Outline the effects which a rise in the level of unemployment in Ireland may have on:
- (i) Government current finances.
- (ii) The Balance of Payments (Current Account).
- (iii) Price Inflation. *(20 marks)*

**2002 Q2 (c)**

- (c) Discuss the possible social costs **and** social benefits of the new roads being constructed throughout Ireland. *(25 marks)*

**2002 Q7 (b) + (c)**

- (b) Outline the positive **and** negative economic consequences of a Current Budget Surplus. (25 marks)
- (c) (i) Outline, giving examples, **TWO** reasons why Irish semi-state companies are facing increasing competition.
- (ii) Discuss **ONE** advantage and **ONE** disadvantage of this development for:
- Consumers
  - Employees of semi-state firms
- (30 marks)

**2001 Q7**

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

## Short Questions Answers

### 1) 2018 Q6

State and explain Adam Smith's **four** Canons of Taxation.

- **Equity**  
The more you earn the greater proportion of tax you should pay. Taxes should be progressive i.e. take a higher proportion of income in tax as income rises/Persons should contribute taxes in proportion to their ability to pay.
- **Economy**  
The revenue collected should exceed the costs of collection. Raising revenue is the main purpose of taxation.
- **Certainty**  
The amount paid should be clear and certain. The taxpayer should know how much they are paying, the manner of payment and time of payment. The government should know how much revenue it will receive.
- **Convenience**  
The tax should be collected in a way and at a time which suits the taxpayer. It is more convenient when it is deducted at source e.g. PAYE, VAT

1 x 5

3 x 4

## 2) 2018 Q7

(a) Outline **two** policies a government could consider to reduce income inequality.

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

- Welfare benefits could be increased or maintained: This means that those on low incomes would be supported.
  - Tax changes: make direct taxes more progressive e.g. PAYE / take the lower income groups outside the tax net.
  - Wealth taxes: Similar to France the government could introduce a wealth tax and then lower the income taxes for low paid.
  - Target universal entitlements / means testing child benefit or targeting parents in receipt of welfare payments or on low incomes.
  - Increase the minimum wage /introduce the living wage / discourage a bonus culture.
- 
- Access to health care and educational benefits can make a considerable impact on final income, increasing it considerably for the poorest, thereby narrowing the gap between rich and poor.
  - Greater equity in access to and participation in education to higher levels of attainment can have a positive social benefit for society by lowering income inequality in the economy.
  - Narrow the gender pay gap by:
    - Encouraging employers to offer greater flexibility in the workplace to entice women back into the workplace
    - Higher spending on family benefits to encourage more women to join or rejoin the workforce
    - Granting shared parental leave.
  - Build assets for working families:
    - Retirement Plans
    - Savings credit
    - Access to fair, low-cost financial services and home ownership.

(b) Outline **one** possible challenge for the Irish economy of reducing income inequality.

**1 x 5**

- Possible increase in costs to businesses which would affect competitiveness.
- If increased cost is passed onto the consumer it could be inflationary.
- Possible increase in government expenditure and /or reduction in revenue.
- Increase in unemployment if demand for goods and services falls as a result.
- Opportunity cost: cost of foregone alternatives.

## 3) 2018 Q8

Outline **three** economic consequences of raising the retirement age for public sector workers to 70 years.

- As people work longer they will be contributing to government revenue as they continue to pay taxes / increased earning potential / more secure retirement / boost retirement income.
- More demand for goods and services as salaries higher than pensions so more jobs could be created leading to economic growth.
- Reduction in government spending on pensions so more revenue available to provide for other services.
- Could enhance the quality of life and health of workers so society benefits.
- May be considered anti-worker and unjust as wealthy will still have the means to slow down and retire at an earlier age/hit minority and low-income workers most.

6 + 6 + 5

6: 3+3

6: 3+3

5: 3+2

## 4) 2017 Q3

(a) Distinguish between Direct Taxation and Indirect Taxation **and** state **one** example of each. **(16 marks)**

	<b>Direct Taxation</b>	<b>Indirect Taxation</b>
	These are taxes on all forms of income or wealth. They are paid directly by the taxpayer to the Government.	These are taxes on consumption / spending. They are taxes on the purchase of goods and services. They are collected by an intermediary and paid to the Government
Example	PAYE, Corporation Tax, Capital gains tax.	VAT, Excise Duties, stamp duties.

**2 explanations at 5 marks each + 2 examples at 1 mark each**

(b) Why are Indirect Taxes sometimes seen as inequitable?

They are inequitable because those on lower incomes pay a higher proportion of their income on the tax.

**4 marks**

## 5) 2017 Q8

Explain how the following Government policy objectives may conflict with each other.

**(17 marks)**

### **Economic growth *versus* Balance of Payments equilibrium:**

#### **Possible response**

Economic growth means more employment and more money circulating in the economy. As Ireland has a high MPM this will automatically cause an increase in imports which could result in a Balance of Payments deficit.

### **Economic growth *versus* a Just Social Policy:**

#### **Possible response**

Economic growth tends to benefit incomes of the better off. The benefits of economic growth may not be equitably distributed across the economy. Social policies such as taxation etc. are needed to redistribute benefits of economic growth.

#### **Possible example:**

To achieve a just social policy the government may impose high taxes on the high-income earners and transfer this income to those on social welfare/High taxes could force these people out of the economy and so seriously impede the effort to achieve economic growth.

**2 conflicts explained: 12 marks + 5 marks**

**First correct response: 12 marks**

## 6) 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 3<sup>rd</sup> 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 for HEIs often enter professions with higher earnings than others. Graduates for 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**

## 7) 2016 Q8

- (a) Outline **two** possible economic effects of the Irish government introducing a levy on home insurance premiums to help address damage caused by the recent flooding crisis in Ireland.
- (b) Suggest **one** alternative method for addressing the flooding crisis in Ireland. **(17 marks)**

- (a) Outline **two** possible economic effects of the Irish government introducing a levy on home insurance premiums

Possible responses include:

- Increase in cost of insurance for householders resulting in reduced disposable income and consequent reduction in the standard of living.
- Reduced level of cover, households may either reduce their level of cover or some may not renew their insurance policies. / Effect on insurance business.
- Citizens may feel aggrieved as they believe that are already paying for infrastructure through general taxation / this could be seen as another stealth tax by the government.
- Compensation for those who suffer damage: the funds collected may help provide compensation for those who have suffered loss due to the flooding.

- (b) Suggest **one** alternative method for addressing the flooding crisis in Ireland.

Possible responses include:

- Investment by the government in improved flood protection / barrier programmes / flood defences around the country.
- Provide grants to households and business to organise their own flood defence systems.
- Local authorities should set more stringent requirements for granting planning permission. especially on flood plains.
- Ongoing maintenance of drains and culverts needed to drain water from the land.
- Measures to reduce global warming such as tax fossil fuels/subsidise; promote development and use of renewable energy/tax incentives for CO<sub>2</sub> reduction/general climate change policy.
- Undertake research on how to prevent or reduce the impact of floods and implement a long term plan.
- Impose greater charges for those living in flood plains / impose costs on households in flood plains which provide revenue to help with flood protection / drainage.

**7 marks (4+3) + 5 marks (3+2) + 5 marks (3+2)**  
**(1<sup>st</sup> correct 7 marks)**

## 8) 2016 Q9

“The national minimum wage is increased by 50 cent, bringing it to €9.15 in a bid to make work pay.”

(Source: *Irish Independent*, October 2015)

Outline **three** possible economic impacts of this measure on the Irish economy. **(17 marks)**

**Positive impacts:**

- Higher standard of living for low income families/can purchase more goods and services based on their own level of income.
- Improves incentive to work by ensuring that work pays and so encourages more labour supply.
- May tackle the problem of voluntary unemployment by providing an incentive to work rather than being unemployed.
- Alleviates poverty: by raising the living standards of the poorest groups in society and those on low incomes.
- Workers may become more productive as morale within the workforce improves.
- Increase in tax revenue for the government if more people are working and if spending on goods and services increases.
- Minimum wage protects workers against exploitation.
- Increased aggregate demand due to increased spending in the economy.

**Negative impacts:**

- Price of goods may increase as input costs increase lowering competitiveness of Irish firms/ If prices rise as a result then cost-push inflation occurs.
- Firms may try to keep costs down rather than passing the increased cost on to the consumer by cutting back on costs such as on-the job training etc.
- Greater unemployment. Labour is more expensive therefore less labour demanded.
- Cost increases in labour intensive services such as bars/restaurants etc. may result in the closure of small businesses.
- Increased risks of relocation of companies. Irish wage levels may now be higher than those in other countries and this may result in companies considering relocating or setting up outside Ireland if wages are lower in such places.
- May not have any significant impact on poverty. Usually the poorest in society can't work (the elderly and the disabled).

**Any 3 impacts: 7marks (4+3) + 5 marks (3+2) + 5 marks (3+2)**

**(1<sup>st</sup> correct 7 marks)**

## 9) 2015 Q3

3. (a) Outline the primary responsibility of the National Treasury Management Agency (NTMA).

Its core function is **borrowing for the exchequer** and **debt management in order** to ensure liquidity for the exchequer and to minimise the interest burden over the medium term.

**8 marks**

*“The NTMA sells bonds worth €4bn at a low yield (0.867%) in 2015.” (Report: Irish Times, January 2015)*

- (b) Is selling bonds at a low yield good or bad for the Irish Government? Explain your answer.

**Answer:** It is good for the Irish government. **2 marks**

**One correct explanation:**

It means the cost to the government of raising money / borrowing money is reduced

It means the bond buyers have confidence in the Irish economy and are prepared to buy Irish bonds.

It means that the deficit will be smaller / it is cheaper to fund government services.

**Explanation: 6 marks**

## 10)2015 Q5

5. *“Indirect taxes can be regressive but they also have advantages for governments.”*

- (a) Explain what is meant by a *regressive tax*.

Takes a higher percentage of income from low income taxpayers than from high income tax payers / The proportion of taxation falls as income increases.

**Explanation: 8 marks**

- (b) Outline **two** advantages of *indirect taxation* for governments:

**Low collection cost / convenient collection** because the taxes are collected by retailers.

**Hard to avoid** as these taxes are included in the price of the good or service.

**Less distortionary:** VAT does not discourage work unlike increases in income tax.

Could be **politically more popular** than income tax: it may be easier for government to raise tax revenue through indirect tax rather than income tax as these taxes are included in the price of the good or service.

**Government can change consumption patterns** (aligning private and social costs) e.g. reduce consumption of harmful products.

**2 advantages at 4 marks each**

## 11)2014 Q8

Ireland recently emerged from the EU/IMF/ECB '**Troika Bailout Programme**'. (December 15<sup>th</sup> 2013)  
Outline **two** possible economic implications for the Irish economy of having exited this programme.

### **Increased consumer confidence**

Consumers may feel more confident about the Irish economy which may lead to increased spending, leading to employment and increased tax revenue for the government.

### **Increased economic sovereignty**

The Irish Government may have more scope to make taxation and expenditure decisions / may regain a greater degree of control over the national budget.

### **More difficult for government to maintain fiscal discipline**

- It may be more difficult for the Irish Government to maintain fiscal discipline as they are no longer under direct supervision of the Troika.
- Due to less direct supervision the Irish Government may undertake inappropriate fiscal policies.

### **Increased governance by outside agencies**

Annual budget will be scrutinised each year in Brussels / new EU rules and warning systems have been put in place to avoid public finance crises etc.

### **Improved global perception of Irish economy**

- Exiting the bailout programme may send a positive signal to bond markets and to international investors leading to possible reductions in the interest rate on government debt.
- Triple 'A' credit rating restored / our improved global image may attract more FDI.

**1<sup>st</sup> correct response: 11 marks / 2<sup>nd</sup> correct response: 6 marks**

**The expected responses given are not exhaustive.**

## 12)2014 Q9

Outline **two** possible social costs and **two** possible social benefits of an investment by 'EirGrid' in upgrading Ireland's electricity network by erecting high-voltage power lines (pylons).

### Social Costs could include:

#### **Visual intrusion on the landscape**

This may have a consequent negative impact on the tourism sector. Loss of visual amenity to local people.

#### **Possible health implications**

The electromagnetic fields may have a negative impact on health / the noise pollution.

#### **Potential damage to wildlife habitats / agriculture / equine industry**

The construction and maintenance of the new power lines through rural areas may damage local wildlife habitat / local farms and the horse-breeding industry.

#### **Decline in land and house prices in areas close to pylons.**

### Social Benefits could include:

#### **Improved infrastructure / secure supply of electricity**

The improvement in the infrastructure may secure our supply of electricity and thereby may encourage FDI.

#### **Opportunities within the renewable energy sector**

Some entrepreneurs may invest in this sector resulting in increased employment within this sector.

#### **Increased capacity of renewable energy**

This would reduce our carbon emissions, reduce our dependence on imports and reduce the amount of money leaving the country to pay for these imports (roughly 85% of Ireland's energy needs are imported).

**1<sup>st</sup> correct response: 5 marks / 2<sup>nd</sup>, 3<sup>rd</sup> & 4<sup>th</sup> correct responses: 4 marks each**

## 13)2013 Q9

A recent report to the Irish government highlighted the growing issue of alcohol abuse in Ireland.

- (a) Outline **one** private cost and **one** social cost related to excessive alcohol consumption.  
 (b) Describe **one** advantage and **one** disadvantage of the government imposing a minimum price on alcohol products.

(17 marks)

<b>Costs</b>	
<b>One private cost:</b>	<b>One social cost:</b>
1. Decreased disposable income. 2. Possibility of long term illness / deterioration in health. 3. Possible absenteeism from work / less opportunities for promotion. 4. Increased private insurance costs. 5. Decreased productivity in work.	1. Increased health care costs. 2. Possible increase in crime /vandalism / risk of road accidents. 3. Increased absenteeism from work / disruption to provision of service. 4. Opportunity cost of money spent on health care.

<b>Imposing a minimum price on alcohol products</b>	
<b>Advantage</b>	<b>Disadvantage</b>
1. Reduction in alcohol consumption. 2. Possible reduction in 'binge' drinking by younger consumers. 3. Reduction in admission to A&E so lower healthcare costs. 4. Better use of scarce resources in hospitals. 5. Reduction in crime / vandalism / road accidents. 6. May close the gap in price between pubs and supermarkets – boost for pub trade.	1. Increased prices for consumers / reduced disposable income. 2. Reduced competition on the market / restricted consumer choice. 3. Possible increase in cross border shopping for alcohol. 4. Pub closures with possible job losses. 5. Increase in smuggling/purchase of alcohol products in the black economy.

**1<sup>st</sup> correct answer 5 marks. Next 3 correct answers at 4 marks each.**

## 14)2012 Q3

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

**Two reasons** for the growth of the 'Black Economy':

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

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

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

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

**Two effects** for the Exchequer:

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

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

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

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

**Pressure on government finances / provision of services:**

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

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

**15)2012 Q9**

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

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

**1. Government revenue**

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

**2. Stable tax**

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

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

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

**4. Economic**

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

**5. Ease introduction of property tax**

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

**6. Government planning**

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

**2 points at 4 marks each.**

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

**Regressive.**

- Because it does not take into account a person's ability to pay the tax.
- People on lower income would pay a greater proportion of their income in tax.

**9 marks**

## 16) 2011 Q4

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

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

**16 marks (10+4+2)**

## 17) 2011 Q9

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

Two reasons:

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

Two actions:

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

**17 marks (5+4+4+4)**

## 18) 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.**

## 19) 2010 Q9

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

**1. Reduce consumption of water / discourage waste.**

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

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

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

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

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

**4. Encourage investment in alternative technologies.**

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

**5. Helps reduce need to raise direct taxation.**

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

**6. Impossible to evade / helps government financial planning.**

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

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

## 20) 2008 Q2

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

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

Methods of discouragement:

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

**16 marks graded.**

## 21) 2006 Q8

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

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

**17 marks graded**

## 22) 2006 Q9

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

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

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

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

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

**17 marks graded.**

23) 2005 Q5

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

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

**16 marks graded.**

24) 2004 Q2

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

Definition: ***12 marks graded***

Example: ***4 marks.***

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

**Example:** Any appropriate example, such as:

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

## 25) 2004 Q7

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

**Private benefits:**

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

**Social benefits:**

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

*2 private benefits + 2 social: 17 marks graded*

## 26) 2003 Q1

1. A regressive tax is defined as:

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

*Correct definition: 12 marks graded + 2 examples*

## 27) 2003 Q2

### 2. FOUR economic aims of government

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

*4 aims at 4 marks each = 16 marks*

## 28) 2003 Q8

### 8. Social benefits are defined as:

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

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

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

*Correct definition: 12 marks graded and 2 examples*

29) 2002 Q6

**6. Tax avoidance:**

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

**Tax evasion:**

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

**17 marks**

30) 2001 Q3

3. Define SOCIAL COSTS. Give TWO examples.

16 marks

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

Definition: 10 marks graded

Examples: 2 examples at 3 marks each = 6 marks

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

**Long Questions Answers****2018 Q2 (c)**

	Possible responses	Max Mark
(c)	<i>'Motor insurance providers in Ireland targeted in anti-cartel inquiry.'</i> (Source: <i>The Irish Times</i> , July 2017)	
(i)	<p>Explain the likely effects on consumers if collusion (e.g. cartel agreement) existed in the motor insurance industry.</p> <p><b>Higher / less competitive prices</b> Collusion may mean that these firms agree not to lower prices and so consumers pay higher prices and cannot seek more competitive quotes as the firms agree to act in this agreed way.</p> <p><b>Restricted choice</b> Because of the agreement of firms not to compete, consumers may have less choice on the types of insurance available; extent of cover available; the benefits possible under policies etc.</p> <p><b>Supernormal profits earned</b> The aim of the firms who collude (restrict output/control price) is to maximise profits or earn monopoly profits. If successful such agreements allow oligopolistic firms to earn monopoly profits for the industry as a whole / make supernormal profits at the expense of the consumer.</p>	2 x 5 (2+3)
(ii)	<p>Suggest <b>two</b> measures the government could consider to discourage anti-competitive practices in industry. Explain your answer.</p> <p><b>Improved consumer protection / education / awareness</b> Promote better consumer education and awareness. Encourage more reporting of anti-competitive practices as experienced by consumers. They could encourage consumers to shop around and to look at their options e.g. switching provider/ use 'Bonkers'. The Central Bank requires insurers to provide correct information to consumers when selling and renewing policies.</p> <p><b>Improved regulation of the industry</b> Better regulation may discourage anti-competitive practices in the industry. The Competition Authority could make further efforts to encourage competition in markets and so protect the interests of consumers. The government could introduce tough anticompetitive legislation. Require insurers to explain how policies are priced. Extend the period of renewal to allow consumers time to shop around.</p> <p><b>Improved investigation of alleged lack of competition</b> The Competition Authority could investigate breaches of competition law and take appropriate action. Advise the government on how to protect and improve competition in the economy. The EU Competition Commission might introduce greater fines / longer jail sentences for offenders.</p> <p><b>Deregulation of the industry</b> The government could attempt to deregulate the industry. Lower barriers to entry / encourage the growth of small firms so as to eliminate inefficiency and to encourage better resource allocation.</p>	2 x 5 (2+3)
		<b>20</b>

**2018 Q5**

	Possible responses	Max Mark
(a)		
(i)	<p>Explain the terms <b>fiscal policy</b> and <b>monetary policy</b>.</p> <p><b>Fiscal policy</b> Any action taken by the government which influences the timing, magnitude and structure of or alterations in revenue and expenditure./Is any change in government spending and taxation that is designed to change overall spending in an economy / The use of government spending and taxation to influence economic growth.</p> <p><b>Monetary policy</b> Any action taken by the ECB which influences the money supply, interest rates and the availability of credit.</p>	<p>5</p> <p>5</p>
(ii)	<p>Outline how Ireland’s membership of the Eurozone affects the operation of the Government’s monetary policy <b>or</b> fiscal policy in Ireland.</p> <p style="text-align: center;"><b>Monetary Policy</b></p> <p><b>ECB controls monetary policy</b> Membership of the Eurozone means that Ireland does not operate its own monetary policy. It is under the control of the European Central Bank (ECB). The mandate of the ECB is fixed by treaty. Interest rates must be close to the EU average.</p> <p><b>Decisions by ECB may not suit Ireland</b> Ireland’s economy represents 2% of the euro area so decisions taken by the ECB regarding interest rate changes may not always suit the Irish economy. A “one size fits all” monetary policy may be a source of instability if business cycles are not correlated across member countries e.g. if the Irish economy is booming the appropriate policy response from the central bank is to raise interest rates. However, the ECB cannot increase interest rates just to suit Ireland.</p> <p><b>Central Bank of Ireland has imposed rules re: mortgage availability</b> Devaluation of a national currency is not available in adjusting to macroeconomic shocks. The Central Bank of Ireland is the national macro-prudential authority. Since 2015, it has imposed limits on the size of mortgages relative to house values and relative to incomes.</p>	<p>2 x 5 (2+3)</p>

**2018 Q5 Continued**

	Possible responses	Max Mark
	<p style="text-align: center;"><b>OR</b></p> <p style="text-align: center;"><b>Fiscal Policy</b></p> <p><b>Fiscal restraint required by Irish government</b> Membership of the Eurozone requires some fiscal constraint while some elements of sovereignty in relation to fiscal policy have been relinquished. Membership affects fiscal policy due to the existence of fiscal rules. Ireland can set its own tax rates and government expenditure levels.</p> <p><b>EU rules re budget deficits / national debt</b> The EU Growth and Stability Pact specified a debt ceiling of 60% and a budget deficit ceiling of 3% of GDP and it also requires governments to make an annual report regarding the state of public finances.</p> <p><b>Budget pre-approved by EU</b> Budget plans must be pre-approved at EU level, so there is less risk of inappropriate budgets being implemented. IFAC (Irish Fiscal Advisory Council) was established in 2011 to provide objective opinion on the sustainability of the national budget plan and macro-economic forecasts that underpin budget plans.</p>	<b>20</b>

**2018 Q5 Continued**

	Possible responses	Max Mark
(b)	<i>Indirect taxes are frequently used as a government policy instrument to change certain consumer behaviour.</i>	
(i)	<p>Explain the term <b>indirect tax</b>.</p> <p>An indirect tax is a tax on the consumption of goods and services e.g. VAT</p>	5
(ii)	<p>Explain how <b>indirect taxes</b> could be used to change certain consumer behaviour, using examples to support your answer.</p> <p>Possible responses include:</p> <p><b>Increased VAT on sunbed services</b> In Budget 2018 the VAT rate applying to sunbed services increased from 13.5% to the standard rate of 23% from January 1<sup>st</sup>, 2018 to deter sunbed use, due to clear evidence of a link between sunbed use and skin cancer. This is in line with the Government's National Cancer Strategy.</p> <p><b>Tax on sugar sweetened drinks introduced in April 2018</b> This tax was introduced to have a positive effect on nutrition and was designed to encourage healthy eating and shift consumption towards a healthier diet. It is hoped that consumers would be more responsible and make healthier choices. It is hoped that a reduction in consumption would tackle obesity, diabetes etc.</p> <p><b>Environmental levy on plastic bags</b> Ireland was a pioneer in reducing the usage of plastic shopping bags. The small levy, introduced in 2002 aimed to discourage the purchase of plastic bags, ultimately reducing litter. This levy has converted most of the population to the use of re-usable bags. Consumers now seek alternatives to the use of these plastic bags. Plastic bags now account for only 0.14% of total litter compared to 5% in 2002.</p> <p><b>Tobacco products tax / tax on alcohol</b> The excise duty on a packet of 20 cigarettes increased by 50 cents (including VAT) with a pro-rata increase on the other tobacco products, and an additional 25c on roll your own tobacco in Budget 2018. VAT and excise duties on alcohol and tobacco discourage the consumption of these products and reduce their negative health effects.</p> <p><b>Introduction of Carbon taxes in 2010 / environmental taxes</b> Carbon taxes, imposed in a similar way to excise duties, change the relative price of fuels, deterring the use of fossil fuels that lead to higher carbon emissions and ultimately to climate change. These taxes are imposed to reduce carbon emissions on fuel and utility bills. Such environmental taxes aim to encourage consumers to change their patterns of consumer behaviour.</p> <p><b>-1m if example omitted</b></p>	3 x 5

**2018 Q5 Continued**

	Possible responses	Max Mark
(iii)	<p><b>Reduced VAT rate for the tourism sector</b> The 9% reduced VAT rate for the tourist sector was introduced a number of years ago to promote tourism in Ireland. It is acknowledged that this reduction in VAT resulted in an increase in services in this sector resulting in increased employment and allowed for expansion in the industry and encouraged Irish residents to holiday in Ireland.</p> <p><b>VRT</b> Since 2008 the VRT on the initial purchase price of a vehicle is based on CO<sub>2</sub> so the lower the CO<sub>2</sub> emissions, the lower the tax. The charging of the VRT and the motor tax in Ireland on the basis of CO<sub>2</sub> emissions resulted in a significant switch towards diesel-powered cars.</p> <p>Outline <b>one</b> intervention, other than taxation, that a government could consider to change consumer behaviour.</p> <p><b>National Advertising Campaigns</b> The government could raise awareness of the damage certain products can cause to a person's health and wellbeing in order to change their behaviour. They could run national advertising campaigns to raise awareness.</p> <p><b>Education Programmes</b> could be introduced into schools in order to attempt to change consumer behaviour.</p> <p><b>Legislation</b> Passing of laws to change consumer behaviour e.g. the introduction of the smoking ban. Introduce fines for offences e.g. littering/ pay-by-weight schemes.</p> <p><b>Government grants</b> The government could provide grants for retrofitting of houses / encouraging better energy use etc.</p>	<p>5 (2+3)</p> <p><b>25</b></p>

**2018 Q5 Continued**

	Possible responses	Max Mark
(c)	<i>In 2016, the Government [budget] deficit was €1.8 billion, an improvement on the 2015 deficit of €5.0 billion.</i> <i>(Source: CSO, July 2017)</i>	
(i)	Define the term <b>budget deficit</b> .  A budget deficit arises when government current expenditure is greater than government current income.	6
(ii)	Discuss the possible economic consequences of a reduction in the budget deficit for the Irish economy.  <ul style="list-style-type: none"> <li>• <b>Less borrowing for the Irish economy</b> With the deficit falling it will mean reduced borrowing resulting in reduced debt repayment and interest repayments.</li> <li>• <b>Less burden on future generations of taxpayers</b> Inheriting a reduced national debt may improve living standards for future generations.</li> <li>• <b>Improved image of country abroad</b> The ability to manage the national finances may improve Ireland's international credit-rating. Our debt rating is rated as investment grade by all the main credit rating agencies</li> <li>• <b>Less money may be spent in public services /reduction in public sector numbers</b> Some public services may be discontinued; the standard of services may deteriorate (e.g. health services) while the charges for some state services may be increased. The reduction in the deficit could be achieved by reducing the numbers employed in the public sector; reducing wage rates in the sector; out-sourcing to the private companies.</li> <li>• <b>Effects on economic activity / growth</b> In the short term a reduction in spending could result in reduced demand. In the longer term an improvement in the state finances may, through increased confidence, stimulate demand and result in an increase in economic activity.</li> <li>• <b>Effects on standard of living</b> In the short term reducing the deficit could be achieved by increased taxation / reduced spending – this would reduce the standard of living. These actions may have a greater effect on lower income groups (widening the gap between rich and poor).</li> </ul> <p><b>Other:</b> More people may engage in the black economy. The actions of the government to reduce the deficit may result in public unrest e.g. the protests against the introduction of water charges etc.</p>	2 x 6 (3+3)

**2018 Q5 Continued**

	<b>Possible responses</b>	<b>Max Mark</b>
<b>(c) (iii)</b>	<p>Is a budget deficit always bad for an economy? Outline <b>two</b> reasons for your answer.</p> <p style="text-align: center;"><b>No</b></p> <p><b>Stimulates demand</b> If the increase in government expenditure will increase the demand for goods and service i.e. stimulate aggregate demand within the economy this may stimulate economic growth.</p> <p><b>Job creation</b> The increase in demand may lead to the creation of jobs and further increases in spending. The increase in consumer spending may lead to increased business confidence and further stimulate economic growth.</p> <p><b>Self-financing deficit</b> With economic growth and increased consumer spending, government revenues may increase, and the deficit may be self-financing. Some people may consider it reasonable to allow a budget deficit during a temporary downturn in economic activity.</p> <p style="text-align: center;"><b>Yes</b></p> <p><b>Unsustainable debt levels</b> If the deficit is being financed by increasing the National Debt to unsustainable levels or to a level in breach of the EU fiscal pact. As a share of GDP Irish government debt is currently over 60% while the Maastricht ceiling is 60%.</p> <p><b>High future taxation levels</b> Budget deficits will ensure that taxation levels for future generations will remain high.</p> <p><b>Deadweight debt</b> If the deficit is used and no extra tax revenue is earned as a result of the spending then it may be considered not good for the economy/not self-liquidating.</p>	<p><b>2 x 6 (3+3)</b></p> <p style="text-align: right;"><b>30</b></p>

**2018 Q7**

	<b>Possible responses</b>	<b>Max Mark</b>
<b>(a)</b>	<p>Assess the performance of the Irish economy in the past 12 months in <b>each</b> of the following areas: Economic growth; Employment / unemployment; Inflation; The size of the National Debt.</p> <p style="text-align: center;"><b>Economic growth</b></p> <p style="text-align: center;"><b>GDP rate of growth over approx. 4% (3% - 5%)</b></p> <ul style="list-style-type: none"> <li>• Central Bank predict GDP of 4.4% for 2018 and 3.9% for 2019.</li> <li>• In 2018, GDP is expected to grow by 4.8% (ESRI Spring '18 Quarterly Economic Comment)</li> <li>• Strong domestic consumption and investment along with international conditions are the main factors underpinning this growth. (ESRI)</li> <li>• Allows the living standards of the citizens to progressively improve over time.</li> <li>• Fastest growing economy in EU/ growing faster than in previous years.</li> </ul> <p style="text-align: center;"><b>Employment/ unemployment</b></p> <p><b>Unemployment rate below 6%. / Employment 2.24 million (in the first quarter of 2018)</b></p> <ul style="list-style-type: none"> <li>• Seasonally adjusted unemployment rate Dec 2017 was 6.2% down from 7.5% twelve months previously.</li> <li>• Fall in male unemployment/Fall in Youth unemployment</li> <li>• Unemployment averaged 6.7% in 2017 and is expected to decline to 5.4% in 2018 and 4.5% in 2019. (ESRI Spring 2018 Quarterly Economic Comment).</li> <li>• Unemployment currently at 5% (132,900), almost consistent with full employment while youth unemployment is at 11.9% and underemployment is high.</li> <li>• CSO figures indicate the economy has recorded 23 consecutive quarters of employment growth since 2012</li> <li>• Employment grew by 2.9% or 62,100 in the year to the first quarter of 2018</li> <li>• Move from part-time to full-time employment</li> </ul> <p style="text-align: center;"><b>Inflation/Price level</b></p> <p style="text-align: center;"><b>Rate of inflation below 1%.</b></p> <ul style="list-style-type: none"> <li>• CPI 0.5% higher in Feb compared with Feb 2017 (CSO March 2018)</li> <li>• As the labour market tightens, wage pressure will continue to be strong and is projected to feed into higher inflation. (OECD Vol 17 Issue 2 Ireland)</li> <li>• Key role in maintaining competitiveness / limiting demands for wage increases.</li> </ul>	<b>4 x 5 (2+1+2)</b>

**2018 Q7 Continued**

	Possible responses	Max Mark
	<p style="text-align: center;"><b>The size of the National Debt</b></p> <p style="text-align: center;"><b>Ireland's national debt at approx. €200 bn.</b></p> <ul style="list-style-type: none"> <li>• Ireland's National Debt stood at €198 bn at the end of last year up 1% from the previous year. (Irish Times Feb 20, 2018)</li> <li>• General Government Debt in June 2017 was €211.2bn</li> <li>• Ireland's National Debt stood at €198 bn at the end of last year up 1% from the previous year. (Irish Times Feb 20, 2018)</li> <li>• As a % of GDP, Ireland's debt was about 75% last year</li> <li>• The debt/GDP ratio is set to fall to 69% by the end of 2018 (NTMA)</li> <li>• Though debt is falling as a % of GDP, overall debt has fluctuated in tandem with government borrowing.</li> </ul> <p style="text-align: center;"><b>2 marks + 1 mark + 2 marks</b></p> <p style="text-align: center;"><b>3 points: approximate figure + accurate trend + comment</b></p>	<b>20</b>
<b>(b)</b>	<p>Outline the economic advantages of effective regulation of the banking sector. Your answer should include advantages for citizens <b>and</b> advantages for the banking industry.</p> <p style="text-align: center;"><b>Citizens</b></p> <ul style="list-style-type: none"> <li>• <b>Provide protection to depositors / consumers</b> To ensure sound and solvent financial institutions giving depositors confidence that their deposits and investments are safe. /customers have confidence in the financial system. Avoid consumers being over-charged e.g. trackers mortgage scandal.</li> <li>• <b>May help consumers make better financial decisions</b> Some consumers can make poor financial choices e.g. take on too much debt or choose products that do not match their needs. Therefore, they need protection through regulation.</li> <li>• <b>Confidence in banking sector / economic growth</b> By regulating the banking sector consumers will have confidence in the banking sector. It may encourage greater savings. A stable banking sector will facilitate economic growth.</li> <li>• <b>Secure employment</b> By ensuring that the banking sector is secure it may mean stability in this sector and thus ensure that jobs are secure.</li> <li>• <b>Benefits for taxpayers/less need for government intervention</b> If banks are stable and promote savings and investment, then they become more profitable, providing more funds for government services. It also means that there is reduced risk of tax payer funds being needed (for possible bailouts).</li> </ul>	<p><b>7+6+6+6</b> <b>7 (3+4)</b> <b>6 (3+3)</b></p> <p>Minimum of two of each</p>

**2018 Q7 Continued**

	Possible responses	Max Mark
(b)	<p style="text-align: center;"><b>Banking sector</b></p> <ul style="list-style-type: none"> <li>• <b>To avoid reckless lending</b> Proper regulation should ensure that banks, which engaged in excessive risk-taking and reckless property-related lending, which resulted in Irish borrowers borrowed too much in the past, should not re-occur.</li> <li>• <b>To maintain stability in the financial system / provide investor confidence</b> To foster a stable / healthy financial system. Regulation will ensure the financial sector will operate efficiently and public confidence will be restored.</li> <li>• <b>Less prone to shocks / need for government intervention and decision making</b> It will help to ensure that what happened in 2008 should not re-occur and therefore there will be less shocks to the financial system reducing the need for government intervention.</li> <li>• <b>To reduce macro-economic instability</b> When banks were left to their own devices they loaned excessively in good times and little in bad times. Regulation ensures that this boom/bust cycle is controlled. Strong financial institutions are necessary for an economy.</li> </ul>	<b>25</b>

**2018 Q7 Continued**

	Possible responses	Max Mark
(c)	<i>The Government's Summer Economic Statement has confirmed that it will increase capital spending by €500m each year from 2019 to 2021. (Source: www.rte.ie, 2017)</i>	
(i)	<p>Explain <b>three</b> economic arguments in favour of an increase in government capital expenditure in the Irish economy.</p> <ul style="list-style-type: none"> <li>• <b>Increased demand for housing</b> Faster than expected economic recovery has boosted the demand for housing, both public and private. A priority is to ensure the delivery of 25,000 new houses per annum by the end of this decade so as to better align demand and supply in the market.</li> <li>• <b>Promote balanced regional development</b> The government's aim is to spread economic growth more evenly and hence address some of the regional imbalances that have emerged in recent years i.e. achieving a more equal regional distribution of economic activity.</li> <li>• <b>Build on the productivity of the economy / attract FDI</b> Investment in public infrastructure is vital for improved competitiveness / to enhance the capacity of the economy/ to sustain the long- term growth potential of the Irish Economy. By improving infrastructure, it may ensure that Ireland continues to attract mobile FDI.</li> <li>• <b>Population / return to previous levels of capital spending</b> Existing provision is too low to keep up with economic demands and demographic pressures. Capital investment fell during the crisis years and the government is conscious of the need to boost the supply of critical infrastructure now. They must also prepare for growing population needs to address the shortage of schools, hospitals, railways, roads, water etc.</li> <li>• <b>Improve the quality of life – need for social infrastructure</b> To provide public amenities that improve the quality of life and are valued by communities. To protect the environment/ modern technologies to reduce pollution and carbon emissions thereby improving the health and well-being of individuals/ the "green" economy. To develop sustainable energy supply into the future e.g. more electric car charging points; investment in alternative energy sources.</li> <li>• <b>Create employment</b> The construction sector is a labour-intensive activity. Employment in this sector currently stands at 7% of total employment and is expected to increase to 10% where it was during the last boom period of 2004 to 2007.</li> <li>• <b>To protect the economy against economic shocks</b> By investing in infrastructure, Ireland will become more resilient to external events over which it has limited, if any, control/ To protect the economy from the economic uncertainty it is currently facing e.g. post Brexit.</li> </ul>	<p><b>3 x 6</b> (3 + 3)</p>

**2018 Q7 Continued**

	Possible responses	Max Mark
(c) (ii)	<p>Discuss how this planned expenditure on capital projects (i.e. large infrastructural projects) by the Irish government may conflict with any <b>two</b> other government objectives.</p> <ul style="list-style-type: none"> <li> <b>Could be inflationary</b>            The increased spending could lead to an overheated economy; excessive rapid growth can lead to inflation and to escalating property prices. Currently there is rising construction inflation. According to the SCSl construction prices have risen by over 6% in the past year.         </li> <li> <b>Opportunity cost</b>            If the government spend a significant amount of money on upgrading the infrastructure, then they will have less money available to achieve other economic objectives i.e. reducing inequalities; achieving tax equity etc.         </li> <li> <b>Unbalanced regional development</b>            One of the aims of the current government is to reduce regional differences. If the expenditure is on capital projects in urban areas, then the disparity will increase.         </li> <li> <b>Maintaining Eurozone rules</b>            As members of the Eurozone Ireland has a fiscal pact that must be adhered to. A possible conflict may exist between spending and keeping expenditure under control. How will the capital expenditure be financed, and will it impact on the objective of reducing the Debt/GDP to 60%?         </li> <li> <b>Sustainable public finances / managing Ireland's national debt</b>            Will this expenditure jeopardise having sound and sustainable public finances? What might the Impact of this expenditure be on the 'Rainy Day' fund / on the objective of reducing the public debt to build up fiscal buffers?         </li> <li> <b>Managing environmental change</b>            The emphasis on becoming more sustainable and reducing emissions. Protecting the environment to allow citizens to live more healthy lives. Government must consider this long-term objective along with the need to build infrastructure.         </li> </ul>	<b>2 x 6</b> <b>(3+3)</b>
		<b>30</b>

**2018 Q8 (c)**

	Possible responses	Max Mark
(c)	<p><i>'Official greenhouse gas emission projections indicate that Ireland will fail to meet the EU 2020 targets by a substantial margin.'</i> (Source: Climate Change Advisory Council)</p>	
(i)	<p>Outline <b>three</b> economic reasons why protection of the environment is an increasing concern for governments.</p> <ul style="list-style-type: none"> <li> <p>● <b>Protection of a valuable asset</b>            The environment is a strategic and valuable asset and as such must be protected and proactively managed to ensure it forms the basis of economic welfare. A growing population is putting pressure on existing resources. Natural resources are shrinking so protection is needed.</p> </li> <li> <p>● <b>Help create a healthy society</b>            Pollution of environment tends to affect many people and it is difficult for individuals on their own to address it. Damage to the environment is affecting future generations and Ireland needs to protect future generations. Ireland is currently experiencing difficulties in disposing of its waste.</p> </li> <li> <p>● <b>Pressure to meet international targets</b>            Huge international / EU focus exists on climate change and directives and regulations are issued re targets to help curb global emissions. Governments are under pressure to meet international targets. Ireland also fears being fined for not meeting targets set in international agreements.</p> </li> <li> <p>● <b>Increased public awareness / demands by public for improvements</b>            Citizens are more aware now of the need to protect the environment hence pressure is being applied to governments to fulfil their social responsibility to protect its citizens. The emergence of 'green politics' is also increasing the pressure on political parties.</p> </li> <li> <p>● <b>Cost to the government of coping with environmental damage</b>            Citizens want the government to provide flood barriers / promote better energy use etc which involve significant costs for governments.</p> </li> </ul>	<p><b>3 x 5</b> (2 + 3)</p>



**2017 Q7 (a) + (b)**

(a) Explain the following terms:

National Debt / Fiscal Policy / Budget Deficit / Tax Avoidance.

[20]

**National debt** is the value of total outstanding debt / borrowing owed by the state.

**Fiscal policy**

Is any change in government spending and taxation that is designed to change overall spending in an economy / The use of government spending and taxation to influence economic growth/Any action taken by the government which influences the timing, magnitude and structure of current revenue and expenditure.

**Budget deficit** is when total government expenditure exceeds total government revenue.

**Tax avoidance** is the arranging of one's affairs within the law so as to minimise /avoid tax liabilities.

**4 at 5 marks each**

(b) *The National Broadband Plan is the government's commitment, over the next five years, to bring high speed broadband to every home and business in rural Ireland. In July 2016 the government announced that this national infrastructure will be privatised when built.*

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

(ii) State and explain the economic arguments for **and** against privatisation using any Irish example.

[30]

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

The selling of a state owned company / asset in whole or in part to the private sector.

**5 marks**

(ii) State and explain the economic arguments for **and** against privatisation using any Irish example.

**Possible economic arguments for may include:****Revenue for government**

The government could use the revenue from the sale of the asset to reduce its level of borrowings into the future.

**More competition**

Competition in the industry could improve services offered to customers and lead to more competitive prices for goods and services e.g. air travel in Ireland/**Aer Tricity, Energia** due to ESB infrastructure being privatised.

**Employment opportunities**

In the case of a new firm, if it increases its market share, then this may result in a growth in employment together with additional job security for existing employees. **IAG purchase of Aer Lingus.**

**Enterprise culture**

Increased share ownership may lead to growth in an enterprise culture within the country and so help employment.

## **2017 Q7 (a) + (b) Continued**

### **Access to finance/overseas markets**

Through the sale of additional shares on the stock exchange, private companies have access to extra finance. Companies can expand overseas and compete for business abroad.

### **Greater incentives for innovation**

Employees may have more incentive to innovate and improve productivity as they may reap greater rewards for their innovations within the privatised sector e.g. higher bonuses.

### **Shedding of loss making companies**

By selling loss making companies the burden on the state is removed and so the burden on taxpayers should be reduced. **If Bus Éireann sold its Expressway services its costs may be reduced.**

### **Less pressure on the government finances**

There is no further requirement for on-going government investment in the company and the government can still have some control through regulation.

#### **Possible economic arguments against may include:**

#### **Increased Prices/ falling standards of service**

The quality of services provided by the new company may deteriorate in an effort to save costs. Prices may be increased to increase revenue.

#### **Loss of jobs and reduced job security**

Jobs may be lost through rationalisation of services and this may lead to higher social welfare costs.

#### **Loss of a State Resource / loss of annual profits**

Taxpayers lose critical infrastructure, which was once owned by the state. The state will lose profits made by profitable state firms. Loss of control e.g. **Bord Gais (retained the pipeline network).**

#### **Foreign Ownership**

With the sale of a state owned asset, overseas buyers may become the owners of an Irish company and so control of the asset may go outside the state. **National Lottery and Aer Lingus.**

#### **Cost of the Sale**

During the privatisation process, all costs in preparation for such a sale, legal work etc. must be paid for by the taxpayer.

#### **Curtailment in pay and pensions increases**

The owners of the newly privatised company may limit pay and pension increases due to its employees or change its employees' conditions of employment resulting in a worsening of these.

#### **Loss of essential public services**

The newly privatised firm may cut those services which are non-profit making and this may affect lower income groups in particular.

#### **Possible abuse of monopoly power**

If the newly privatised company is in a monopoly position it could abuse its power and increase prices.

**4 at 5 marks (2 + 3) + 5 marks for reference to any valid example.  
Minimum of one point for AND one point against.**

**2016 Q7**

- (a) In the case of any **two** of the following three pairs, **distinguish between** the two concepts.
- (i) Income and wealth
  - (ii) Progressive taxes and regressive taxes
  - (iii) Impact of taxation and incidence of taxation.

[20]

**Wealth**

This is a **stock** of tangible and intangible possessions which have market value at a moment in time.  
This is the stock of things owned / value of the stock of capital goods + financial assets minus debt.

**Income**

This is a **flow** (income earned by an individual during a period) which increases wealth.

**Progressive taxes**

One that takes proportionately more in tax as a person's income increases/ A tax is progressive when the proportion of income paid in tax rises as income rises.

Income tax is an example of progressive tax, as worker's wage increases they will pay a higher tax rate.

**Regressive tax**

One that takes proportionately more in tax as a person's income decreases/A regressive tax means that the proportion of income tax paid falls as income increases.

Vat is an example of a regressive tax: as a low income earner pays the same amount of tax on goods and services as a high income earner.

**Impact of taxation**

The impact of a tax refers to the person or organisation on whom the tax was initially charged / imposed.

**Incidence of taxation**

Incidence of a tax refers to the person who actually ends up paying the tax / the person who finally bears the burden.

Inelastic demand (cigarettes, alcohol) the consumer bears the burden of the tax.

Inelastic supply, the producer bears the burden of the tax.

**Terms correctly distinguished: 10 marks (5+5) +10 marks (5+5)**

**2016 Q7 Continued**

- (b) (i) Outline **two** economic policies which the Irish Government could consider to address inequality in Ireland.
- (ii) Policies introduced to reduce inequality may make it more difficult for the government to achieve other economic aims. Explain this statement, using examples to support your answer. [30]
- (i) Outline **two** economic policies which the Irish Government could consider to address inequality in Ireland.

**Increasing the national minimum wage / introduce a national living wage**

By increasing the minimum wage, those workers on lower incomes would have a higher disposable income. If a national living wage was introduced, then all those on lower wages would have a better standard of living.

**Tax policy**

Ensure that taxes are progressive e.g. income tax, CGT, CAT.

Increase corporation profits tax – so that those businesses who can afford to do so, will pay more taxation. Abolish tax reliefs and shelters that are used by very high income earners to avoid paying taxes.

Widen the lower income tax band so as to increase the real income of low income earners/Lower taxes for low paid workers.

The government could introduce a wealth tax similar to other economies so that those who can afford to will pay more taxes.

**Social welfare policy**

By increasing social welfare benefits those on lower incomes will be afforded a better standard of living.

Target universal entitlements: instead of giving child benefit to every household with children it could be means tested or targeted to parents in receipt of welfare payments or parents on low wages.

**Universal access to basic goods / merit goods**

Ensure that basic services are available to all citizens such as health care, housing, education, etc.

The government could immediately provide the finance necessary to build more social housing.

The government could regulate those markets that provide utilities e.g. electricity / gas, water, waste disposal etc., so that those services are available at a fair price to all consumers.

Increased expenditure on education/Invest in early childhood education/pre-primary education. This will provide all children with access to education at an early age, irrespective of income levels.

Provide incentives for those on lower incomes to access third level education.

**Invest in training schemes/ welfare to work schemes**

Provide welfare to work schemes: make it more attractive to take up work by providing some income support while people are making the transition from welfare to work.

Support training, earn-while-you-learn schemes and apprenticeships: provide more opportunities for the long-term unemployed and youth unemployed so that they are more equipped for the current jobs market and give them the possibility of taking up job opportunities as they arise.

**Create more employment / encourage job creation**

Invest in infrastructure, develop renewable energy sources, renovate abandoned houses and significantly increase affordable housing investments to revitalise communities.

**2 x 8 marks (3+5)**

(Reference to how policy could help reduce inequality required for full marks.)

## **2016 Q7 Continued**

- (ii) Policies introduced to reduce inequality may make it more difficult for the government to achieve other economic aims. Explain this statement, using examples to support your answer.

Possible responses include:

### **More equitable distribution of income / wealth vs. economic growth**

Using taxation to achieve a more equitable distribution of wealth can be a disincentive to entrepreneurs if their profits are taxed too much and some may take their investments abroad.

Taxing of high income earners may encourage them to leave the country for a country with a more favorable tax system. This could impact negatively on economic growth.

### **Reduce unemployment vs Balanced Budget / control of state finances**

The Government might wish to increase expenditure to try to get the unemployment rate down but this will conflict with its desire to balance the budget / control the state finances.

### **Creating employment vs. equitable income distribution**

Improving social welfare benefits help achieve a more equitable distribution of income but it may also act as a disincentive for some people to return to work, thus making it more difficult to achieve full employment.

### **Progressive taxation vs job creation**

Will creating a more progressive tax system have an impact on job creation and people taking up work? Some people who pay more taxes may feel that it is not worth their while working and so decide not to work.

### **Creating employment vs Balance of Payments equilibrium / price stability**

When more people are working, income rises in the economy and as Ireland is a small open economy, some of that increased income will be spent on imports which could lead to a deficit on the Balance of Payments. With an increase in employment comes an increase in spending in an economy but this can lead to an increase in demand-pull inflation

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

**2016 Q7 Continued**

- (c) A clean and healthy environment is a scarce and valuable resource.  
Outline actions the Irish government could take to protect the environment.

[25]

Possible responses include:

**Introduce new taxes / Increase existing taxes / polluter pays**

Tax practices which impact negatively on the environment i.e. plastic bag tax; landfill tax; congestion tax on cars into Dublin City. The Government could make it mandatory to have pay per weight bin charges. Impose taxes on producers to make them take account of the external costs.

**Tax incentives / subsidies (for producer / consumers)**

Offer tax incentives to households to switch to alternative sources of energy and switch away from high-carbon goods and services e.g. solar panels, wood burning stoves, home insulation.

Subsidise activities and products which are environmentally friendly e.g. subsidise electric cars.

Provide subsidies to encourage the development of low-carbon technologies which are essential in achieving cuts in emissions.

**Provide / subsidise public transport**

To help reduce carbon emissions the government could encourage the use of public transport. Incentives could be offered to subsidise public transport where it is available, provide public transport where it is not or provide subsidies to encourage private operators to do so.

**Information / education campaigns**

The government could fund information campaigns to make consumers and businesses more aware of the possible impact of their actions on the environment / more aware of the external effect of their activities.

They can continue to fund initiatives like the 'Spring Clean-Up'; coastal protection etc.

**Legislation / improved regulation**

The government could introduce laws which would prevent the production of certain products and/or methods of production.

Improved regulation of markets may ensure that the environment is better protected. The government could introduce a system of tradable permits (polluters that want to increase their emissions must buy permits from others willing to sell them).

**4 points: 7 marks (4+3) + 6 marks (3+3) + 6 marks (3+3) + 6 marks (3+3).**

**7 marks: 1st correct response**

**2016 Q8 (b)**

**(b)** “The government will run a budget deficit of only 1% of GDP next year, while gross debt will fall to 89% of GDP by the end of 2016.” (Source: Irish Examiner, November 2015)

- (i) Discuss how the Irish Government has achieved reductions in the budget deficit **and** gross debt in recent years.
- (ii) Outline the possible costs to Irish society in achieving these reductions. [35]

(i) Discuss how the Irish Government has achieved reductions in the budget deficit **and** gross debt in recent years.

**Budget Deficit****Taxation: new taxes / tax increases**

We have seen an increase in some taxes in recent budgets e.g. DIRT, tax on alcohol to provide revenue for debt servicing. In recent budgets we have seen the introduction of the USC – bringing in €4 bn per annum. We also saw the introduction of the Household charge which has been replaced by the property tax and in recent times the introduction of water charges.

**Reduction in expenditure**

The government reduced spending in current services (except for health and social welfare). The pay bill in the public sector was reduced through employment embargos and pay cuts.

**Gross Debt****Capital spending reduced**

Capital spending was significantly reduced in recent years e.g. the delays to the provision of high speed broadband. While this helped reduce our gross debt it may have negative consequences for the future of the economy, especially its effects on investment and job creation.

**Restructuring debt**

The NTMA has been successful in changing terms and conditions of our debt repayments resulting in a reduction in our gross debt. With a reduction in international interest rates we have been able to replace existing loans with cheaper loans. This reduces our gross debt.

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

**(Must have a minimum of one point under each heading.)**

## **2016 Q8 (b) Continued**

- (ii) Outline the possible costs to Irish society in achieving these reductions.

### **Lower standard of living**

The increased burden on the tax payer leads to less disposable income and lower standard of living /greater inequality within society.

### **Deterioration in state services**

Increase in homelessness as less money being spent on social housing or rent supplement.  
Congestion in hospitals, schools, roads etc. Lack of investment in infrastructure, housing etc.

### **Economic growth / job creation/cutbacks in public sector employment**

The reduction in spending in the economy has a knock-on effect on investment, job creation and government finances. Unemployment rises due to falling demand. The lack of investment in education to provide the skills needed to meet the changing nature of work results in limited economic growth and possible labour shortages.

### **Increased indebtedness**

The increased tax burden resulted in lower disposable incomes. To survive some people have relied on borrowing and the level of personal indebtedness has increased. Some people fell into arrears in their mortgages and many suffer from negative equity.

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

## **2015 Q1 (c)**

- (c) *Following recent sharp increases in the price of private rented accommodation, calls have been made for the Irish Government to introduce price/rent controls (a rent ceiling).*

Advise the Minister for the Environment on the possible economic consequences of the Government intervening in the market by imposing a price ceiling for private rented accommodation. (15)

### **Possible Responses include:**

#### **Shortage of accommodation**

If the price/rent ceiling is below the equilibrium price for the market, there will be more people looking for accommodation (excess demand) and hence a shortage of rented accommodation.

The rent control will also affect the **supply side** of the market. Some landlords may no longer be willing to make property available at the lower price as they will no longer find it profitable to supply as much rental accommodation. This could create a shortage of available accommodation.

#### **Lower Rents**

While some buyers get to pay a lower price, and hence improve their standard of living, other buyers cannot get any accommodation at all.

#### **Allocation by alternative methods**

As not all those wishing to rent can be catered for suppliers must decide which consumers to do business with. Landlords may allocate according to sellers' preferences or prejudices e.g. they may not rent to those on rent allowance. Rent control could turn the market into a lottery. It could be on a first-come-first-served basis.

#### **Reduced mobility**

People who have rent controlled property will be reluctant to move since they have to search for new accommodation under conditions of severe shortage.

Some people will be reluctant to move out of parental homes as quickly as they might otherwise have done.

#### **Quality of accommodation**

Property investors may skimp on quality so as to reduce costs, hence the quality of rental accommodation may deteriorate.

#### **Black Market**

It could lead to a growth in the illegal black market for rented accommodation. Landlords may require large deposits from new tenants. Landlords may evict tenants in order to extract larger deposits from new tenants.

#### **Lower supply of available housing / Impact on future supply**

Some landlords may decide to exit the industry as it's no longer profitable to rent out property.

Others may decide not to construct new rental accommodation as the return would be insufficient.

**3 points at 5 marks each (2 + 3)**

**2015 Q2 (c)**

- (c) *The Commission for Energy Regulation (CER), Ireland's independent energy regulator, has been appointed as the independent economic regulator for Ireland's public water services.*

Discuss whether or not Irish Water (Uisce Éireann), Ireland's new water utility company, should be regulated. (15)

Possible responses include:

**Arguments why Irish Water should be regulated**

**Pricing: ensure that consumers are charged a fair price**

As water is a basic human right it should be provided to consumers at a fair price.

The regulator should prevent the abuse of monopoly power and so protect the interests of water customers and ensure that they are not exploited. By approving and regulating Irish Water's proposed revenue allowances and tariff structures consumers can be protected.

**Quality: provision of clean water**

Regulation should ensure that water services are delivered in a safe and secure way / the water provided should be clean and an uninterrupted supply should be guaranteed.

**Invest in infrastructure**

To ensure Ireland has sustainable water supply and wastewater treatment service provision it must invest in infrastructure to support the development of the service into the future e.g. remove the lead in water pipes.

**Protection of the environment**

Irish water is responsible for wastewater treatment. This will ensure that the environment is protected and thus future citizens are safeguarded etc.

**Arguments why Irish Water should not be regulated**

**Laissez faire policies should be pursued**

The government should not interfere in the market. By regulating the market this may discourage potential investors in Ireland as they see their profit motive may attract negative attention.

**Prices should be determined by the market**

The price of water should be determined by the market. This should ensure that the full economic price is charged for the service and no political interference should be considered.

**Irish Water can generate funds for innovation**

Irish Water will be able to generate funds which would allow the company innovate in production / distribution methods / generate funds for investment in infrastructure etc.

**3 reasons at 5 marks each (2 + 3)**

**2015 Q8 (a) + (b)**

- (a) “A Budget deficit stimulates the economy and therefore should be encouraged.”  
Discuss this statement with reference to the Irish economy. You may agree or disagree. (20)

**The Irish economy:**

- Ireland has been in a **recession** which has led to reductions in tax revenue (more unemployment and less business profits) increases in government current spending (social welfare benefits). The result is a large budget deficit.
- **Austerity** measures that reduce spending end up reducing incomes making it even less likely that a country can repay its debts.

**If the candidate answers that a budget deficit should be encouraged:****Acceptable answers could include the following**

- The increased government expenditure will increase the demand for goods and services i.e. stimulate **aggregate demand**.
- This increase in demand should lead to the **creation of jobs** and further increased spending.
- The increase in consumer spending may lead to increased **business confidence** and stimulate economic activity further.
- Firms respond to increased demand by producing more. This could lead to increased employment, increased consumer spending, which leads to increased aggregate demand and the spending cycle continues (the multiplier effect).
- With increased **government revenues** (from increased tax revenues and a reduction in social welfare spending) the budget deficit may be self-financing.
- Concern about the long-run effects of deficits should not rule out the use of expansionary fiscal policy to stimulate the economy when it is depressed. Higher government expenditure should increase aggregate demand and lead to **higher economic growth**. Lower taxes should increase disposable incomes of consumers leading to higher economic growth.

**If the candidate answers that a budget deficit should not be encouraged:****Acceptable answers could include the following**

- It can lead to **increased borrowing** with the burden of interest payments and Government Debt growing as long as there is a budget deficit and our National Debt is increasing.
- High levels of debt can cause **intergenerational unfairness** because future generations of taxpayers will have to pay for the overspending of previous generations.
- A budget deficit can lead to further **increases in taxation** in order to fund the increased borrowing.
- Can lead to a **loss of confidence** in the economy by both businesses and individuals. Businesses may reduce investment and some individuals may reduce spending and save. Others may emigrate.
- We are bound, and should adhere, to EU rules to reduce our budget deficit and to reduce our National Debt.
- Could lead to money being spent on imports as Ireland is a small open economy and this reduces national income.
- The government should run a budget that is appropriately balanced over time. **High persistent budget deficits can have negative consequences**. It is normal for government budgets to vary throughout the economic cycle.

**For reference to the Irish economy 6 marks (3 + 3)**

**2 points at 7 marks (4 + 3) +7 marks (4 + 3)**

**2015 Q8 (a) + (c) Continued**

- (b) (i) Outline **three** policies the Irish Government could consider to achieve balanced regional development.
- (ii) Outline **two** economic benefits to rural communities of balanced regional development. (25)
- (i) Outline **three** policies the Irish Government could consider to achieve balanced regional development.

**Grants/Tax Incentives**

If additional grants and tax incentives are provided to industry within the regions then more firms will locate there promoting development.

**Investment in the infrastructure**

If investment in the infrastructure takes place then the improvements will make these regions more attractive to set up business in, to live in and work in/Improvements in transport and energy. The lack of an adequate power supply in the north east hinders the location of some types of industry there. If this situation were remedied then industry could locate there.

**High speed broadband**

High speed broadband delivered in a timely and cost effective way may attract business to the regions. Many advance FDI projects will require access to cloud computing which in turn requires high speed broadband.

**Improved access to training and educational facilities**

The provision of adequate third level educational facilities is a pre-requisite for attracting high value-added businesses to regions. The availability of educational and training courses in ITs and other College's in regional areas encourages enterprise in these areas, further facilitating development.

**Provide venture capital for start-up businesses**

If start-up capital is provided by Enterprise Ireland / government agencies then the costs of setting up in the regions is reduced and this makes the regions more attractive.

**3 points at 5 marks each (2 + 3)**

- (ii) Outline **two** economic benefits to rural communities of balanced regional development

**Employment creation**

Regional development will help maintain and create employment in rural areas.

**Maintain local services**

Services which are essential will be maintained e.g. education, banking, post offices, hospitals etc.

**Reduce emigration / urbanisation**

If jobs are maintained then it may result in lower numbers emigrating and a decline in the urbanisation of Ireland.

**Promote / support more vibrant communities**

The areas will be more attractive areas to live in and this will help retain more of the population.

**Less rural / urban divide**

As population increases and communities become more viable then the divide which exists between rural and urban communities may decline.

**2 points at 5 marks each (2 + 3)**

**2014 Q4 (c)**

(c) (i) State and explain **three** factors that caused the price of residential property to fall considerably in Ireland in the years following 2007.

(ii) Mortgage arrears (i.e. the inability to meet mortgage loan obligations) is the biggest single personal debt issue for many households.

Discuss **one** possible economic impact of **mortgage arrears** on **each** of following:

- the household
- the banking sector
- the Irish Government.

(30)

(i) State and explain **three** factors that caused the price of residential property to fall considerably in Ireland in the years following 2007.

**Possible responses include:****Property market collapse**

As a result of more and more land being rezoned and the construction boom, the supply of property exceeded the demand for it, except in the larger cities (Dublin). Many parts of the country now have ghost housing estates, particularly in areas in the West of Ireland.

**The Banking Crisis**

Due to a change in lending guidelines and greater credit controls following the banking collapse, many banks now are unable to lend out money as the criteria to secure loans makes it almost impossible for them to do so. There are also fewer banks operating in the Irish economy now.

**Economic recession / Weaker demand in housing market**

With the downturn in the economy and the accompanying drop in economic growth, there has been a decrease in the demand for housing. Increases in taxation have resulted in lower disposable incomes leading to reduced demand and prices. Economic uncertainty resulted in some people not trading up to larger houses.

**Emigration**

With the downturn in the economy and lack of job opportunities, many young people have been forced to leave the country, with a consequent drop in demand for residential property.

**Speculation in housing**

During the boom, increases in property prices fuelled speculative demand with more people seeking investment opportunities. With the onset of the recession, fewer people were willing to invest in property as it is deemed a very unstable investment.

**3 factors: 5 marks each = 15 marks**

## **2014 Q4 (c) Continued**

- (ii) Mortgage arrears (i.e. the inability to meet mortgage loan obligations) is the biggest single personal debt issue for many households.

Discuss **one** possible economic impact of **mortgage arrears** on **each** of following:  
the household / the banking sector / the Irish Government.

### **Possible responses include:**

#### Households

##### **Lack of consumer confidence**

Increasing debt leading to less spending in the economy and less aggregate demand. Consumers are deleveraging rather than consuming. Mortgage arrears can therefore decrease consumer confidence and hence consumer spending. This can have a negative impact on the economy and society as a whole resulting in reduced spending and a reduction in aggregate demand.

##### **Reduced creditworthiness**

Mortgage arrears may mean that households' creditworthiness could be adversely affected thus limiting their ability to borrow.

##### **Less houses for sale / depressed property market**

People may be less willing to sell their homes because they will realise losses. This may also have implications on the 'mobility of labour' and the flexibility needed to move to areas where employment opportunities arise. There is little movement in the property market.

##### **Social housing requirement**

When people fall into arrears and their house is eventually repossessed, those people then end up on the social housing list, thus leading to an even longer waiting list. The burden on the tax payer becomes even greater.

#### The banking sector

##### **Debt write-down deals**

Banks may suffer loss of profits due to non-repayment of loans. They must develop strategies to deal with outstanding debt- the forced restructuring of loans into interest only, split mortgages and the extra cost of debt collection. This will have an impact on the banks' ability to lend and on its own indebtedness.

##### **Subject to more regulation and legislation**

Banks may be subject to more regulation on debt write-off /restructuring / insolvency legislation where it has to agree as a creditor to a solution. Their ability to meet the stress tests being carried out by ECB may also be affected.

##### **Unemployment in the Banking Sector**

Irish banks together with some foreign banks operating here, have pursued a policy of rationalisation, thus radically reducing the number of employees in the sector. The major banks have both pursued the policy of reducing staffing numbers in an effort to cut costs.

##### **Collapse in share prices of bank stocks**

Investors have lost confidence in the banks and so their share prices have fallen resulting in reduction in profits, reduction in the capital value of the banks, increase in bank debt and the nationalisation of some banks.

## **2014 Q4 (c) Continued**

### **Irish Government**

#### **Reduced Tax Revenue for Government**

Since many people have been unable to sell their property due to slowdown in property sales, there is a consequent loss of revenue from property transactions including stamp duty for the government etc. Also as people are not buying there is a loss of transaction taxes for the government. Consumers because they have reduced disposable incomes are not spending and so tax revenue to the government may be affected.

#### **More debt write-offs / Guarantor for the Irish banks**

The government have *de facto* become guarantor for the Irish banks. Bank losses are ultimately pushed onto the Irish taxpayers/ Recapitalisation of the banking sector due to non-repayment of capital. Thus, the government may be on the line for future bank liabilities (capital injections).

#### **Increased demand for Social and Affordable Housing**

As a consequence of debt default repossessions and the fact that consumers are finding it more difficult to secure a mortgage, a greater proportion of people are being forced to look to the government to provide social housing. In the greater Dublin area, the housing waiting list has increased dramatically.

#### **New measures introduced by government to deal with banking/housing crisis**

The government has had to introduce new legislation, increase regulation of the banking sector and try to help households to cope with mortgage arrears.

Measures include: a new Insolvency Act to aid banks to write down debt following bankruptcy / More regulation of banks to deal with arrears / new codes of behaviour for debt collection / A national mortgage-to-rent scheme allows people in mortgage difficulties to switch from owning their home to renting it as a social tenant. People who take up this option no longer own their own home.

**One possible economic impact per category: 5 marks each = 15 marks**

**2014 Q6**

- (a) (i) State and explain **four** current economic aims/objectives of the Irish Government. (30)  
 (ii) Outline **two** possible conflicts that could arise between some of these Government aims/objectives.
- (i) State and explain **four** current economic aims/objectives of the Irish Government.

**Possible responses include:****To reduce unemployment**

Unemployment currently stands at 11.8%. The government have introduced a number of initiatives to improve employment prospects e.g. Job Bridge for the long term unemployed/provision of SOLAS courses. The government aims to reduce unemployment to 10% by 2016.

**To reduce the national debt/sustainable public finances**

Irish debt currently stands at 124% of GDP and the government must aim to reduce this. Although we have exited from the bailout, we are still under the direction of the Troika and they will continue to monitor our national debt reduction efforts. The funds from the sale of state assets may be used to reduce the debt. Restraint and discipline is required. The Government aim is to bring the fiscal deficit to 3% of GDP by 2015.

**Achievement of economic growth**

By economic growth we mean an increase in output per person in the economy (expansion of the productive capacity of the economy). Thus an increase in output per person implies an increase in income per person. We are under the direction of the Troika to return economic growth to the Irish Economy.

**Boost exports / improve competitiveness / attracting investment**

By taking steps to improve competitiveness, the government hopes that Irish exports will continue to grow and so help create jobs. They also aim to reduce cost of utilities. This may make Ireland more attractive for FDI. Trade missions by the IDA and Enterprise Ireland to China etc. to encourage FDI.

**Broaden the tax base / greater tax revenue certainty**

The government has introduced the local property tax, septic tank tax inspection charge and plans to introduce a water tax. These taxes will provide stability and increased certainty for the collection of government revenue.

**Sustainable economic development**

The government aims to increase investment in renewable energy so as to reduce carbon emissions and allow Ireland to be more sustainable. Measures include availability of grants for home insulation etc.

**Balanced regional development**

The IDA has had advance factories built outside of the Dublin region. It is hoped that employment will be created in the regions so as to boost economic activity.

**4 points of information: 5 marks each = 20 marks**

**2014 Q6 Continued**

(ii) Outline **two** possible conflicts that could arise between some of these Government aims/objectives.

**Possible responses include:**

**Sustainable government finances vs. economic growth/employment growth**

Government policies to increase employment may cause an increase in government spending and a resultant budget deficit. This may be short term though as an increase in employment will lead to a higher level of tax revenue in the future thus reducing the deficit.

**Sustainable government finances vs. regional development**

Huge capital expenditure required (broadband and services such as hospitals and schools) to develop regionally, adversely affecting the budget deficit.

**Full employment vs. equality**

Achieving equality means that the government has to divert resources from one section of society to another. The gains made towards equality may be made at the expense of reduced efficiency and lower employment. e.g., a tax on employers may result in fewer workers being employed.

**Economic Growth vs. just social policy.....etc.**

**2 conflicts: 5 marks each = 10 marks**

**Other acceptable answers marked on their merits.**

**2014 Q6 Continued**

- (b) Discuss arguments for **and** against the privatisation of state assets. (20)

**Possible responses include:**Arguments in favour of privatisation:**Revenue for government**

The government could use the revenue from the sale of the asset to reduce its level of borrowings into the future. This is one of the recommendations from the Troika during the recent 'bailout' programme.

**More competition**

Competition in the industry could improve services offered to customers and lead to more competitive prices on goods and services e.g. air travel in Ireland. Rationalisation ensures maximum efficiency from available resources.

**Enterprise culture**

Increased share ownership may lead to growth in an enterprise culture within the country and so help employment.

**Access to finance**

Through the sale of additional shares on the stock exchange, private companies have access to extra finance.

**Greater incentives for innovation**

Employees may have a greater incentive to innovate and improve productivity as they may reap greater rewards for their innovations within the privatised sector e.g. higher bonuses.

**Shedding of loss making companies**

By selling off loss making companies the burden on the state is removed and so the burden on taxpayers should be reduced.

**2 arguments for: 5 marks each = 10 marks**Arguments against privatisation:**Increased Prices/ falling standards of service**

The quality of services provided by the new company may deteriorate in an effort to cut costs. Prices may be increased to increase revenues.

**Loss of jobs and reduced job security**

Jobs may be lost through rationalisation of services and this may lead to higher social welfare costs.

**Loss of a State Resource / loss of annual profits**

Taxpayers lose critical infrastructure, which was once owned by the state. The state will lose profits made by profitable state firms.

**Foreign Ownership**

With the sale of a state owned asset, overseas buyers may become the owners of an Irish company and so control of the asset may go outside the state.

**Loss of essential public services**

The newly privatised company may cut those services which are non-profit making and this may affect lower income groups in particular.

**2 arguments against: 5 marks each = 10 marks**

**2014 Q6 Continued**

- (c) In *The Irish Times* (November 2013) the economist Joseph Stiglitz predicted a "lost decade" for the Irish economy, due to the extended period of austerity.  
 (Austerity refers to government measures introduced to reduce a Budget Deficit.)  
 Outline **four** possible economic consequences for the Irish economy arising from the austerity measures introduced in recent Irish Government budgets. (25)

**Possible responses include:****Increased unemployment / emigration**

Reduced state services leads to less disposable income, which leads to less businesses (fall in production, reduction of the workforce, possible closure) leading to unemployment. The unemployment rate has grown as a result of these austerity measures. Some people have been forced to emigrate, having being made redundant here.

**Loss of business confidence / lack of investment**

With increased austerity and less disposable income available, loss of confidence in the Irish economy has led to entrepreneurs looking abroad seeking investment opportunities. Return on investment is viewed as being less reliable.

**Reduction in aggregate demand / spending / lack of economic growth**

As a direct result of government cuts in social welfare payments etc. there is less disposable income available for consumption, so aggregate demand decreases leading to reduction in economic growth.

**Fall in living standards / increased Taxation / cuts in benefits and welfare service / greater inequality**

With the austerity measures which were introduced by the government, there has been an increase in stealth taxes (regressive) and new forms of taxation such as the local property tax, household charge etc. The above have resulted in a fall in living standards.

**Increased indebtedness**

Within the economy, the increase in stealth taxes may lead to increased indebtedness. The high levels of personal debt is now having a negative impact on banks, credit unions etc. A credit squeeze may result.

**Role of the government increases**

The role of the government becomes much more strategic in a time of protracted austerity e.g. if people cannot afford health insurance etc., then the government may have to step in and provide medical cards. There may also be a need for further investment in rent allowance schemes, social and affordable housing etc.

**More regional inequality**

Peripheral areas of the country have suffered to a much greater degree during this period of prolonged austerity. Some Business closures with a consequent loss of jobs has been a feature of these regions.

**1<sup>st</sup> correct response: 7 marks**

**2<sup>nd</sup>/3<sup>rd</sup>/4<sup>th</sup> correct responses: 6 marks**

**2014 Q8**

- (a) Explain the relationship between a government Budget Deficit and the National Debt. (20)

A government budget deficit exists when total government expenditure exceeds total government revenue. A budget deficit is financed by increased government borrowing.

**10 marks**

National debt is the total amount (cumulative) of government borrowing which is outstanding (due / owed). A budget deficit will result in an increased national debt in absolute terms and a higher cost of servicing the national debt.

**10 marks**

- (b) “The Irish Tax system has evolved over time to reflect changing economic and social conditions and will need to be equally responsive to new developments in the future.” (35)  
(*Commission on Taxation Report, 2009*)

- (i) Discuss Adam Smiths' **four** Canons of Taxation in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776).  
(ii) Outline **two** other principles which could be considered in a modern tax system. Justify answers.
- (i) Discuss Adam Smiths' **four** Canons of Taxation.

**Equity**

The ability-to-pay principle/Taking a higher proportion of income in tax as income rises. The better able should bear a greater burden of taxation, whether or not they benefit. The idea of this canon is that taxes should be progressive and so income tax in Ireland is equitable as those on higher incomes pay a greater proportion in taxation.

**Economy**

The costs of collecting taxes should be as low as possible. The income collected should be greater than the cost of collection. The raising of revenue for government is the main aim of taxation. If the taxes imposed are difficult to administer it may result in costs of collection being high relative to the yield from the taxation. The majority of the tax take should be available for the welfare of the economy. The local property tax is economic as it can be collected on-line.

**Certainty**

The amount paid should be certain and clear/ A taxpayer should know when they are paying tax and how much tax they are paying.

Similarly the government should know how much they are collecting and when they will receive it. Various taxes such as VAT receipts must be forwarded to the Revenue Commission at certain specified times.

**Convenience**

The tax should be collected in a way and at a time which is convenient for the taxpayer.

It is more convenient to have tax deducted at source e.g. PAYE rather to receive a bill for the total amount due in a single payment after the income has been spent. VAT is collected at the time of purchase and so is convenient for the taxpayer.

**4 points of information: 6 marks each = 24 marks**

**2014 Q8 Continued**

- (ii) Outline **two** other principles which could be considered in a modern tax system. Justify your answers.

**Possible responses include:****A tax system should have a limited disincentive effect on work / saving**

If the rate of personal income tax is considered too high (Ireland's effective highest rate is 51%) and a large proportion of additional income is taxed away this may discourage people from supplying additional effort or labour. Plans for a higher rate of income tax to be charged on people earning over €100,000 may deter foreigners from working in Ireland. The current rate of DIRT of 41% may deter people from saving.

**A tax system should have a limited disincentive effect on investing**

The current rate of CPT 12.5% is a factor in attracting FDI. If this rate of tax were to increase it may deter MNCs from locating in Ireland and it may mean that some companies re-locate their operations.

**Taxes should have a stabilising impact on the economy thus developing into automatic stabilisers**

A tax system should prevent the level of economic activity rising too fast as it would otherwise during a period of economic growth. Similarly in a recession, the amount collected in taxes falls, so the decrease in demand is not as great as it would otherwise be.

**Tax rates should be consistent with national economic objectives**

The taxes levied should help the government achieve other economic/social objectives e.g. raising excise, VAT rates on alcohol may discourage consumption; the introduction of a 'sugar tax' may help reduce Irish obesity levels; the 'carbon taxes' may help reduce our carbon emissions.

**Tax evasion should not be possible.....etc.**

**1<sup>st</sup> correct response: 6 marks**

**2<sup>nd</sup> correct response: 5 marks**

**Other acceptable answers marked on their merits**

**2014 Q8 Continued**

- (c) Outline possible economic consequences of the Irish Government shifting the burden of taxation from direct taxation to indirect taxation. (20)

**Possible responses include:****Encourages enterprise, investment, employment and employment promotion**

Lower rates of direct tax may incentivise workers and companies as direct taxes tend to be progressive. More take-home pay will increase the incentive to work. Rewards for risk taking encourages effort. Lower rates of direct taxes may lead to increased FDI.

**Moving from direct to indirect can make the tax system more regressive**

Indirect taxes tend to be regressive. Lower income groupings may end up paying a greater proportion of their income in this form of tax because they spend a greater portion of their income. In 2010 a carbon tax was introduced in Ireland resulting in higher costs of purchase. Indirect taxes do not take account of ability to pay.

**Evasion is more difficult with indirect tax**

Since the indirect tax e.g. VAT is included in the selling price of the good or service, it is impossible to evade. If you buy a good, then you must pay the tax on that good.

**Revenue collected is not as certain with indirect tax**

The revenue collected is not as predictable as that from direct taxation. This may hinder the government's financial planning. Indirect taxes can distort demand patterns thus making it more difficult to predict the amount of revenue that will be collected.

**Indirect taxes can be inflationary**

A rise in VAT / Excise duties will increase the CPI in the short term. This may cause consumers to possibly decrease their spending and /or defer their spending.

**May lead to a growth in the 'shadow economy'**

An increase in the rates of indirect taxation may cause some consumers to switch to the shadow economy as they seek lower prices for some goods and services.

**4 points of information: 5 marks each = 20 marks**

**Other acceptable answers marked on their merits**

**2013 Q4**

(a) ‘The Exchequer deficit in December 2012 was €14.89bn’. (Dept. of Finance, January 2013) (30)

(i) Discuss **four** possible economic consequences of the Government Current Budget Deficit for the Irish economy.

**1. Additional taxation**

The government needs to increase revenue to finance its activities and so has increased the rate of VAT; introduced the Property Tax and Septic tank tax. It also plans to introduce water charges.

**2. Cuts in public expenditure**

In the recent budget the rate of child benefit was cut and this affects all families in the state resulting in a reduction in their standard of living etc...

**3. Reduction in the provision of state services**

The provision of services such as SNAs; home help for care assistants is causing difficulties for sectors of the population.

**4. Troika intervention**

The requirement to reduce the current budget deficit by the Troika means that the Troika can intervene and advise the Irish government on policy measures within the economy.

**5. Public sector pay**

The government is insisting that the public sector pay bill is reduced and that measures to increase efficiencies in public services must be introduced.

**6. Reduction in aggregate demand / job losses**

With the additional taxation consumer spending has fallen. This has resulted in job losses particularly in the retail sector.

**7. Loss of confidence / emigration**

The impact of extra taxation; reduced consumer spending; job losses etc. means that people are fearful about the future which affects business confidence. People, who are mobile, are emigrating.

**8. Moderation in citizens expectations**

Citizens are aware of the current financial position. They may accept more readily charges for state / local services; increased taxes and a reduction in state services for some individuals e.g. fewer hours for care assistants etc.

**4 points at 5 marks (2+3) each**

## **2013 Q4 Continued**

- (ii) Explain how a government budget could be used to reduce income inequalities in an economy.

### **Welfare benefits could be increased / maintained**

This means that those on lowest incomes would receive additional income.

### **Tax changes**

The government could make taxes like income tax, CGT and CAT more progressive.

Abolish tax reliefs and shelters that are used by very high income earners to avoid paying taxes.

Widen the lower income tax band so as to increase the real income of low income earners.

### **Wealth tax**

The government could introduce a wealth tax in its budget similar to that introduced in economies like France where incomes over €1m are taxed at 75%.

### **Target universal entitlements**

Instead of giving child benefit to every household with children it could be means tested or targeted at parents in receipt of welfare payments and working parents earning low wages.

### **Increase the minimum wage rate**

In doing so workers on lower incomes would have a higher disposable income.

### **2 points at 5 marks (2+3) each**

- (b) (i) State and explain **two** reasons why the government increased taxes on cigarettes and alcohol in its most recent budget.
- (ii) Outline **three** economic impacts for the Irish economy of an increase in Motor Tax. (30)

- (i) State and explain **two** reasons why the government increased taxes on cigarettes and alcohol in its most recent budget.

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

Increasing prices might encourage people to smoke less or drink less / their health improves.

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

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

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

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

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

As some people are addicted to smoking and consuming alcohol, irrespective of the tax increase, revenue from the sales of these products will continue to increase.

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

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

#### **6. To discourage/ limit tax evasion**

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

### **2 points at 6 marks (3+3) each**

## 2013 Q 4 Continued

(ii) Outline **three** economic impacts for the Irish economy of an increase in Motor Tax

**1. Increased tax revenue for the local authority**

The local authority receives an additional source of revenue from the tax. People see driving as a necessity so most people will still continue to use their car even with the increase in motor tax.

**2. Reduced disposable income for consumers**

The purchasing power of consumers falls as they have less income available for spending on other products.

**3. No incentive for purchasing environmentally friendly cars**

Those who purchased 'green' cars are being hit hard with the tax. This does not encourage people to purchase cars that have lower emissions.

**4. Increased costs for businesses**

The cost of transport for businesses will increase which will lower their competitiveness / increase consumer prices.

**5. Possible closure of car dealerships**

If fewer new cars are bought this may result in job losses.

**6. Better for environment**

Some families may be unable to retain their second car. Others may decide to give up their car and use public transport. This may have positive implications for the environment.

### **3 points at 6 marks (3+3) each**

(c) 'The Public Capital Programme must make a further contribution to budgetary consolidation'.

(Infrastructure and Capital Investment, 2012 – 2016)

As an Advisor to the Minister for Public Expenditure and Reform, discuss **two** economic arguments in favour of a reduction in capital expenditure in the Budget. (15)

**1. Reduce state borrowing and reduce the national debt**

By reducing capital expenditure overall state borrowing will be reduced and this will have a positive effect on Ireland's national debt.

**2. New Infrastructure already in place / fewer bottlenecks**

Billions have been spent on improving the infrastructure over the past number of years and as a result our infrastructure, particularly the road network, is of a high standard. There are fewer infrastructural bottlenecks as a result of spending on infrastructure over the years.

**3. Private sector is providing necessary infrastructure**

In some sectors private companies are providing the necessary capacity e.g. broadband subscription growth.

**4. Spending in line with other European countries**

Even with the cuts in government expenditure Ireland will be spending about 2% of GDP on infrastructure. This is in line with the average across the Euro zone economies.

**2 points**

**1<sup>st</sup> point at 10 marks (5+5)**

**2<sup>nd</sup> point at 5 marks (2+3)**

**2013 Q8 (b)**

(b) 'Ireland's National Debt was €137.6bn at the end of December 2012'. (NTMA)

- (i) Discuss the disadvantages for Ireland of having a high National Debt.  
 (ii) Outline **two** means by which Ireland's National Debt may be made more sustainable. (30)

(i) Discuss the disadvantages for Ireland of having a high National Debt.

**1. Opportunity costs involved / loss of public services**

With more funds being used to meet our annual interest repayments the government has less funds available for other purposes. The government has cut spending on public services, resulting in deterioration in provision of some services e.g. the health service; education service

**2. Increased burden on current and future taxpayers**

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

**3. Annual interest repayments**

The increasing national debt means that the annual cost of repaying our national debt is rising. Interest payments are payments for past consumption and they are made at the expense of current consumption.

**4. Loss of economic sovereignty / intervention of Troika**

When a country cannot fund itself it can apply to external bodies, such as the IMF, for funding. However to get the funding a country has to accept conditions as specified by the external bodies.

**5. Reduction in our international credit rating**

High debt means that credit ratings will be affected. This will have an impact on the ability of the Irish Government to get private external funding in the bond market.

**6. Sale of semi-state bodies**

The current government is committed to the privatisation of some state companies and to use the revenue to reduce our debt. This is in line with Troika requirements.

**3 points at 6 marks (3+3) each**

(ii) Outline **two** means by which Ireland's National Debt may be made more sustainable.

**1. Debt write off**

Many commentators agree that Irish Debt levels are unsustainable and some of it must be written off in order for the economy to grow into the future.

**2. Negotiate Lower interest rates**

NTMA should try to ensure that the annual interest repayments are less costly for the country.

**3. Negotiate a longer time repayment period**

This would reduce the annual interest repayments and may make the National Debt more sustainable.

**4. Ensure debt is 'self-liquidating'**

The government must ensure the funds are used to generate revenue that helps to repay the debt rather than the debt being 'deadweight'.

**5. Encourage Economic growth**

The government could encourage aggregate demand which would be a source of additional income for people and subsequent additional tax/income for the government. With the increase in the government's current income the national debt would be easier to repay/could be repaid in increased instalments, which would leave the debt more sustainable.

**2 points at 6 marks (3+3) each**

**2012 Q6**

- (a) One of the economic aims of the Irish Government at present is to decrease government current expenditure. Discuss **four** other economic aims of the Government **and** use relevant statistics/information to justify your choice. (20)

**1. Reduce unemployment (curb emigration)**

Pursue policies which will improve our competitiveness, boost exports and so help create jobs in Ireland. This would help reduce the numbers emigrating from Ireland. Unemployment currently stands at 14.8%.

**2. Achieve economic growth**

Growth rates for the Irish economy are low: 0.5% for 2012. The government is hoping for a return to a position of improved economic growth so that jobs are created, investment takes place and the state's financial position improves.

**3. Broaden the tax base**

The government has introduced the household charge, septic tank tax inspection charge and are planning to introduce a water tax. This will provide stability and increased certainty for government revenue.

**4. Reduce the national debt**

At the end of May 2012 Ireland's National Debt was €129.03 bn.

The government must, in agreement with the Troika, reduce this. This may help confidence in the economy. The funds from the sale of state assets may be used to reduce the debt.

**5. Stability in the banking sector**

By nationalising the main banks the government wants to restore stability to this sector, generate confidence and so encourage bank lending, which may stimulate economic investment / economic growth.

**6. Improve state services / make them more efficient**

Trying to do more with less. The government wants to maintain services for the public but are giving less money to each department to fund these services.

**7. Improve infrastructure**

By investing in the infrastructure e.g. schools building programme €1.5 bn. public transport etc. the govt. hopes that it will help create employment, encourage further investment and help boost economic activity.

**8. Boost exports / improve competitiveness**

By taking steps to improve competitiveness the government hopes that Irish exports will continue to grow and so help create jobs. However, slowing economic growth rates in our exports markets may affect the demand for our exports.

**9. Restore consumer confidence**

The government aims to stabilise the economy in order to encourage people to spend. Consumer confidence has been low. The QNHS reports changing spending patterns among Irish households.

**10. State finances**

The government plans to reduce current expenditure, increase taxation revenue and so reduce the government budget deficit to 3% of GDP by 2015.

Budget 2012: Tax receipts: €35.6 bn / Non-Tax revenue: €2.5 bn / Current Expenditure: €51.2 bn so the Current Budget Deficit is expected to be €13.1 bn.

**11. Promote balanced regional development**

The National Development Plan aims to do this. The government must develop broadband, ensure the continuity of regional airports, develop/promote educational opportunities in the regions so as to stimulate economic activity and encourage economic growth.

**12. Distribution of wealth**

The government must continue to ensure that social welfare recipients' standard of living is maintained, that it provides adequately for future pensions and helps to redistribute income within the state, given the current constraints on government current spending.

**4 at 5 marks each.**

**Must refer to current statistic or piece of relevant information.**

**2012 Q6 Continued**

- (b) ‘Most euro zone countries with large deficits are using VAT to generate revenue.’  
(Irish Tax Institute, The Irish Times, November 2011)
- (i) Explain, using examples, the difference between direct taxes and indirect taxes.
- (ii) Discuss the economic advantages **and** disadvantages for the Government of increasing VAT rates instead of income tax rates in its most recent budget.
- (iii) Outline how imposing a tax on sugary foods (e.g. fizzy drinks) could benefit the Irish economy. (35)

(i) **8 marks**

	<b>Direct taxes</b>	<b>Indirect taxes</b>
Explanation	Are taxes on income / wealth / profits	Are taxes on goods / services / spending
Example	Income tax; CPT; DIRT	VAT, Excise duties

- (ii) Discuss the economic advantages and disadvantages for the Government of increasing VAT rates instead of income tax rates in its most recent budget.

<b>Advantages</b> (of increasing VAT instead of income tax rates)	<b>Disadvantages</b> (of increasing VAT instead of income tax rates)
<b>Economic</b> The costs of collection are borne by traders / retailers and not by the state. The revenue collected is much greater than the costs of collection.	<b>Inflation</b> Increased VAT rates will lead to higher prices causing cost- push inflation.
<b>Impossible to evade</b> As the tax is built into the selling price they are impossible to evade.	<b>Inequitable / Regressive</b> Indirect taxes do not take a person’s ability to pay into account and so the burden falls more heavily on lower income groups.
<b>Convenient</b> As they are included in the selling price they are convenient for the taxpayer.	<b>Disincentive to spend</b> With rising prices in the current recession it may cause people to defer spending.
<b>No disincentive to work</b> With an increase in direct taxes taxpayers may feel a disincentive to work. This does not occur with an increase in VAT.	<b>May lead to black economy activities</b> Some consumers may switch to the black economy leading to a loss of revenue for the state.
<b>Used by government to change consumption patterns.</b> The government could increase VAT on those commodities which it deems harmful to the public i.e. cigarettes, alcohol	<b>Burden of collection passed to retailers/traders.</b> They act as revenue collectors and procedures must be put in place to collect, record and remit the revenue, increasing the costs for the firms.
<b>Acts as a built in stabiliser.</b> As the economy expands spending rises and so too will the revenue collected from taxation.	<b>Revenue uncertain</b> The revenue collected by the state is not as certain as that collected under direct taxes.
<b>2 at 5 marks.</b>	<b>2 at 5 marks.</b>

**2012 Q6 Continued**

(iii) Outline how imposing a tax on sugary foods (e.g. fizzy drinks) could benefit the Irish economy.

**1. Revenue for state**

This tax would bring in much needed revenue for the government.

**2. Help fund health initiatives**

The revenue raised could be used to fund programmes which tackle obesity particularly among young people.

**3. Reduce consumption of sugary foods**

The tax would increase the price of these foods and this may act as a disincentive to purchasing these foods.

**4. Help reduce future health costs / healthier population**

By helping to reduce current consumption there may be less health problems in the future leading to less expenditure on health. Reduced illnesses in the population will help to reduce current health costs.

**1<sup>st</sup> correct point at 4 marks.**

**2<sup>nd</sup> correct point at 3 marks.**

- (c) State and explain **two** economic arguments in favour of and **two** economic arguments against third level students contributing to the cost of their higher level education. (20)

<b>Economic arguments in favour</b>	<b>Economic arguments against</b>
<b>Reduced cost for taxpayers</b> State cost for each student attending is reduced and so the taxpayer is saved this amount. Taxpayers who don't go to 3 <sup>rd</sup> level won't feel aggrieved that they must pay the cost.	<b>Discourage people from attending</b> The additional burden may discourage some people from attending third level as it may become too expensive / some students may drop out.
<b>Opportunity cost</b> The saving made on third level fees can be used by the government for other priorities.	<b>Reduce skills of population</b> If less people attend then the educational standard / skills of the population may decline.
<b>Effect on third level institutions</b> The extra revenue may be used to extend the range of courses, appoint new staff and improve the quality of education provided.	<b>Reduced incentive to invest</b> If MNCs see the quality of the workforce affected then they may not locate in Ireland.
<b>Equitable</b> Those students' families who can afford to pay may now pay a greater contribution towards their education and may allow greater grants to be given to those who cannot pay. If earning potential is increased then it is fair that they contribute more.	<b>Inequitable</b> The additional cost may fall more heavily on low income families and as they can least afford the fees it may be considered inequitable.
	<b>Increased debt levels</b> Some families may be forced to borrow to pay for their education. Reduced disposable incomes will reduce their standard of living.
<b>2 at 5 marks.</b>	<b>2 at 5 marks.</b>

**2011 Q3 (c)**

- (c) Advise the Minister for Transport on **two** possible economic advantages and **two** possible economic disadvantages of investing in public transport, rather than investing in the construction of new roads. (20)

<b>Possible economic advantages</b>	<b>Possible economic disadvantages</b>
<p><b>Better use of scarce resources</b> There will be less fossil fuels used per passenger, thereby saving scarce resources.</p>	<p><b>Investment may be costlier than investment in roads</b> The cost of investing in public transport may be greater than the cost of building roads.</p>
<p><b>Improved public infrastructure/Regional Development</b> This will benefit society and lead to a better standard of living from the enhanced public transport facilities. Further development of rural areas leading to geographical mobility of labour</p>	<p><b>People in rural areas disadvantaged.</b> If the investment is confined to areas with large populations then people in rural areas cannot avail of these services.</p>
<p><b>Reduced CO<sub>2</sub> emissions / Environment better protected</b> If more people use public transport and limit the use of cars it will result in reduced emissions / less penalties under Kyoto agreement.</p>	<p><b>Loss of taxation revenues</b> If private transport users reduce their use then it may result in a loss of VAT; excise duties ; motor taxes to the state.</p>
<p><b>Reduced traffic congestion</b> With the possibility of less road traffic the costs associated with traffic congestion should fall.</p>	<p><b>Subsidies from the state</b> Public transport may require continued subsidies from government to encourage its use e.g. subsidy for CIE etc.</p>
<p><b>Reduced imports</b> If more people use public transport then it may result in a reduction in the import of cars and of oil.</p>	<p><b>Behaviour of roads users unchanged</b> If the number of roads users is not reduced then the investment in public transport may have been wasteful of resources.</p>
<p><b>Increased employment</b> If demand increases then there may be more employment provided by transport providers.</p>	<p>→ <b>May argue the opposite of this point</b></p>
<p><b>Benefits to transport providers</b> If more people use public transport then revenue for providers will increase allowing for continuity of service; may help reduce subsidies payable from the state; and may allow economies of scale to be achieved, resulting in lower prices.</p>	<p><b>Costs of not investing in roads</b> The road infrastructure may deteriorate; the costs for business may increase; Ireland may fall behind in international road developments.</p>
<p><b>2 x 5 marks</b></p>	<p><b>2 x 5 marks</b></p>

**2011 Q5**

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

- (i) Explain the term fiscal policy:

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

**10 marks**

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

**1. Reduced standard of living**

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

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

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

**3. Changed ownership of strategic state assets**

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

**4. Public Sector Effects**

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

**5. Level of economic activity / demand fall**

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

**6. Growth in the black economy**

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

**7. Widening gap between rich and poor**

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

**8. Public unrest**

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

**4 points x 5 marks each**

**2011 Q5 Continued**

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

- (i) Privatisation – **5 marks**

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

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

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

**4 points x 5 marks each**

## **2011 Q5 Continued**

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

Discuss **four** measures the Minister for Finance could take to reduce the public sector wage bill. (20)

### **1. Reduce the numbers employed in the sector**

Do not fill vacancies when they occur / natural wastage.

Introduce a voluntary redundancy package e.g. as in the HSE.

### **2. Reduce rates of pay per employee**

Pay new entrants into the sector lower rates of pay than existing employees.

Adjust pension entitlements to reduce the cost of future pensions.

### **3. Change terms of employment**

Defer incremental pay increases.

Negotiate pay reductions for state employees / wage freeze.

Cap the pay of higher paid civil servants.

Ban overtime for state employees/offer career breaks.

### **4. Change pension entitlements**

Reduce the pensions given to current pension holders.

### **5. Outsource services e.g. IT / Payroll**

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

**20 marks (7+7+3+3)**

**2011 Q8 (c)**

- (c) ‘The unemployment rate in Ireland in December 2010 was 13.6%’. (The Central Statistics Office)
- (i) Discuss **two** economic measures which the Government could take in order to reduce the level of unemployment in Ireland.

At the end of the year 2010, the EU and the IMF agreed €85bn of financial support for Ireland.

- (ii) Discuss the economic effects of this financial support on the Irish economy. (30)

- (i) Measures the government could take to reduce the level of unemployment in Ireland.

**1. Reduce taxation**

If the government reduced rates of VAT this would help reduce prices. This may encourage people to spend, thereby increasing demand and lead to an increased demand for labour.

**2. Subsidise additional labour employed**

The government has reduced the rate of PRSI on additional labour hired. This helps reduce the cost of labour and may encourage employers to hire additional labour.

**3. Reduce costs for business**

The government could, through regulation, force those firms supplying utilities to reduce their prices. This could reduce the costs for businesses, which may lead to a reduction in consumer prices. Demand may increase resulting in an increased demand for labour. This may decrease export prices thereby increasing aggregate demand, resulting in employment.

**4. Government prudent management of the economy**

If public confidence is restored then people will start to spend, resulting in increased aggregate demand and boosting employment. Prudent economic management of the economy is essential to help restore confidence.

**5. Infrastructural development**

Funding of improvements in the capital and social infrastructure e.g. the renovation / construction of schools etc, directly leads to employment in the construction industry and, through the multiplier effect, leads to increasing spending and growth in employment.

**6. Maintain a low corporation profits tax base / attract high value added FDI**

The low rate of CPT is seen as an essential element in Ireland’s ability to continue to attract mobile foreign direct investment. This can be used as part of a packages used to encourage companies to locate here and so increase employment.

**7. Investment in education / training**

The government must continue to invest in education and training. This investment will allow workers to up-skill and so acquire those skills in demand currently. Develop an internship programme.

**8. Banking stability – availability of credit**

If the government can re-capitalise and rationalise the banks successfully then credit may become available which will boost investment, thereby encouraging economic growth and employment.

**2 points x 5 marks each**

**2011 Q8 (c) Continued**

(ii) Discuss the economic effects of this financial support on the Irish economy.

<b>Positive economic effects</b>	<b>Negative economic effects</b>
<p><b>1. Pay public sector workers</b> The support means that these workers can continue to be paid.</p>	<p><b>1. High cost of repayment</b> The high rate of interest on these loans is a further drain on scarce state resources. Inability to borrow in international markets.</p>
<p><b>2. Maintain public services</b> Essential services can continue to be provided e.g. schools, hospitals, security, prison service etc. Without the financial support the provision of these services would cease.</p>	<p><b>2. Taxation increases / expenditure cuts</b> The loans must be repaid and this means a combination of taxation increases and / or expenditure cuts which will reduce the standard of living.</p>
<p><b>3. Continuity of a banking system</b> The financial support means that the banks can continue to operate and this may mean: (a) that the economic system can function (b) banking jobs are at less risk.</p>	<p><b>3. Loss of economic sovereignty</b> Economic policies in Ireland will now be dictated by the EU/IMF, rather than by the Irish government.</p>
<p><b>4. Acceptance of tax adjustments</b> Citizens may more readily accept the need for taxation measures which will ensure the survival of the economy.</p>	<p><b>4. Loss of confidence in economy</b> Citizens may lose confidence in the government's ability to manage its economic affairs. This may lead to a fall in spending. It may deter investment in the economy resulting in less FDI, unemployment, the 'brain drain'.</p>
<p><b>5. Acceptance of wage moderation</b> The need for financial support may encourage all workers to accept the need for wages reductions / increased productivity.</p>	<p><b>5. Unemployment / Emigration</b> With reductions in spending and a drop in investment there may be an increase in unemployment and this may result in an increase in emigration.</p>

**4 points x 5 marks each**

**2010 Q1 (c)**

- (c) Many health advisors wish to reduce the consumption of soft drinks. Advise the Minister for Health and Children on possible economic actions that the Government could take to reduce the consumption of soft drinks. (15 marks)

<b>Statement</b>	<b>Explanation</b>
<b>Taxation: Increase taxes on soft drinks</b>	By increasing indirect taxes (e.g. VAT) the price will increase which may cause demand to fall.
<b>Education: Education / Awareness campaign</b>	The government could increase spending on advertising campaigns to raise awareness of the problems which may result from the consumption of soft drinks. It could insist on more stringent product labelling.
<b>Legislation: Introduce legislative changes</b>	It could ban the sale of soft drinks in schools and colleges / ban their sale in vending machines. It could place a quota on imports of such drinks.
<b>Subsidisation: Subsidise the price of substitute goods / Reduce VAT rates on substitute goods</b>	By doing this the prices of substitute goods may be more attractive and this may lead to a drop in the demand for soft drinks e.g. the subsidisation of milk in schools.

**2010 Q3 (c)**

- (c) (i) State and explain **three** economic effects of this activity in Ireland (black economy).  
 (ii) Outline **two** economic measures the Irish Government could take to discourage this activity. (25 marks)

(i) State and explain **three** economic effects of this activity in Ireland (black economy).

**Loss of tax revenue to the government.**

Tax revenues essential to the provision of state services are lost to the exchequer. These could have been used by the government for varied uses.

**Decline in legitimate business activity/ threat to jobs**

Those businesses which are legitimate will suffer a decline in sales, leading to possible job losses and a decline in economic activity.

**Increased government expenditure on enforcement.**

To curb this activity the government may have to increase spending on enforcement which will lead to further pressure on the state's finances / necessity to raise taxes.

**Pressure on government services / finances**

With the loss of revenue to the state the government may have to cut spending, find additional sources of tax revenue and/or reduce the volume of services which it provides and /or increase borrowing.

**Increase crime levels.**

An increase in black economic activities results in increased crime and may instill fear in citizens and further reduce economic activities.

**Standards of products/services**

Because of lack of regulation products may be unsafe / harmful to consumers.

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

- (ii) Outline **two** economic measures the Irish Government could take to discourage this activity.

**1. Reduce direct taxation rates.**

By doing this the citizens may be more inclined to pay their full tax/ be tax compliant as there is less of their income being deducted in taxation.

**2. Reduce indirect taxation.**

By reducing rates of VAT and excise duties on goods and services prices should fall and this may encourage less activity in the black economy e.g. smuggling of cigarettes etc.

**3. Better enforcement by revenue commissioners.**

Continued enforcement by the revenue commissioners may deter people from engaging in the black economy. More deterrents / heavier fines / longer sentences by the courts may also help.

**4. Educate the public about the importance of tax revenue to the state.**

If the government were successful in educating the public about the important uses to which tax revenue is put and linked revenue with the provision of state services it may succeed in convincing citizens to avoid black economy activities.

**5. Simplification of the tax system / close all tax loopholes.**

A tax system which is easy to follow and understand may reduce tax evasion.

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

**2010 Q4**

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

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

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

**Taxation revenues – 5 marks**

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

**Broaden the tax base – 5 marks**

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

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

**1. Taxes should be equitable**

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

**2. Taxes should be certain**

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

**3. Taxes should be convenient**

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

**4. Taxes should be economic**

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

**5. Taxes should not act as a disincentive.**

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

**6. Taxes should aid the redistribution of income.**

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

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

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

**8. Should have a stabilising influence on the economy.**

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

**9. Evasion should be impossible**

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

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

**2010 Q4 Continued**

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

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

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

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

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

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

## **2010 Q4 Continued**

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

### **1. Opportunity costs involved.**

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

### **2. Increased burden on taxpayers.**

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

### **3. Increased annual interest repayments.**

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

### **4. Diminished international credit-rating.**

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

### **5. Euro stability pact requirements.**

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

### **6. Poor management of economy.**

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

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

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

### **8. Servicing the external portion of the National Debt**

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

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

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

**2010 Q6 (b)**

- (b) (i) State and explain what you consider to be the **three** most important economic aims of the Irish Government.
- (ii) Outline **two** examples of possible conflicts between government economic aims/objectives. (25 marks)

**1. Achieve Full Employment.**

Pursue policies which will improve our competitiveness, boost exports and so help create jobs in Ireland.

**2. Achieve moderate economic growth.**

The government must try to manage current downturn in economic activity and ensure that we return to a position of some economic growth. Appropriate fiscal policy may help towards achieving this.

**3. Control government finances / reduce borrowing / manage the national debt.**

The government must continue to reduce spending. It must also widen the tax base so as to increase taxation revenues. These measures will help reduce borrowing and help reduce the national debt.

**4. Stability in the banking sector.**

The state guarantee on depositors saving, the nationalisation of Anglo Irish Bank and the establishment of NAMA are all aimed at restoring confidence to the banking sector, restore credit availability, generate confidence in domestic and international investors and so encourage investment.

**5. Broaden the tax base.**

Many believe that we relied too much on the property boom for taxation revenues. The government must now plan to introduce new taxes, eliminate tax evasion; bring more workers into the income tax net and so generate a greater flow of tax revenues.

**6. Promote balanced regional development.**

The National Development Plan aims to do this. The government must develop broadband, ensure the continuity of regional airports, develop/promote educational opportunities in the regions so as to stimulate economic activity and encourage economic growth.

**7. Improve infrastructure.**

The continued development of the road infrastructure, provision of improved public transport, continued development of the airports and seaports etc. is essential to ensure that our standard of living is maintained.

**8. Maintain state services.**

Even though taxation revenues are declining the government must ensure that our health services are maintained and made more efficient, that schools are built and staffed and that practices are developed to ensure the long term viability of these essential services e.g. possibility of charges; changed entry requirements for the provision of 'free' services.

**9. Distribution of wealth.**

The government must continue to ensure that social welfare recipient's standard of living is maintained, that it provides adequately for future pensions and helps to redistribute income within the state, given the current constraints on government current spending.

**3 at 5 marks each.**

**State: 2 marks. Explain: 3 marks.**

**2010 Q6 (b) Continued**

(ii) Outline **two** examples of possible conflicts between government economic aims/objectives.

1. Control of national finances v. full employment.
2. Control of national finances v. Economic growth.
3. Distribution of wealth v. broadening the tax base.
3. Stability in banking sector v. control of government finances.
4. Balanced regional development v maintaining state services.
5. Full employment v. price stability.

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

**2009 Q6**

- (a) Define **each** of the following terms:
- (i) Current Budget Deficit;
  - (ii) Exchequer Borrowing Requirement;
  - (iii) Public Sector Borrowing Requirement;
  - (iv) National Debt.

**(i) Current Budget Deficit**

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

**(ii) Exchequer Borrowing Requirement**

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

**(iii) Public Sector Borrowing Requirement**

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

**(iv) National Debt**

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

**4 definitions @ 5marks each graded**

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

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

**1. Increased Current Budget deficits**

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

**2. Borrowing for capital purposes/Self-Liquidating Debt**

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

**3. Social Investment**

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

**2 reasons @ 5 marks each graded**

**2009 Q6 Continued**

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

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

**2009 Q6 Continued**

(c) The Irish economy will experience a substantial Current Budget Deficit for 2009.

You have been employed as an Economic Advisor to the Minister for Finance.

(i) State and explain **two** specific courses of action (one on the revenue side and one on the expenditure side) you would advise the Minister to take in order to reduce significantly the Current Budget Deficit.

(ii) Outline the possible economic effect(s) of **each** course of action you have chosen.

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

**2008 Q5 (c)**

- (c) It is becoming more difficult to attract Foreign Direct Investment (multinational companies) into Ireland. Discuss the economic reasons for this development. (25 marks)

**1. Lower wage costs outside Ireland**

- Businesses have stated that labour costs in Ireland are prohibitive and cite the introduction of the minimum wage rate, the existence of social partnership etc. as factors that have led to these higher wage costs.
- Labour costs in Eastern Europe and Asia are more competitive.

**2. Rising costs of Production**

- Many firms have voiced concerns about increasing costs such as insurance, refuse charges, energy costs, the high costs of available land for expansion and development etc.
- These costs increases make exports less competitive.

**3. Infrastructural problems**

- Ireland faces many problems with its infrastructure. Examples include transport difficulties; lack of affordable housing etc. Workers now face very high costs of buying a home and this results in higher wage demands for employers.

**4. Assessment of new EU member states**

- Since May 2004 many new countries joined the EU and these countries now offer companies access to the EU market/availability of cheaper labour/access to new markets/room to expand etc. Hence they have become an attractive location for mobile industry.

**5. Regulatory Framework**

- Actions by the central government, local government or the EU have placed further requirements on industry. These actions impose a stricter regulatory framework for firms to operate.
- By moving to Eastern Europe and Asia regulations may be less strict making it easier for companies to operate e.g. protection of the environment may face less protection.

**6. Advances in International Communication**

- Advances in global communications have made it possible for firms to locate offices in other places and still carry out their business. They can now do so at lower unit costs and thereby increase their profits. An example of businesses which have re-located are international call centres e.g. credit card companies/insurance companies.

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

**2008 Q6**

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

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

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

**1. Finance Government Activities**

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

**2. Economic Objectives**

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

**3. Redistribution of National Wealth**

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

**4. Automatic Stabiliser**

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

**5. Social objectives**

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

**6. Promote enterprise**

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

**4 points at 4 marks each graded.**

## **2008 Q6 Continued**

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

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

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

### **Explanation and example: 6 marks graded.**

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

**1. Inelastic demand**

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

**2. Goods with Social Consequences**

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

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

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

**4. To discourage/limit tax evasion**

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

### **2 reasons at 4 marks each graded.**

**2008 Q6 Continued**

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

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

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

## **2008 Q6 Continued**

- (ii) Ireland must reduce its 'carbon footprint' (i.e. the level of greenhouse emissions from fossil fuels by 20% over the next 12 years.

Explain **two** ways in which the tax system could be used to meet this target.

### **1. Environmentally Friendly Vehicles**

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

### **2. Vehicle Registration Tax**

A reduction in Vehicle Registration Tax could be given for vehicles with low CO<sub>2</sub> emissions and an increase in Vehicle Registration Tax for high emission vehicles.

### **3. Road Tax**

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

### **4. Public Transport**

Reduce any taxation on prices paid for public transport.

### **5. Polluter Pays**

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

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

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

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

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

### **8. Increase Excise Duty on Fuel**

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

**2 points: 5 marks graded + 4 marks graded.**

**2008 Q7 (a) + (b)**

- (a) (i) Explain the term 'Privatisation' and state two examples of companies that have been privatised in Ireland. (30 marks)

The term 'privatisation' is used to describe the sale or transfer of public sector assets to the private sector.

**6 marks graded.**

Examples: Aer Lingus, Eircom, Irish Life, B & I Ferries, Greencore.

**2 examples at 2 marks each**

- (ii) Outline two arguments in favour of Privatisation and two arguments against Privatisation for the Irish economy.

<b>Arguments in favour</b>	<b>Arguments against</b>
<b>1. Improved quality / choice of services.</b> Privatised firm may improve the quality / efficiency / choice of the service provided.	<b>1. Loss of non-profit making services</b> Non-profit making services may be discontinued by the company in an effort to reduce costs.
<b>2. More competitive prices.</b> Consumers may be offered more competitive prices on goods / services.	<b>2. Standards of service</b> The services provided by the new company may deteriorate in an effort to save costs.
<b>3. Continuity of supply</b> The newly privatised companies will have access to new sources of funds and as they are not subject to government interference their long term prospects for survival may improve, ensuring continuity of supply for consumers.	<b>3. Preference to meet shareholders demands.</b> Greater emphasis might be placed on meeting the expectations of shareholders rather than improving the quality of the service for consumers. Firm may charge for services which were considered 'free'.
<b>4. Employment opportunities</b> If the new firm increases its market share then this may result in a growth in employment within the industry / additional job security.	<b>4. Loss of jobs / reduced job security / increased social welfare bill</b> There may be a loss of jobs through rationalisation of services, leading to higher social welfare spending.
<b>5. More rewards/Incentives for innovation.</b> Employees may reap more rewards for their innovations within the privatised industry e.g. higher bonuses etc.	<b>5. Curtailment in Pay / Pensions increases / working conditions</b> The new owners may limit the pay / pension increases due to its employees /may change its employees' conditions of employment resulting in a worsening of these.
<b>6. Revenue from sale may help reduce current / future taxes/opportunity cost</b> The government could use the revenue from the sale of the firm to help reduce tax rates in Ireland, either direct or indirect. Reduction in borrowing.	<b>7. Loss of a valuable state resource</b> This company has been financed by taxpayers in the past. With its sale, taxpayers now lose a valuable asset which they once owned.
	<b>8.Costs of the Sale</b> All costs in preparation for the sale such as legal work must be paid for by the taxpayer e.g. Aer Lingus
	<b>9. Foreign ownership of Irish Companies</b> Overseas buyers can become owners of a previously Irish company and so control of the asset can go outside the state
<b>2 at 5 marks each graded.</b>	<b>2 at 5 marks each graded.</b>

**2008 Q7 (a) + (b) Continued**

- (b) One of the economic aims of the government is 'Balanced Regional Development'. (25 marks)
- (i) Explain the meaning of the underlined term.

Government identifies and targets regions which are disadvantaged or economically depressed and then implements policies which positively discriminate in favour of these regions

**5 marks graded.**

- (ii) Outline two policies which the government could implement to promote regional development.

**1. Decentralisation of state bodies / Government departments**

By placing state bodies in these regions additional income is generated here through the multiplier effect, promoting economic development.

**2. Grants/Tax Incentives**

If additional grants and tax incentives are provided to industry within the regions then more firms will locate here promoting development.

**3. Investment in the infrastructure**

If investment in the social infrastructure takes place, then the improvements will make these regions more attractive to live in, boosting the working population and making the communities viable places to live, work and invest in i.e. the Ballymun Regeneration Project / Regeneration of Moyross and Southhill in Limerick.

**4. Upgrading of power supplies**

The lack of an adequate power supply in regions hinders the location of some types of industry i.e. the north east. If this situation were remedied then industry could locate there.

**5. Upgrading of 3rd Level Training and Educational facilities**

The provision of adequate 3<sup>rd</sup> level educational facilities is a pre-requisite for attracting high value- added businesses to regions.

The availability of courses in IT's and other College's in regional areas encourages enterprise in these areas, further facilitating development.

**6. Improved Access to and from the regions**

Tourist organisations in the regions cite the lack of direct (cheap) international flights into these regions as a major deterrent to attracting tourists into these regions. Investment in the road and rail network will improve access for industry.

**7. Easing of planning restrictions in building residential property**

Recently the Minister for the Environment announced plans for the easing of planning restrictions on the building of residential property. This will encourage more people to live and work in these areas, thereby boosting economic activity.

**8. Providing Leader Programmes**

Such programmes support local communities in developing their localities. By identifying opportunities and aiding in research, training and promotion these programmes encourage initiative and aid economic development.

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

**2008 Q7 (a) + (b) Continued**

- (iii) 'Balanced Regional Policy has an opportunity cost'. Explain this statement, using an example to support your answer.

This statement means that when the government targets certain areas for spending and development, other parts of the country and economy may lose out.

**Explanation: 5 marks graded.**

If the government gives grants or tax incentives to a company to locate in the North West of Ireland, this means that there will be less money for government to spend on other state services such as education.

**Example: 5 marks graded.**

**2007 Q5**

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

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

**2007 Q5 Continued**

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

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

**3 at 10 marks each graded.**

## **2007 Q5**

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

### **Maintain standards of living during rising inflation.**

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

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

### **Increase participation in the workforce / Incentivise the workforce.**

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

### **Encourage continuation of Social Partnership.**

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

### **Maintain / Improve competitiveness.**

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

### **Enable Ireland attract foreign industry / encourage investment.**

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

### **Stimulate economic activity.**

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

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

### **Discourages the black economy.**

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

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

## **2007 Q8 (b) + (c)**

(b) (i) State and explain **FOUR** economic aims of the Irish government.

### **1. Achieve Full Employment.**

Ensure that we maintain our competitiveness and so maintain jobs in Ireland.

### **2. Control price inflation.**

The government must try to reduce the pressure on rising prices within the economy.

While oil prices are outside its control it can try to limit wage increase and through the introduction of competition encourage price competitiveness in services.

### **3. Achieve moderate economic growth.**

While a slowdown is expected the government must try to manage economic activity and ensure that growth takes place. It aims to do this through its taxation policies.

### **4. Encourage exports.**

The only measure available is to try to improve competitiveness for Irish exporting industries.

### **5. Control government finances / reduce borrowing / manage the national debt.**

While we have become accustomed to increasing tax revenues, this is expected to fall. So pressure exists on the government to control expenditure, in particular the cost of providing public services

### **6. Reduce taxation levels / achieve taxation equity.**

Current policy is to continue to reduce income tax but this may result in 'stealth taxes' and/or the deterioration in public services.

### **7. Promote balanced regional development.**

This is being pursued by the National Development Plan and focusing on the creation of regional gateways.

### **8. Improve infrastructure.**

The further development of the road infrastructure, provision of public transport, development of the airports and seaports etc.

### **9. Improve state services: health/education services / achieve a just social policy.**

Increasing emphasis is being placed on the improvement in health services, the provision of further places in primary schools, improvement in school buildings and the development of third level education.

### **10. Achieve a more equitable distribution of income.**

Increasing the levels of pensions and improving social welfare payments are attempts by the government to help re-distribute wealth.

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

**2007 Q8 (b) + (c) Continued**

(ii) Discuss **TWO** examples where economic policies introduced to achieve one economic aim, make it more difficult to achieve one of the other aims.

1. Control of national finances v. full employment / economic growth.
2. Full employment v. balance of payments equilibrium.
3. Full employment v. price stability.
4. Economic growth v. balanced regional development / price stability.
5. Economic growth v. balance of payments equilibrium.

**2 sets of conflicting policies: 13 marks graded.**

(c) ‘The **National Debt / GDP** ratio has fallen from over 90% during the first half of the 1990’s to an estimated 25.1% at the end of 2006’. (National Treasury Management Agency)

(i) Briefly explain each of the underlined terms.

<b>National Debt</b>	<b>GDP</b>
This is the total amount / cumulative of government borrowing which is outstanding	<p>The output produced by the factors of production in the domestic economy irrespective of whether the factors are owned by Irish nationals or foreigners.</p> <p>Measures the total income arising from productive activity within the state.</p>

**2 explanations at 7 marks each graded.**

## **2007 Q8 (b) + (c) Continued**

(ii) Outline the economic benefits of this changed situation for the Irish economy. (16 marks)

### **1. Reduced annual interest repayments.**

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

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

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

### **3. Reduced burden on future taxpayers.**

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

### **4. Improved international credit-rating.**

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

### **5. Adhering to requirements of the Euro stability pact.**

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

### **6. Prudent management of economy by government.**

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

### **7. Possible deterioration in public services.**

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

### **8. Reduced spending on infrastructure.**

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

**4 points at 4 marks each graded.**

**2006 Q5**

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

## (i) Canons of Taxation

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

**16 marks: 4 canons at 4 marks each graded.**

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

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

**2 reasons at 4 marks each graded.**

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

*Or*

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

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

**Is it possible to evade the tax?**

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

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

**2 reasons at 4 marks each graded.**

**2006 Q5 Continued**

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

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

**Marking Scheme: 5 points at 5 marks each graded.**

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

**2006 Q5 Continued**

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

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

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

**2006 Q8 (a) + (c)**

- (a) The government announced plans to **decentralise / re-locate** many government departments and state agencies throughout the country.  
Discuss **TWO** possible economic advantages and **TWO** possible economic disadvantages of this policy for the development of the Irish economy. (20 marks)

<b>Advantages</b>	<b>Disadvantages</b>
<b>2 at 5 marks each graded</b>	<b>2 at 5 marks each graded</b>
<p><b><u>1. Employment Opportunities</u></b> Should vacancies exist in the relocated agencies then this will provide employment opportunities for the local population.</p>	<p><b><u>1. Increase in property prices</u></b> The announcement of the transfer of agencies has resulted in an increase in property prices in those areas. May make it difficult for local people to purchase houses.</p>
<p><b><u>2. Increased economic activity</u></b> The additional spending by workers / firms in these areas will, through the multiplier effect, increase economic activity in these areas, stimulating the local economy. Could halt the process of economic decline in some regions</p>	<p><b><u>2. Pressure on the infrastructure</u></b> Those areas which are accommodating the transfer of the agencies may now experience the problems experienced in the Dublin area i.e. shortage of school places, problems in A&amp;E, traffic congestion etc.</p>
<p><b><u>3. Better utilisation of resources</u></b> With the increase in population, resources will be more fully utilised e.g. rural bus services, small national schools etc.</p>	<p><b><u>3. Industrial Disputes</u></b> Where agreement has not been reached with the workers trade unions, industrial disputes may occur resulting in a loss of services i.e. FÁS.</p>
<p><b><u>4. Sale of valuable land assets by state</u></b> The government can sell part of its valuable land banks in Dublin and use the revenues received for other projects.</p>	<p><b><u>4. Less effective government services</u></b> The dispersal of so many agencies may result in less effective decision making by government / state agencies, resulting in a poorer quality service.</p>
<p><b><u>5. Lower cost of living</u></b> With lower property prices, lower transport costs, and child minding services, the cost of living may fall.</p>	<p><b><u>5. Wage costs</u></b> If workers are reluctant to move they may be replaced by new workers, however, the existing workers will continue to be employed, possibly without specific duties as before. This will have to be funded by taxation.</p>
<p><b><u>6. Less congestion in Dublin / Less pressure on its infrastructure</u></b> Citizens in Dublin may experience less traffic congestion. With less over-crowding there may be less pressure on the local infrastructure e.g. hospitals, transport etc.</p>	

**2006 Q8 (a) + (c) Continued**

- (c) There has been high expenditure in recent years on developing transport and communications infrastructure in Ireland. With the use of **examples**, outline **TWO** possible social costs and **TWO** possible social benefits of these developments. (30 marks)

**Outline TWO possible social benefits and TWO possible social costs of these developments.**

<b>SOCIAL BENEFITS</b>	<b>SOCIAL COSTS</b>
<p><b><u>Enhanced social capital</u></b> Citizens can now avail of a better transport and communications infrastructure resulting in better quality services <b>e.g.</b> LUAS.</p>	<p><b><u>Opportunity costs of funds</u></b> Monies used for developing these projects could have been used for alternative purposes which may have benefited society in general. <b>e.g.</b> Improvements in the health services.</p>
<p><b><u>Reduced Traffic congestion</u></b> With the new roads; improved rail services etc traffic congestion in certain areas has eased <b>e.g.</b> any of those towns which have had by-passes constructed.</p>	<p><b><u>Damage to the local environment</u></b> The areas in which these new developments are placed may be disfigured. <b>e.g.</b> placing mobile phone masts near schools; construction of the new M3 motorway through the Boyne Valley etc.</p>
<p><b><u>Ability to attract foreign investment</u></b> Enhanced infrastructure should enable this country to continue to attract mobile foreign investment with resulting benefits of employment, economic growth and a better standard of living. <b>e.g.</b> Intel.</p>	<p><b><u>Increase in land prices</u></b> Land prices adjacent to those routes along which the new roads go may increase in price, causing difficulty to those who may wish to buy land.  <b>e.g.</b> in those areas where new roads are planned land prices always increase resulting in higher costs.</p>
<p><b><u>Quicker response times in emergencies</u></b> With improved communications systems people are now aware in an instant of disasters – this allows agencies and individuals react to these disasters more quickly. <b>e.g.</b> the Tsunami relief.</p>	<p><b><u>Disruptions</u></b> The developments have caused disruption to economic, social and commercial life during the developing stages. <b>e.g.</b> motorway work, LUAS work in Dublin</p>
<p><b><u>Reduced travel times: less stress / accidents</u></b> Improved infrastructure makes for shorter commuting times. With less delays and hassle, stress for travellers/businesses is reduced. <b>e.g.</b> the introduction of the improved rail service between Dublin and Cork.</p>	
<p><b><u>Protection of the environment</u></b> A major development in transport is to encourage more people to use public transport. This will reduce the number of private cars on the roads thereby reducing fuel consumption and protecting the environment. <b>e.g.</b> LUAS, Development of the Dublin Metro.</p>	
<b>2 points at 8 marks each graded</b>	<b>2 points at 7 marks each graded</b>

**2005 Q1 (c)**

(c) Assume that the average spending on energy by a low income family is €40 weekly.

The price of energy rises by 20% so that the same consumption by a low income family would now cost €48 weekly.

The government is considering introducing one of the following policy measures to assist low-income families:

- giving low income families an increased allowance of €8 weekly (income supplement);
- subsidising the producers of energy so that energy can continue to be sold at the initial price (price subsidy)

Which policy measure would you advise the government to take? Explain the economic reasons for your answer.

(20 marks)

**Giving low income families an increased allowance of €8 weekly (income supplement).****1. Cost efficient.**

As the income supplement specifically targets low-income families it is cost efficient and cheaper for the government than the price subsidy.

**2. Purchasing power maintained / No change to standard of living.**

Low-income families will now receive an additional €8 weekly income.

The family now have a choice in deciding how to allocate this. It can maintain existing energy consumption or economise on the use of energy and use the €8 in some alternative way.

**3. Efficient use of state scarce revenues.**

As government revenue is limited and there are many demands on it the specific targeting of low income families could lead to more efficient use of these scarce revenues.

**4. Efficient use of scarce resources by consumers.**

As the price of energy rises, consumers seeing this may economise on energy use thus saving scarce resources.

**OR**

**Subsidising the producers of energy so that energy can continue to be sold at the initial price (price subsidy).****1. Protecting employment.**

By using a price subsidy the demand for energy will remain unchanged and so employment is protected.

**2. Prevent an increase in inflation / maintain competitiveness.**

The government may use the price subsidy so that energy prices remain unchanged hence maintaining price stability and ensuring that our competitiveness is not affected, subject to EU rules.

**3. Pressure on employees for greater cost efficiencies / maintain partnership agreements.**

The government may use this price subsidy as leverage for achieving cost reductions within the industry. This could involve: encouraging employees to face cutbacks / rationalisation; encouraging employees and trade unions to continue with Partnership Agreements, in return for maintaining price stability.

**2 points at 10 marks graded.**

**2005 Q4**

(a) In each of the following distinguish between the terms:

- (i) monetary policy and fiscal policy;
- (ii) progressive taxation and regressive taxation;
- (iii) tax avoidance and tax evasion.

(30 marks)

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

**6 terms at 5 marks graded.**

(b) There has been an increase in government income in taxation in the past year.

- (i) Outline **THREE** reasons for this outcome.

1. Increase in income tax revenue

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

2. Higher indirect tax revenue

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

3. Increased efficiency in tax collection

The Revenue commissioners are:

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

4. Property taxes

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

5. Corporation profits tax revenue has risen

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

**3 points at 5 marks graded.**

**2005 Q4**

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

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

Which of these would you consider a priority?

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

**10 marks graded.**

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

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

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

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

Example: Price inelastic commodities [alcohol and cigarettes].

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

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

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

Example: Price elastic commodities.

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

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

## **2005 Q8 (c)**

- (c) (i) One of the government's economic aims is to achieve balanced regional development. Outline **FOUR** possible government policies to achieve this aim.

### **Decentralisation of the public service.**

By locating government departments in local regions additional income is generated through the multiplier effect, thus aiding economic development in regional areas.

### **Tax and other Incentives to attract industry.**

If additional incentives are provided to industry in specific target areas then more firms will locate there promoting economic development.

### **Investment in the infrastructure.**

If investment in the social infrastructure takes place, then this improvement will make these regions more attractive to live in, boosting the working population and making such communities viable places to live, work and invest in e.g. the Ballymun Regeneration Project.

### **Upgrading of power supplies.**

The lack of an adequate power supply hinders the location of some types of industry in some of the regions i.e. the north east. If this situation were remedied then industry would locate there.

### **Upgrading of 3rd Level Training and Educational facilities.**

The provision of adequate 3<sup>rd</sup> level educational facilities / training networks are a pre-requisite for attracting high value- added businesses to the regions.

The availability of courses in ITs and other Colleges in regional areas encourages enterprise in these areas, further facilitating economic development.

### **Improved Access to and from the regions.**

Tourist organisations in the regions state the lack of direct international flights into these regions as a major deterrent to attracting tourists / businesses into these regions. Investment in the road and rail networks will also improve access.

### **Easing of planning restrictions in building residential property.**

Easing of planning restrictions on the building of residential property will encourage more people to live and work in these areas, boosting economic development.

### **Providing Leadership Programmes.**

Such programmes support local communities in developing these localities. By identifying opportunities and aiding in research, training and promotion these programmes encourage initiative and should aid regional development.

### **Government Spatial Strategy.**

The aim to create hubs and gateways within the regions in Ireland is to encourage towns within the regions as centres for development and this development should have a ripple effect on the surrounding communities.

**Marking: 4 points at 4 marks graded.**

### **2005 Q8 (c) Continued**

- (ii) Policies to achieve balanced regional development may make it more difficult for the government to achieve other economic aims". Explain this statement, using examples to support your answer.

Achieving balanced regional development may involve increasing government expenditure which makes it difficult to achieve other objectives i.e. curtailing government expenditure.

#### **Explanation: 4 marks graded.**

1. Encouraging more people to live in these areas may cause property prices to increase – contrary to the stated policy of creating affordable housing.
2. Improving the infrastructure in the regions requires increased expenditure – thereby reducing the expenditure required to improve state services nationally i.e. the health service.
3. Policies to achieve industrial development in the regions may conflict with other policies to promote tourism in regional locations.
4. Increased regional industrialisation may be at a cost of increased social costs such as pollution, congestion and increased local government charges.

#### **Marking: 2 points at 5 marks graded.**

*Note: The examples chosen must be related to regional development.*

**2004 Q8 (b) + (c)**

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

*Marking scheme*  
*5 points x 5 marks graded.*

**1. Reduced annual interest repayments.**

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

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

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

**3. Reduced burden on future taxpayers.**

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

**4. Improved international credit-rating.**

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

**5. Adhering to requirements of the Euro stability pact.**

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

**6. Prudent management of economy by government.**

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

**7. Possible deterioration in public services**

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

**8. Reduced spending on infrastructure.**

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

- (c) (i) Outline the main sources of government revenue.  
(ii) Discuss the economic consequences of a government policy to increase public service charges (e.g. road tolls, bin charges, TV licences) rather than raise tax levels for the Irish economy (30 marks)

**2004 Q8 (b) + (c) Continued****(i) The main sources of government revenue: 5 x 2 marks each.**

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

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

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



**2002 Q2 (c)****(c) The possible social costs & social benefits of the new roads being constructed in Ireland.****Possible Social Benefits**

- 1) Traffic congestion:  
With the new roads traffic congestion in an area may ease.
- 2) Less stress:  
With fewer delays, stress for travellers may be reduced.
- 3) Shorter travelling times:  
Better roads may make it possible for shorter commuting time to work/school.
- 4) Improvement of infrastructure:  
With the infrastructure improving, attracting new industry may be easier.
- 5) Enhanced environment:  
If the new roads by-pass towns it may allow the towns re-develop and enhance their physical environment to the benefit of all citizens.
- 6) Toll Roads / revenues :  
If the roads are toll roads this will bring revenue to the government through VAT receipts and eventually ownership may pass to state.
- 7) Improved Safety:  
Newer roads may improve safety and help reduce fatalities on roads.

**Possible Social Costs**

- 1) More pollution :  
Greater noise and increased emissions for those who live in close proximity to the new roads.
- 2) Payment for the use of the road / Need for increased tax revenues:  
If the roads are toll roads then all road users must pay for their use which until now had been at no cost.
- 3) Increase in land prices:  
Land prices adjacent to those new roads may increase, causing difficulty to those who may wish to buy land.
- 4) Damage to the local environment:  
The landscape through which the new roads are constructed may be disfigured.
- 5) Disruption to local communities  
The new roads may affect the nature of the community life for existing communities.

**4 points: 7 + 6 + 6 + 6 marks graded****Minimum of 2 Social Costs / Social Benefits.**

**2002 Q 7 (b) + (c)**

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

**(c) (i) Outline, giving examples, TWO reasons why Irish semi-state companies are facing increasing competition.**

**2 x 5 marks graded**

**1. EU / Irish Competition Policy.**

This is the one of the principal factors forcing competition within all semi-state firms e.g. ESB. The aim is to reduce monopoly power and provide consumers with greater choice.

**2. Restrictions on additional capital**

The government has not been forthcoming in providing finance to semi-state bodies, forcing these companies to compete with market forces for additional capital e.g. Aer Lingus.

**3. Drive towards market forces.**

The government's policy to privatise semi-state bodies, supported by the electorate, is forcing these firms to change their outlook and realise that state protection is being reduced and increased competition will result e.g. RTE

**2002 Q 7 (b) + (c) Continued****4. Consumer demand**

Consumers are demanding greater choice in the provision of services / improvement in the quality of these services and more competition in relation to price. e.g. Aer Lingus

**5. Entrepreneurial culture supported**

With an improved tax regime / greater rewards possible for entrepreneurs, more companies/individuals are willing to provide services which state bodies had the monopoly on e.g. Ryanair and its offer to fly transatlantic.

**c. (ii) Discuss ONE advantage and ONE disadvantage of this development for:**

**CONSUMERS**

<b>ADVANTAGES</b>	<b>DISADVANTAGES</b>
<b>1 x 5 marks graded</b>	<b>1 x 5 marks graded</b>
<b><u>1. Quality of services.</u></b> The competition may force the semi-state companies to improve the quality/efficiency of the service provided.	<b><u>1. Loss of non-profit making services.</u></b> The semi-state company may discontinue non-profit making services in an effort to reduce costs.
<b><u>2. More competitive prices.</u></b> Increased competition may force the firms to offer consumers more competitive prices.	<b><u>2. Possible reduction in safety standards.</u></b> In the drive towards increased efficiency shortcuts may be taken resulting in a decline in safety.
<b><u>3. Increased choice / availability of services.</u></b> Consumers may now be able to avail of a wider choice of services.	<b><u>3. Decline in standards of service.</u></b> The quality service provided by the semi-state company may deteriorate in an effort to save costs.
	<b><u>4. Possibility of future price increase</u></b> The firm may have to increase prices in order to survive this competition and remain operating.

**2002 Q 7 (b) + (c) Continued****EMPLOYEES OF SEMI-STATE FIRMS**

<b>ADVANTAGES</b>	<b>DISADVANTAGES</b>
<b>1 x 5 marks graded</b>	<b>1 x 5 marks graded</b>
<p><b><u>1. More motivated workforce.</u></b> Increased competition may allow the workforce to become more innovative in their jobs.</p>	<p><b><u>1. Loss of job / reduced job security.</u></b> The biggest risk is the loss of their job through rationalisation of services.</p>
<p><b><u>2. Reward/Incentive for innovation.</u></b> If the semi-state firm can meet the challenges of competition, employees may reap more rewards for their innovation i.e. higher bonuses.</p>	<p><b><u>2. Changes in conditions of employment / loss of benefits</u></b> The firm may change the conditions of employment for its employees resulting in a worsening of these for the employee</p>
<p><b><u>3. Provision of extra services.</u></b> It may now be possible for the company to aggressively pursue its share of the market, without state restrictions, ensuring a growth in employment / additional job security.</p>	<p><b><u>3. Curtailment in Pay / Pensions Increases</u></b> The firm may limit the pay / pension increases due to its employees.</p>

**2001 Q7**

**(a) Define clearly the following terms: ( 20 marks)**

**(i) Current Budget Surplus**

- Current government revenue exceeds current government expenditure.

**(ii) Exchequer Borrowing Requirement**

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

**(iii) The National Debt**

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

**Marking Scheme**

3 clearly defined terms : 7 marks + 7 marks + 6 marks

**(b) Discuss the main characteristics of a good system of taxation. ( 20 marks)**

**1. Equity**

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

**2. Certainty**

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

## 2001 Q7 Continued

### 3. Convenience

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

### 4. Economy

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

### 5. Not act as a disincentive.

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

### 6. Aid the redistribution of income.

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

### 7. Be variable / flexible / adjustable.

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

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

### 8. Be consistent with national economic objectives.

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

### 9. Have a stabilising influence on the economy.

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

### 10. Evasion should be impossible

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

Marking Scheme : 5 points x 4 marks each.

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

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

### 1. Reduced direct tax revenue

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

**2001 Q7 Continued****2. Increased incentive to work / save**

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

**3. Black economy**

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

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

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

**5. Employment / Investment Opportunities / Incentives to invest.**

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

**6. Reduced emigration / Increased Immigration**

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

**7. Moderation in wage demands / less industrial unrest**

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

**Marking Scheme**

5 points at 5 marks each = 25 marks

State: 2 marks each = 5 @ 2 = 10 marks

Explain: 3 marks each = 5 @ 3 = 15 marks

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

(10 marks)

**Tax harmonisation**

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

**Marking Scheme**

10marks graded