
Factors of Production Pack

Mr Traynor©

Economics
Pack 7 • Leaving Cert



JT Economics

The Business Guys

Short Questions

1) 2018 Q2

Raising interest rates before the end of the decade could threaten the long sought-after economic recovery in the Eurozone, the OECD has warned.

Outline **two** possible economic effects of an increase in interest rates on the Irish economy.

(i) _____

(ii) _____

(16 marks)

2) 2017 Q2

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

STATEMENT	TRUE	FALSE
The labour force includes part-time workers.		
Quasi-rent is economic rent earned by a factor of production in the long run.		
The market value of an existing bond rises if the rate of interest falls.		
Capital Widening refers to the situation where the capital stock is increasing at the same rate as the labour force.		

(16 marks)

3) 2016 Q3

Outline **two** ways the Irish government could improve the mobility of labour in order to reduce unemployment.

(i) _____

(ii) _____

4) 2016 Q5

(a) Outline **two** possible effects on the Irish economy of high levels of youth unemployment.

(i) _____

(ii) _____

(b) State **one** economic policy the government could introduce to reduce youth unemployment.

(16 marks)

5) 2014 Q3

Define the term '**structural unemployment**' and outline **one** policy response that the Irish Government could take to reduce it.

Definition: _____

Government Policy: _____

(16 marks)

6) 2014 Q7

Outline **two** ways in which the return to the factor of production **enterprise** differs from the return to other factors of production.

- (i) _____

- (ii) _____

(17 marks)

7) 2013 Q2

Define the 'Marginal Efficiency of Capital' (MEC). Outline **two** possible reasons for a fall in MEC.

Definition: _____

Reason 1: _____

Reason 2: _____

(16 marks)

8) 2012 Q7

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

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

(17 marks)

9) 2011 Q5

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

Definition: _____

Factor 1: _____

Factor 2: _____

(16 marks)

10)2011 Q7

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

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

11)2010 Q1

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

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

12) 2010 Q5

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

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

13) 2010 Q7

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

- (i) _____

 - (ii) _____

- (17 marks)**

14) 2010 Q8

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

(17 marks)

15) 2009 Q1

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

(i) _____

(ii) _____

(16 marks)

16) 2009 Q5

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

(16 marks)

17) 2008 Q1

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

(i) _____

(ii) _____

(iii) _____

(16 marks)

18) 2007 Q6

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

(i) _____

(ii) _____

_____ (17 marks)

19) 2006 Q2

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

(i) _____

(ii) _____

(iii) _____

(16 marks)

20) 2006 Q3

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

<p>Workings</p>

Answer:

(16 marks)

21) 2005 Q2

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

(i) _____

(ii) _____

(iii) _____

(16 marks)

22) 2004 Q9

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

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

23) 2003 Q5

State **THREE** economic reasons why entrepreneurs are important to the development of an economy.

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

24) 2003 Q9

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

(17 marks)

25) 2002 Q3

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

Definition: _____

Factor 1: _____

Factor 2: _____

(16 marks)

26) 2001 Q2

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

(i)

(ii)

(16 marks)

27) 2001 Q7

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

(i)

(ii)

(iii)

(17 marks)

Long Questions**2018 Q4 (a) + (c)**

- (a) (i) Define the term **labour productivity**.
 (ii) Explain how a firm could increase the productivity of labour. [20]

(c) *Restrictions placed on workers' mobility can impact on economic growth.*

- (i) Distinguish between occupational mobility of labour and geographic mobility of labour.
 (ii) Discuss the factors that limit the geographic mobility of labour.
 (iii) Suggest **one** measure which could be considered to address any factor identified in (ii) above. Explain your answer. [25]

2018 Q8 (b)

- (b) Discuss the benefits **and** challenges of Foreign Direct Investment (FDI) for the Irish economy. [25]

2017 Q3 (b) + (c)

- (b) (i) Explain the term **Marginal Efficiency of Capital** (MEC).
 (ii) Outline **two** possible reasons for a fall in MEC. [20]
- (c) (i) Explain with the aid of a diagram the Marginal Revenue Product of **labour** (MRP_L).
 (ii) Discuss the reasons why MRP_L might **not** be a suitable method for setting wages in the public sector. [25]

2017 Q6 (c)

- (c) *"From the trough in early 2013, residential property prices nationally have increased by 49.1%."*
 (Source: CSO, Residential Property Price Index, December 2016)
- (i) State and explain **three** factors that caused the price of residential property to increase considerably since 2013.
 (ii) Discuss **two** possible economic consequences of the above situation. [25]

2016 Q3

- (a) Explain the following terms in relation to the factor of production labour.
- (i) Participation rate
 - (ii) Real wages
 - (iii) Labour Productivity
 - (iv) Derived demand [20]
- (b) (i) Discuss the factors that impact on the supply of labour.
(ii) Outline **two** challenges currently facing the Irish labour market and state **one** appropriate government policy response for **each** challenge identified. [35]
- (c) Discuss reasons why different workers are paid different wage rates. [20]
- [75 marks]**

2016 Q5 (a)

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

2016 Q6 (c)

- (c) *“Irish SMEs (Small and Medium Enterprises) are too dependent on the home market, Europe warns.”*
(Source: *Irish Independent*, November 2015)

Outline the benefits **and** challenges for Irish SMEs operating in foreign markets.

[20]

2015 Q4

- (a) (i) State and explain **two** economic characteristics of enterprise as a factor of production.
 (ii) Explain the importance of profits in a market economy. (30)
- (b) (i) Distinguish between the terms *capital* and *investment* as used by economists.
 (ii) Discuss the case for **and** against the Government investing in Ireland's railways. (30)
- (c) (i) State and explain the **three** motives put forward by John Maynard Keynes for holding assets in the form of cash.
 (ii) Outline **one** main influence on **each** motive. (15)

[75 marks]**2015 Q5 (b)**

- (b) *In January 2015, the Central Bank of Ireland (CBI) introduced restrictions on residential mortgage lending (bigger deposit requirement for mortgage loans and upper limits on borrowing based on income).*

State and explain the possible economic impacts of these restrictions on the Irish property market. (20)

2015 Q6 (b) + (c)

- (b) Economists classify unemployment into different types.
- (i) State and explain **three** types of unemployment.
 (ii) Outline one appropriate government policy response for **each of two** unemployment types that you have explained in part (i) above. (25)
- (c) *According to the Quarterly National Household Survey (QNHS) the rate of unemployment was 11.1% in the third quarter of 2014.*
- (i) Name **one** other commonly used source of unemployment statistics in Ireland.
 (ii) State and explain the reasons for the differences between both sources.
 (iii) Outline the possible economic effects which a rise in the level of **employment**, due to economic recovery in Ireland, may have on the Government current finances. (25)

2014 Q4

(a) Explain, with the aid of an example, **each** of the following terms:

- Derived Demand
- Transfer Earnings
- Supply Price
- Economic Rent.

(20)

(b) (i) Outline **two** economic characteristics of 'land'.
(ii) Discuss **three** economic factors which influence a firm's decision on where to locate its operations within Ireland.

(25)

(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)

[75 marks]

2014 Q5 (b)

(b) "Ireland heads Forbes' list of the best countries for business."

(Forbes Magazine Dec 4 2013)

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

(20)

2013 Q3 (a) + (b) + (c)

- (a) State and explain **four** economic influences on an individual firm's demand for labour. (25)
- (b) Explain, with the aid of a labour market diagram in each case, how equilibrium wage rates are determined in:
- A free labour market;
 - A labour market where a trade union has negotiated a minimum wage. (25)
- (c) Women in Ireland earn on average 17.1% less per hour than men, according to a study by the European Commission (*Tackling the gender pay gap in the European Union*, 2011).
- (i) Outline **two** possible reasons for the lower wage rates earned by women in the Irish economy.
- (ii) Outline **one** measure that could be taken to close the gender pay gap. (15)

2013 Q8 (a)

- (a) 'The rate of unemployment among 15-24 year olds in Ireland has increased by 74% between 2006 and 2011' (*Profile 3 At Work*, Central Statistics Office, July 2012).
- (i) Explain **three** economic consequences of a high rate of youth unemployment on the Irish economy.
- (ii) Discuss **three** measures which the Irish government may introduce to reduce the problem of youth unemployment. (30)

2012 Q3

- (a) (i) Explain the following terms in relation to a factor of production:
- Supply Price;
 - Transfer Earnings.
- (ii) Explain the concept *Economic Rent* **and** outline **two** circumstances under which a factor of production can earn it. (25)
- (b) (i) State and explain the economic reasons why entrepreneurship is important to the development of the Irish economy.
- (ii) State and explain **three** means by which the Irish Government could encourage entrepreneurship in Ireland. (30)
- (c) ‘There are 200,000 small firms in Ireland employing 655,000 people’.
(Small Firms Association, December 2011)
- Discuss the reasons why small firms survive in the Irish economy. (20)

[75 marks]**2012 Q8 (b)**

- (b) (i) State the rate of unemployment in Ireland during 2012, as indicated by the Live Register.
- (ii) Outline the limitations of the Live Register in measuring the rate of unemployment in the Irish economy. (20)

2011 Q3

- (a) (i) Define the term Marginal Revenue Productivity (MRP) of a factor of production.
(ii) State and explain **two** factors that can influence MRP.
(iii) Outline **two** difficulties that may arise in measuring MRP. (25)
- (b) *‘Capital Investment has been an important driver of economic advancement in Ireland over the past ten years, providing the capacity and scope for growth’.*
(The National Recovery Plan 2011 – 2014)
- (i) State and explain **three** reasons why investment is important for the Irish economy.
(ii) Describe **three** factors that currently influence the level of investment in the Irish economy. (30)
- (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)

[75 marks]**2011 Q5 (c)**

- (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)

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 Q3 (a) + (b)

- (a) With reference to the factor of production **labour**, explain the following terms:

- Derived Demand;
- Marginal Revenue Productivity;
- Wage Drift;
- Cyclical Unemployment.

(20 marks)

- (b) (i) State and explain **four** factors which influence the efficiency of labour as a factor of production.

Recently the Organisation for Economic Cooperation and Development (OECD) recommended that lower wages are necessary to restore stability to the Irish economy and that consideration should be given to reducing the National Minimum Wage over time.

- (ii) Outline **one** possible economic advantage and **one** possible economic disadvantage, to the Irish economy, of reducing the National Minimum Wage.

(30 marks)

2010 Q8 (c)

- (c) *There has been a sharp increase in the rate of savings in Ireland in the past year.*
- (i) Discuss **two** factors currently influencing the rate of savings in the Irish economy.
 - (ii) Outline **three** economic effects which an increase in the rate of savings may have on the Irish economy.
- (25 marks)*

2009 Q8

- (a) Discuss the factors that influence the size of the Irish labour force.
- (20 marks)*
- (b) ‘According to the Quarterly National Household Survey (QNHS) the rate of unemployment was 7.7% in December 2008’.
- (i) Name a source, other than QNHS, for unemployment statistics in Ireland.
 - (ii) State, with reasons, which of the measurements of unemployment used by each of these sources gives the most accurate estimate of Irish unemployment.
- (15 marks)*
- (c) (i) Outline the major causes of the recent increases in unemployment in the Irish economy.
- (ii) Discuss economic policies which the Irish government might pursue in order to reduce the level of unemployment.
- (40 marks)*
[75 marks]

2008 Q3

- (a) (i) Define the factor of production ‘**Enterprise**’.
(ii) Outline **two** characteristics which make ‘Enterprise’ a unique factor of production.
(iii) Do all entrepreneurs earn the same level of profit? Explain your answer. *(30 marks)*
- (b) A computer software engineer, who earns €40,000 annually in her current employment, decides to become an entrepreneur and set up her own business in which she expects to earn €75,000 annually.
- (i) What is this entrepreneur’s ‘supply price’? Explain your answer.
(ii) If the business performs as expected, will the entrepreneur earn an ‘economic rent’? Explain your answer. *(15 marks)*
- (c) Public services are labour intensive and as a consequence the public sector wage bill accounts for a significant proportion of government current spending.
- (i) Explain why Marginal Revenue Productivity (MRP) might not be a suitable method for setting wages in the Public Sector.
(ii) Outline an alternative method for determining wage levels in the Public Sector.
(iii) Identify possible ways in which the Minister for Finance could reduce the Public Sector wage bill. *(30 marks)*
- [75 marks]**

2007 Q3

- (a) The demand for labour as a factor of production is a **derived demand** and is affected by that factor's **Marginal Revenue Productivity** (MRP).
- (i) Explain each of the underlined terms.
- (ii) Outline **TWO** developments, other than a fall in MRP, which may result in a firm **reducing** its number of employees.
- (20 marks)*
- (b) (i) State and explain **THREE** factors which are currently affecting the **supply** of labour to the Irish economy.
- (ii) The demand for labour has increased significantly in certain sectors of the Irish economy in recent years, e.g. construction.
Discuss **THREE** economic consequences of this situation.
- (30 marks)*
- (c) 'At a time of full (or near full) employment in the Irish economy, it is important that there should be the maximum **occupational mobility** and **geographical mobility** of labour.'
- (i) Distinguish between the two underlined terms.
- (ii) Outline **THREE** economic policies which could increase **either** occupational mobility of labour **or** geographical mobility of labour, in Ireland.
- (25 marks)*
- [75 marks]**

2006 Q3

- (a) Distinguish between the following terms, using relevant examples in **each** case:
- (i) Fixed Capital and Social Capital;
 - (ii) Savings and Investment;
 - (iii) Capital Widening and Capital Deepening.
- (25 marks)*
- (b) State and explain **FIVE** factors affecting the level of investment in the Irish economy.
- (25 marks)*
- (c) (i) State and explain Keynes's **THREE** motives for holding money.
- (ii) Explain, with the aid of a diagram(s), Keynes's theory on the relationship between the holding of money and the rate of interest.
- (25 marks)*
[75 marks]

2006 Q6 (c)

- (c) Ireland has attracted many multinational companies to establish operations in recent years. There has also been a recent trend for some of these companies to relocate to eastern Europe or Asia.
- (i) Outline reasons why these multinational companies locate in Ireland.
 - (ii) Outline possible reasons for the current relocation to other regions.
- (25 marks)*

2006 Q8 (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 Q3

- (a) **Marginal Revenue Product (MRP)** equals **Marginal Physical Product (MPP)** multiplied by Marginal Revenue (MR).
(i) Explain the underlined terms.
(ii) Outline the factors which influence MPP and MRP. *(25 marks)*
- (b) (i) Define **LAND** as a factor of production.
(ii) Outline **TWO** economic characteristics of land.
(iii) Explain the concept of **Economic Rent** and illustrate with a relevant example. *(30 marks)*
- (c) The price of residential property has increased in Ireland in recent years. Discuss **FOUR** reasons for this development. *(20 marks)*
[75marks]

2005 Q5 (c)

- (c) Ireland is promoted abroad as an attractive location for investment by foreign firms.
(i) Discuss **THREE** economic reasons why foreign firms choose to invest here.
(ii) Describe how these foreign firms, operating in Ireland, may affect Ireland's Balance of Payments. *(25 marks)*

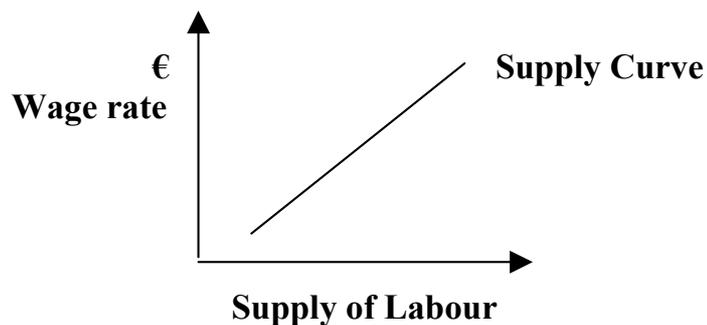
2004 Q4

- (a) In relation to the factor of production **Enterprise**:
- (i) Distinguish between insurable risks and non-insurable risks and state **TWO** examples in each case.
 - (ii) Explain **TWO** reasons why ‘enterprise’ is considered to be a unique factor of production.
(25 marks)
- (b)
- (i) Explain what is meant by the term **Marginal Efficiency of Capital** (MEC).
 - (ii) Discuss **FOUR** factors, other than MEC, which influence the level of investment by entrepreneurs.
(30 marks)
- (c) Discuss the role of profits in promoting development in a modern market economy.
(20 marks)

[75 marks]

2003 Q4

- (a) Define **each** of the following:
- (i) Supply price of a factor of production.
 - (ii) Transfer earnings.
 - (iii) Economic Rent.
- (20 marks)*
- (b) A principal factor influencing the demand for labour by an individual firm is the **Marginal Revenue Productivity of Labour** (MRP).
- (i) Explain what is meant by the underlined term.
 - (ii) Discuss the factors, other than MRP, which influence the demand for labour by an individual firm.
- (30 marks)*
- (c) The diagram below represents the supply curve of labour to a particular firm.



Explain the effect which each of the following developments may have on this supply curve. Illustrate each answer by means of a diagram.

- (i) The workers shift their preference towards increased leisure time.
- (ii) The workers' trade union negotiates a minimum wage.

(25 marks)

[75 marks]

2002 Q4

- (a) Define: (i) Capital
(ii) Marginal Efficiency of Capital.
(iii) Investment
(20 marks)
- (b) (i) State and explain **TWO** reasons why investment is considered to be important for the Irish economy.
(ii) State and explain **FOUR** factors that influence the level of investment in the Irish economy **at present**.
(30 marks)
- (c) J. M. Keynes identified three reasons (motives) for holding money.
Explain the **THREE** reasons and outline **ONE** main influence on each reason.
(25 marks)
- [75 marks]

2002 Q8

- (a) (i) Name the **TWO** main sources from which the figures relating to unemployment in the Irish economy are taken.
(ii) State, with reasons, which of these gives the most accurate measurement of Irish unemployment.
(20 marks)
- (b) (i) Define **full employment**.
(ii) Outline the major economic consequences of very high employment in the Irish economy.
(30 marks)
- (c) In 2001 the Irish economy began to experience a downturn in the level of economic activity. Discuss the reasons for this development in the Irish economy.
(25 marks)
- [75 marks]

2001 Q4

- (a) A principal factor determining the wages to be paid to a worker is the **Marginal Revenue Productivity of Labour** (MRP).
- (i) Explain what is meant by the underlined term.
 - (ii) Discuss the factors, other than MRP, which influence the wage rates paid to different categories of workers. (30 marks)
- (b) How appropriate is MRP for setting wages in the public sector? Explain your answer. (20 marks)
- (c) At present, the demand for labour exceeds the supply of labour in certain sectors of the Irish Economy. Discuss the possible economic effects which this situation may have on the Irish economy. (25 marks)
[75 marks]

Short Questions Answers

1) 2018 Q2

Q	Possible responses	Marks
2	<p><i>Raising interest rates before the end of the decade could threaten the long sought-after economic recovery in the Eurozone, the OECD has warned.</i></p> <p>Outline two possible economic effects of an increase in interest rates on the Irish economy.</p> <ul style="list-style-type: none"> • Borrowing discouraged / disincentive to invest as borrowing is more expensive. • Savings encouraged as the return on savings will increase / consumers' real disposable incomes will fall which will lead to a reduction in spending in the economy and demand for firms' products may fall/firms' profits fall. • Increased mortgage interest repayments impact on families having high debt already. • Government finances affected as cost of servicing the national debt increases / tax revenues down due to less spending or increased tax revenue from DIRT. • Contraction in spending and investment leading to a fall in GDP / economic growth. • Costs of production increase / reduced competitiveness / less likely to borrow or expand limiting growth potential / fall in profits / price increases to maintain profit margins. • Fewer sales and less revenue will result in fewer employees or lay off of existing employees / unemployment. • International trade could be affected as high interest rates increase the value of the euro. A stronger euro makes Irish exports less competitive, thereby reducing exports and increasing imports. • Could lead to an increase in non-performing loans (NPLs) – private indebtedness already a problem. 	<p>2 x 8 (4 + 4)</p>

2) 2017 Q2

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

(16 marks)

STATEMENT	TRUE	FALSE
The labour force includes part-time workers.	✓	
Quasi-rent is economic rent earned by a factor of production in the long run.		✓
The market value of an existing bond rises if the rate of interest falls.	✓	
Capital Widening refers to the situation where the capital stock is increasing at the same rate as the labour force.	✓	

6 + 4 + 3 + 3

1st correct response: 6 marks 2nd: 4 marks 3rd & 4th: 3 marks each

3) 2016 Q3

Outline **two** ways the Irish government could improve the **mobility of labour** in order to reduce unemployment.

(16 marks)

Occupational mobility

- Provide retraining programmes so that workers can gain the skills they need to move across sectors.
- Introduce laws that ban professional and trade union restrictive practices which may prevent workers moving between jobs / allow for ease of hiring and firing.
- Government could change the regulations on work permits making it easier to access permits.
- Provide courses for further educational opportunities at reasonable costs.

Geographical mobility

- Government could offer relocation subsidies to overcome geographic immobility/encourage workers to move where they are needed / assist with the cost of relocation.
- Access to knowledge regarding the existence of vacancies.
- Provide more affordable (social) housing / offer subsidies to those wishing to buy or rent accommodation.
- Improve social infrastructure by making areas more appealing for families in terms of parks, leisure facilities, shops etc.

2 x 8 marks each

4) 2016 Q5

- (a) Outline **two** possible effects on the Irish economy of high levels of youth unemployment.
 (b) State **one** economic policy the government could introduce to reduce youth unemployment. **(16 marks)**

(a) Outline **two** possible effects on the Irish economy of high levels of youth unemployment.

- **Increase government expenditure** due to increased costs of social welfare payments.
- **Reduction in government revenue** as less income received from direct and indirect tax.
- **Loss of return on investment in education** with the young unemployed not contributing to the state/ financially the state is losing out on the taxpayers' investment in their education.
- **Emigration** people leave the country in search of a better life elsewhere / "brain drain" effect / effect on rural Ireland with fewer younger people remaining within these communities.
- **Fewer incentives for investment.** As there is less demand for goods and services, businesses may be less willing to invest, resulting in lower output.
- **Increased demand for third level places.** With poor employment prospects young people, who had not availed of third level education, may now seek that opportunity putting pressure on college resources.
- **Social costs/psychological impact.** Crime, vandalism and anti-social behaviour may increase among young people who are bored and have no stake in society. Increased stress resulting in deteriorating health.
- **Greater pressure on public services** – those who are unemployed may have greater need for health services etc.

2 x 5 marks each (2 + 3)

(b) State **one** economic policy the government could introduce to reduce youth unemployment.

- Reduce minimum wage for younger workers which will help reduce costs for business and may encourage them to hire younger workers.
- Improve education opportunities / access / reduce college registration fees and ensure that good quality education and training takes place for skills that are in demand in growing sectors of the economy.
- Lower PRSI contributions for younger workers / subsidise wages for younger workers hired. For those businesses that take on and train more young workers the government could reduce the Employer's PRSI / subsidise their wages.
- Pursue policies to encourage geographic mobility of labour which may allow young people to take up work in other geographical locations, thus increasing employment.
- Reduce rates of social welfare for 'young' unemployed. The difference between the wage rate and the rate of social welfare could then be increased and this may encourage more young people to move into the labour market.
- Review internship schemes to ensure that new schemes provide opportunities for young workers to improve their skills but also provide a path towards viable long term employment opportunities. Increased access to apprenticeship schemes.
- Decrease retirement age – this would mean that there are more jobs available for the younger members of the workforce.

One policy 6 marks

5) 2014 Q3

Define the term '**structural unemployment**' and outline **one** policy response that the Irish Government could take to reduce it.

Definition:

Structural unemployment arises from a change in the structure in an industry brought about by the changing pattern of demand in the economy / or increasing mechanisation (technical progress).

One policy response that the Irish Government could take to reduce it:

- A retraining scheme so that long-term unemployed workers can be upskilled for the jobs available and then rejoin the workforce e.g. the Momentum Programme
- Governments 'Springboard' programme: Third level courses aimed at increasing graduates in areas where job vacancies exist.

Definition: 10 marks / One policy measure: 6 marks

6) 2014 Q7

Outline **two** ways in which the return to the factor of production **enterprise** differs from the return to other factors of production.

It can earn a loss

It is the only factor that can earn a loss due to fall in demand or excessive production costs.

Returns can vary

The returns can vary enormously from supernormal profits to losses.

Return is residual

Enterprise receives its return only after the other factors have been paid for. It is different from the other factors since their payments are agreed in advance. The returns to the other factors are contractual.

1st correct response: 10 marks / 2nd correct response: 7 marks

7) 2013 Q2

Define the 'Marginal Efficiency of Capital' (MEC). Outline **two** possible reasons for a fall in MEC. (16 marks)

Definition:

It is the extra profit earned as result of employing one extra unit of capital.

8 marks

Two possible reasons for a fall in MEC:

1. An increase in interest rates.
2. An increase in the cost of capital goods.
3. A decrease in the price of the finished goods.
4. A decrease in the productivity of capital / deterioration in the capital goods used.

Any 2 points at 4 marks each (2 +2)

8) 2012 Q7

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

Confidence in economy

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

Security of savings

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

(Real) Rate of interest

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

Income levels

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

Rate of DIRT

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

3 points: 6 + 6 + 5 marks.

9) 2011 Q5

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

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

Two factors:

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

16 marks (12+4)

10)2011 Q7

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

1. **Lower wage costs:** wage rates outside Ireland are lower.
2. **Lower costs of production:** firms may avail of more competitive energy prices; utility charges; insurance costs; professional fees etc.
3. **Less restrictive regulatory framework:** regulations may be less strict making it easier to operate e.g. protection of the environment may face less regulation.
4. **Emerging economies are in a growth phase:** access to growing international markets/new markets.
5. **Development in communications technology:** access to speedier broadband.

17 marks (10+5+2)

11) 2010 Q1

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

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

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

12) 2010 Q5

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

1. Creates employment

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

2. Organises production

Entrepreneurs organise the other factors of production into production units.

3. Decides what commodities will be produced

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

4. Decides what prices to be charged

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

5. Encourages further investment

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

6. Provides an outlet for savers funds

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

7. Generates revenue for the government

Entrepreneurs help generate revenue for the government through taxation revenues.

8. May increase exports

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

9. Creates wealth within the country

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

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

13) 2010 Q7

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

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

2 points: 9 marks + 8 marks.

14)2010 Q8

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

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

12 marks

Premier League footballer – superior physical ability.

Example: any appropriate example – 5 marks.

15) 2009 Q1

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

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

2 points @ 8 marks each for development

(16 marks)

16) 2009 Q5

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

- Where a factor of production is demanded for its contribution to the production process.
- The demand for land will decrease if there is a decrease in the demand for housing.

Explanation: 16 marks graded

(16 marks)

17) 2008 Q1

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

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

16 marks graded.

18) 2007 Q6

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

17 marks graded.

19) 2006 Q2

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

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

16 marks graded

20) 2006 Q3

A firm wishes to attract more labour. In order to increase its labour force from 5 to 6 employees, the firm must increase the weekly wage rate from €400 to €440 per employee.

Calculate the firm's **marginal cost of labour**. **Show your workings.**

$5 \times €400 = €2,000$ $6 \times €440 = €2,640$ Marginal Cost of labour = <u>€ 640</u>	$€40 \times 6 = €240$ $\quad\quad\quad + €400$ Marginal Cost of labour = <u>€ 640</u>
16 marks graded	16 marks graded

21) 2005 Q2

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

1. Small size of market

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

2. Personal Services

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

3. Consumer Loyalty

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

4. Viable Community

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

5. Traditional / Niche markets

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

6. Nature of the commodity

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

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

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

16 marks graded.

22) 2004 Q9

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

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

4 points = 17 marks graded.

23) 2003 Q5

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

1. Organise the other factors of production into productive units.
 2. Decide which goods and services are to be produced and in what quantities.
 3. Decide on the prices to be charged for goods and services hoping there will be a demand at these price levels.
 4. Encourage further investment in the economy, if successful: by investing both money and skills in the business and making a profit they may encourage further investment in the economy.
 5. Provide an investment outlet for savers.
 6. May improve the Balance of Payments: if some of the wealth produced is exported.
 7. Relieve the government of the need to become involved in business by creating a healthy private sector.
-
8. Generate revenue for the government through taxation revenues.
 9. Help create employment: by establishing businesses they create jobs.
 10. Introduce competition into the market place thus leading to more efficient use of scarce resources.

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

24) 2003 Q9

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

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

25) 2002 Q3

3. Occupational mobility of labour:

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

8 marks

The factors, which influence occupational mobility include:

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

2 factors x 4 marks each

26) 2001 Q2

16 marks

2. State TWO non-insurable risks, which an entrepreneur faces.

1. Loss of profit / Increases in the costs of production.
2. Bad decision-making.
3. Industrial relations disputes / strikes.
4. Changes in taste or fashion.
5. Entry of competition into the industry.
6. Changes in competitive conditions i.e. new legislation; new trading agreements.

Marking Scheme

2 points at 8 marks each graded

27) 2001 Q7

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

(17 marks)

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

Marking Scheme

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

Long Questions Answers**2018 Q4 (a) + (c)**

	Possible responses	Max Mark
(a)		
(i)	<p>Define the term labour productivity.</p> <p>The output produced per worker per period of time e.g. per hour / week / year.</p>	8
(ii)	<p>Explain how a firm could increase the productivity of labour.</p> <ul style="list-style-type: none"> • Education / training/retraining Skill levels will increase /allows workers to complete tasks more efficiently. Productivity improves directly and may also encourage the growth in economic activities, requiring higher skill levels. • Introduce incentive schemes / improved working conditions Reward workers who increase their production. Increase the minimum wage. Such rewards improve morale and make the workplace conducive to greater productive effort. • Improve the quality of the other factors of production / technological progress/ expand the size of capital stock If management can improve these factors of production, then workers may become more productive, as they become more efficient. If the production process is made more effective this may assist workers to become more productive. Increased investment in newer more efficient equipment/Investment in R & D. • Introduce new work practices / improve management expertise Introduce job rotation which introduces variety and may increase motivation. Allow for increased specialisation which may further motivate workers to increase their production. If management expertise in motivating the workforce improves, then productivity may increase. 	2 x 6 (3 + 3)
		20

2018 Q4 (a) + (c) Continued

	Possible responses	Max Mark
(c)	<i>Restrictions placed on workers' mobility can impact on economic growth.</i>	
(i)	Distinguish between occupational mobility of labour and geographic mobility of labour. Occupational mobility of labour is the ease with which workers can move from one job to another. Geographic mobility of labour is the ease with which workers can move from one area to another for work purposes.	5 5
(ii)	Discuss the factors that limit the geographic mobility of labour. <ul style="list-style-type: none"> • Accommodation/ high cost of renting property The cost of accommodation in some areas acts as a deterrent to geographic mobility. Differences in house prices in different regions and/or the unpredictability of house prices means that some people are reluctant to move. Accommodation problems exist in the cities in particular. • Transport / Communications Limited access to good public transport; bottlenecks in cities and access from commuter belt into cities may also act as a deterrent. The lack of accessible broadband in certain areas act as a deterrent. • Financial costs The financial costs involved in moving home such as the increased costs of selling the house, removal expenses and settlement costs may be considered prohibitive. • Family and social ties/Upheaval of moving to a new environment Moving means disrupting family; leaving friends or uprooting children from schools. Disruption to children's education and to existing social connections in an area / family and social ties – all may act as a deterrent to the mobility of labour. • Migration controls Countries may have in place controls on migration and this will limit workers entering a country. Cap on inward migration/ work permits / visas may not be readily available. • Cultural and language barriers The existence of different language / cultural mores may limit the geographic mobility of labour. 	2 x 5 (2+3)

2018 Q4 (a) + (c) Continued

	Possible responses	Max Mark
(iii)	<p>Suggest one measure which could be considered to address any factor identified in (ii) above. Explain your answer.</p> <ul style="list-style-type: none"> • Reform of the housing market Increase the supply of affordable housing. - Provision of readily available and affordable accommodation to rent or to buy, particularly in those areas where there are shortages. • Transport / communication options Improve availability of good transport links to cities and airports; provision of improved broadband in those regions where it is not available. • Supports from the government / firms The government could offer relocation subsidies to address geographic immobility and to encourage workers to move to where they are needed / assist with the cost of moving / grants for city living. Firms could support workers in relocation by assisting with relocation costs. • Access to education Ensure there is easy access to educational facilities to ease the concerns of parents. • Specific subsidies to encourage people to move into areas where there are shortages of labour – for example teachers in Dublin and nurses and doctors throughout the country. • Access to knowledge regarding the existence of vacancies Availability of information and support - provide up-to-date information on the opportunities that are available and on the possibilities of moving. • Social infrastructure provision The improved provision of social infrastructure may make areas more appealing by providing shops, leisure facilities, parks etc. • Immigration policy A change in regulations in relation to work permits, visas etc. may encourage workers to locate in Ireland, particularly in those areas where shortages exist. 	<p>5 (2+3)</p> <p>25</p>

2017 Q3 (b) + (c)

- (b) (i) Explain the term **Marginal Efficiency of Capital** (MEC).
 (ii) Outline **two** possible reasons for a fall in MEC. [20]

- (i) **Marginal Efficiency of Capital** (MEC): It is the extra profit earned as result of employing one extra unit of capital .

10 marks

- (ii) Outline **two** possible reasons for a fall in MEC.
 Cost of capital increases / Rate of interest increases

Increase in cost of capital goods

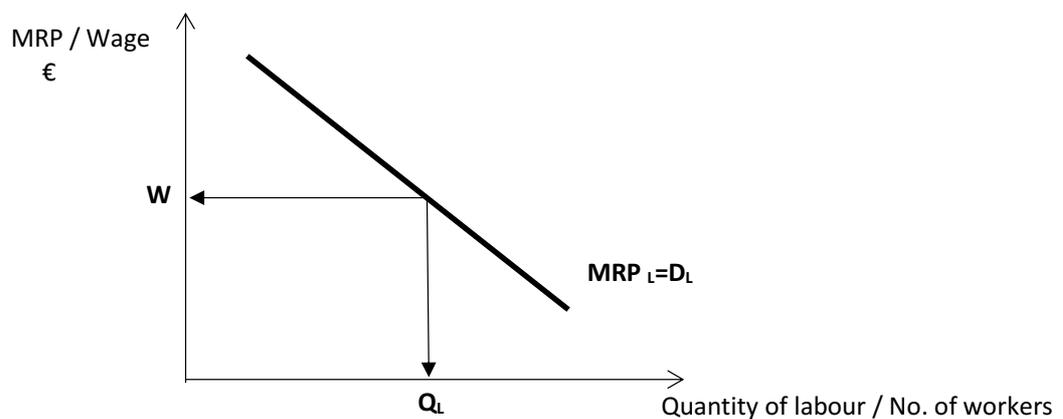
Selling price of the good falling

Fall in productivity of the extra capital being used.

2 at 5 marks each (2+3)

- (c) (i) Explain with the aid of a diagram the Marginal Revenue Product of **labour** (MRP_L).
 (ii) Discuss the reasons why MRP_L might **not** be a suitable method for setting wages in the public sector. [25]

Explain with the aid of a diagram the Marginal Revenue Product of **labour** (MRP_L).



5 marks

Explanation: Marginal Revenue Product of **labour** (MRP_L)

The marginal revenue product of labour is the additional revenue earned from the employment of one additional worker. It is computed by multiplying the product price by the MPP_L .

5 marks

and 1 other of the following points:

2017 Q3 Continued

For a competitive profit-maximising firm the MRP_L curve is the firm's demand curve for labour:

A firm will employ the quantity of labour at which the wage rate equals the marginal productivity of labour/A profit-maximising level of employment is given where a firm hires up to a point where the wage paid to the last worker employed equals his/her marginal revenue productivity of labour/Therefore the MRP curve is the demand curve for labour because it shows the quantity of labour demanded at each price or wage rate.

OR

The reasons why MRP_L slopes downwards:

The MRP_L usually slope downwards from left to right, showing the lower the wage rate, the larger the number of workers employed.

It slopes downward due to the following:

The Law of diminishing returns: as more and more workers are employed, their marginal product begins to decline as each worker adds less to production. Hence the MRP of each extra unit of labour is less than the previous unit.

The law of demand: to sell a greater **output** a firm will have to reduce the **price** of its product. As a greater number of units are produced, they can only be sold at lower prices. Hence the MRP of each extra unit of labour declines.

5 marks

Diagram + explanation of MRP_L + one other point at 5 marks each

- (ii) Discuss the reasons why MRP_L might **not** be a suitable method for setting wages in the public sector.

Physical output not always produced.

Many jobs particularly in public sector are services/no tangible end products, so it is difficult to measure output, thus making it difficult to measure Marginal Physical Product (MPP) and consequently MRP .

The goods/services produced within public sector are often not sold on the open market or at market prices. Estimating price or marginal revenue is therefore difficult.

When capital and labour are used together it is difficult to estimate the marginal productivity is of labour alone.

2 at 5 marks each (2+3)

2017 Q6 (c)

- (c) *“From the trough in early 2013, residential property prices nationally have increased by 49.1%.”*
 (Source: CSO, Residential Property Price Index, December 2016)
- (i) State and explain **three** factors that caused the price of residential property to increase considerably since 2013.
- (ii) Discuss **two** possible economic consequences of the above situation. [25]
- (i) State and explain **three** factors that caused the price of residential property to increase considerably since 2013.

Possible responses include:**Recovery in employment and incomes / Confidence in the economy**

Recovery in employment means more people could afford to purchase property, increasing the demand and price. Confidence in the economy has improved so people are willing to borrow again to purchase property.

Lack of supply

There has not been enough new properties built to match the increased demand. This lack of supply of houses lead to increased prices. Hidden costs of developing sites for builders may push up prices.

Pent up demand for houses

During the recession with falling employment and incomes people held back from buying properties. This is now reversed leading to increased prices.

Cost of borrowing / incentives

Interest rates are at a very low level and this makes the cost of mortgage repayment cheaper. The government is providing incentives to buy houses currently such as tax incentives.

Financial institutions are more stable

Following the recession with the closure of some banks and the re-capitalisation of the remaining banks, financial institutions are now more stable and are granting more mortgages.

Increasing urbanisation

The majority of this national increase in the price of residential property is because of price increases in Dublin and other large cities. This is down to the increased urbanisation of the country as people go in search of jobs and improved standard of services.

Demographics

An increasing percentage of the population is moving into the age group that is interested in buying property. This coupled with increased employment is leading to increased demand for property.

Central Bank Guidelines

The Central Bank has eased the deposit requirements for 1st time buyers and this may boost demand and increase prices.

3 at 5 marks each (2 + 3)

2017 Q6 Continued

- (ii) Discuss **two** possible economic consequences of the above situation.

The list below is not exhaustive:

Increased pressure on the rental market

There will be increased pressure on the rental market as individuals unable to afford houses continue to rent.

Increased government revenue

The government will receive more revenue from stamp duties /Local Property Tax as the prices of properties increase.

Increased construction of property

Construction might begin again in the housing market if the prices become sufficiently high and this will have a positive effect on employment.

Overheating of the property market

Further increases in property prices can be expected and this may lead to a continuing boom and bust in the Irish property market.

Reduction in demand for other goods and services

People will be burdened with a high debt/income ratio trying to purchase property at higher prices. This may depress the demand for other goods and services.

Lack of affordability

Some people might never be able to get on the property ladder and face uncertain and increasing rents, reducing their standard of living.

Wealth effect

The assets have gone up in value. Negative equity diminished hence the wealth of individuals will have increased. Could lead to disparities in wealth between regions due to different property values.

May discourage FDI

Expensive property may be a factor discouraging some companies locating in Ireland as it is too expensive for employees to find homes.

2 at 5 marks each (2 + 3)

Other acceptable answers are marked on their merits.

2016 Q3

(a) Explain the following terms in relation to the factor of production labour.

- (i) Participation rate
- (ii) Real wages
- (iii) Labour Productivity
- (iv) Derived demand

[20]

(a) Terms

(i) Participation rate

- The proportion of the active age group who are in the labour force.
- The proportion of the population of working age who are employed or looking for work.
- The proportion of the population aged 15 and older that is economically active (World Bank).

(ii) Real wages

- The purchasing power of wages / it measures the amount of goods and services the worker can buy with the money wage.
- The money wage adjusted to take account of the changes in prices between different time periods (inflation)

(iii) Labour Productivity

- The output per worker per period of time e.g. per week.
- The total output divided by the number of hours of labour input.

(iv) Derived demand

- Firms do not demand labour for its own sake but for its contribution to the production process / the final product it makes.

1st correct response 8marks

2nd/3rd/4th at 4 marks

- (b)
- (i) Discuss the factors that impact on the supply of labour.
 - (ii) Outline **two** challenges currently facing the Irish labour market and state **one** appropriate government policy response for **each** challenge identified.

[35]

2016 Q3 Continued

- (i) Discuss the factors that impact on the supply of labour.

The average number of hours worked per week// Backward bending supply of labour / wage levels in other countries

There is a strong relationship between wage rates and the number of hours which people are willing to work. Higher wage levels in recent years act as an incentive for more people to supply their labour. For some workers as wage levels increase they may prefer increased leisure and reduce their supply.

High marginal tax rates

May inhibit the supply of labour. High tax rates act as a disincentive to the supply of labour if workers feel they are being taxed too much they may reduce the number of hours worked.

Government regulation / policies i.e. social welfare payments

The raising of the minimum wage rate recently may encourage more people to seek employment. The comparative size of social welfare payments; if perceived as being generous, fewer people may be encouraged to seek employment.

Participation Rate

The proportion of the active age group who are in the labour force. If the participation rate increases the supply of labour increases. Any factors that may affect the participation rate affect the supply of labour: level of pensions available; attitudes to work e.g. attitudes towards women working in certain jobs; improved job security may encourage people to stay working.

Labour mobility

The greater the mobility of labour (geographic and occupational) the greater the supply of labour in an economy. Provision of more information on vacancies or job availability may allow workers to move so the supply of labour will increase.

Migration levels

The government is currently trying to attract Irish emigrants back to Ireland. If successful, this will affect the supply of labour. Immigration levels into Ireland also affect the supply of labour.

4 x 5 marks (2+3)

- (ii) Outline **two** challenges currently facing the Irish labour market and state **one** appropriate government policy response for **each** challenge identified

Possible Challenges	Appropriate government policy response
<p><u>Excess supply of labour</u> Different segments of the labour market have different rates of unemployment. Currently Ireland is experiencing a high rate of youth unemployment. Those in long term unemployment find it very difficult to find employment etc.</p>	<p>Provision of (re) training where skill shortages exist. Help people search for jobs and try to match a person with job available. Employ workers directly e.g. build social housing Subsidise private sector employment.</p>
<p><u>Excess demand for labour</u> Possible labour shortages may make it difficult for firms to meet production targets. Wage demands. Where shortages are occurring employers may be forced to increase wage rates to keep the existing workforce. Shortages exist in the health, construction, IT and hospitality sectors etc.</p>	<p>Open up the Irish labour market: more efficient visa system. Encourage emigrants to return home. Provide more attractive working conditions / wages to encourage graduates in certain occupations to work in Ireland and not go abroad.</p>
(4+3) = 7 marks	(4+4) = 8 marks

2016 Q3 Continued

- (c) Discuss reasons why different workers are paid different wage rates. [20]

Productivity of worker

The more the worker can produce the greater their ability to negotiate higher rates of pay, as measured by their MRP.

Different skills / degree of specialisation

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

Length of training involved

The longer the length of time spent in training the greater the rate of pay e.g. a nurse who trains for work in intensive care becomes more specialised and will receive higher pay.

Educational qualifications

The higher the level of education attained the greater the wage rate tends to be.

Nature / conditions / risk of the job

Certain jobs have unsociable hours or are temporary and are usually paid higher wages e.g. night shift workers. The more risk involved in the work the higher the rate of pay e.g. prison officers.

Negotiating strength of the workers' trade union

If a worker is a member of a strong trade union this union may be able to negotiate higher wages for their members. They may be successful in bargaining for pay increases when workers, with whose pay they are linked, get a pay increase.

Regulation / tradition attaching to certain jobs

The more regulation or the greater the barriers to entry into an occupation then the higher the rate of pay e.g. legal profession. Some occupations can maintain high pay levels because of the tradition which is attached to such professions i.e. hospital consultants.

Possession of innate talents

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

Gender Bias

Despite legislation a bias continues to exist in the payment of women in the Irish workforce.

4 x 5 marks (2+3)

2016 Q5 (a)

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

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

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

5 marks

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

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

2016 Q6 (c)

- (c) *“Irish SMEs (Small and Medium Enterprises) are too dependent on the home market, Europe warns.”*
(Source: *Irish Independent*, November 2015)
Outline the benefits **and** challenges for Irish SMEs operating in foreign markets. [20]

The benefits for Irish SMEs operating in foreign markets

Access to larger markets/ Increased sales and profits

As Ireland is a very small market, entering foreign markets gives Irish SMEs access to more customers and more opportunity to expand. If Irish SMEs can sell more goods abroad this will boost their revenue and consequently their profits.

Economies of scale

If they are successful in increasing sales abroad, they will be able to increase production and gain the advantages of large scale production and the benefit of economies of scale.

Diversifying risk

Rather than being overly dependent on the home market Irish SMEs have the opportunity to have a range of customers in different markets and would suffer less should demand in the home market fall.

2016 Q6 (c) Continued

The benefits for Irish SMEs operating in foreign markets - continued

Easier to access finance

Larger firms are able to raise finance for future expansion more easily and find it easier to access credit.

Government support available

The Irish government may offer grants or subsidies and assistance in entering the export market through the various state agencies e.g. Enterprise Ireland.

2 x 5 marks (2+3)

The challenges for Irish SMEs operating in foreign markets.

Transport costs

These increase the prices of the exports. As Ireland is an island nation these costs can be significant and can make our goods more expensive.

Labour costs

Labour costs in Ireland tend to be high which will increase costs of production and make it difficult to compete with goods produced in other countries.

Exchange rate risks in trading outside Eurozone countries

If the Euro rises in value relative to the trading partners, then Irish exports become more expensive and this presents a challenge when Irish firms are trying to compete abroad.

Language skills

A lack of language skills has always been a challenge for Irish business but poses more of a challenge in the emerging markets in Asia.

Bureaucracy in other countries/regulatory hurdles

These regulatory hurdles, particularly outside the EU, hinder the possibility for Irish SMEs to expand. It is challenging for Irish SMEs to break into new markets e.g. China.

Level of costs if coming from a small market

Irish SMEs don't have the benefits of economies of scale compared to large MNCs and this makes it difficult for them to attract business, based on price.

Competitiveness

If the inflation rate in Ireland is higher than that of our competitors, then this makes Irish goods less attractive abroad.

Other costs e.g. insurance costs, utilities such as electricity, gas, broadband etc. are generally higher in Ireland than in other European countries –increase costs of production and will affect the competitiveness of Irish firms abroad.

Accessing credit

If Irish firms can't get access to credit from banks to fund expansion it will make it difficult for them to enter international markets.

Capacity of the firm

Irish SMEs may not have the capacity to meet demand for their products abroad if they successfully secure contracts.

2 x 5 marks (2+3)

2015 Q4

- (a) (i) State and explain **two** economic characteristics of enterprise as a factor of production.
 (ii) Explain the importance of profits in a market economy. (30)

- (i) State and explain **two** economic characteristics of enterprise as a factor of production.

Enterprise can earn a loss

It is the only factor that can earn a loss due to a fall in demand or excessive production costs.

Returns can vary

The returns can vary from supernormal profits to losses / the returns to the other factors are guaranteed.

Return is residual

Enterprise receives its return only after the other factors have been paid for.

It is different from the other factors where the payments are agreed in advance or contractual.

2 characteristics at 5 marks each (2 + 3)

- (ii) Explain the importance of profits in a market economy.

Encourages risk taking and entrepreneurship

Profits are a prerequisite for encouraging entrepreneurs to undertake the risks inherent in business / without profits no firms would supply goods or services.

Indicates the best use of resources / consumer demand

Profits are an indication to entrepreneurs that they are providing goods and services that consumers want / they are responding to consumer demand / they indicate areas which are the most suitable for the use of scarce resources.

Encourages investment

When profits are earned this may encourage entrepreneurs to invest further in ventures / encourage the entry of new firms into the industry.

Provide funds for expansion

Entrepreneurs may use the profits earned to re-invest in their existing business / diversify production etc.

Profits reward innovation

Entrepreneurs who earn SNPs do so because they may be more efficient / entrepreneurial innovation / minimise costs of production and increases profits.

Source of revenue for the government

Profits earned by entrepreneurs are taxed (with exceptions) by the government and become a source of revenue for the state. They can use these profits to further develop the economy.

4 points at 5 marks each (2+3)

2015 Q4 Continued

- (b) (i) Distinguish between the terms *capital* and *investment* as used by economists.
 (ii) Discuss the case for **and** against the Government investing in Ireland's railways. (30)
- (i) Distinguish between the terms *capital* and *investment* as used by economists.

Capital

Capital anything made by man used in the production of goods and services.

Capital refers to the equipment/machinery used in the production process.

Capital is a stock concept.

Investment

Investment involves the production of capital goods / capital formation.

In economics *investment* relates to a firm buying new capital, such as machinery or factory buildings.

It is any addition /increase to the capital stock/spending on capital equipment. It is a flow concept.

2 explanations at 5 marks each

- (ii) Discuss the case for **and** against the Government investing in Ireland's railways.

The case for:**Facilitates geographic mobility**

It allows people to travel more easily between different parts of the country, from home to work and so increases the geographical mobility of labour.

Balanced regional development

Improved rail infrastructure could lead to a better standard of living in the regions and so promote regional development e.g. the West of Ireland.

Less traffic gridlock

Greater use of rail transport may reduce traffic congestion as the economy starts to pick up.

Relatively environmentally friendly compared to car

Could encourage the use of public transport so less fossil fuels will be used thereby saving scarce resources.

Capital intensive investment

Investment in railways requires huge capital investment which would not be provided by private enterprise and so should be provided by the government.

Improved infrastructure

Investment is needed to maintain existing rolling stock so that a quality service is provided to consumers on an on-going basis. As a result of investment, travelling times may decrease which may increase demand by both individual users and firms.

Social benefit

It provides a mode of transport for those people who do not have a private mode of transport so therefore it is socially desirable etc.

2015 Q4 Continued**The case against:****Very capital intensive**

As the capital required is quite high it will have major funding implications for government which will increase state borrowing. Ireland currently has a high national debt.

It is a very long term investment

It might be too expensive as it is a very long term investment and investment in buses may be a better and more cost effective measure in the short term.

Opportunity cost

Subsidising lines that are not making returns involves an opportunity cost such as investing in road improvements.

Reduction in the demand for rail services

The investment may not be cost effective as there has been a fall in passenger numbers, in freight traffic and in the use of the Dublin suburban rail network.

Commitment to on-going subsidies / cost to taxpayer

In 2013 a €258m subsidy was provided and this could remove the motivation to keep costs down.

Increased competition from bus companies / improved motorway network

Competition on certain routes has increased greatly e.g. buses from Dublin - Galway: high frequency, 24 hour operation, faster journeys, lower fares, no subsidies and high vehicle standards etc.

4 points at 5 marks each (2 + 3)

Must have a minimum of one argument in favour / one against
The expected responses given are not exhaustive

- (c) (i) State and explain the **three** motives put forward by John Maynard Keynes for holding assets in the form of cash.
(ii) Outline **one** main influence on **each** motive. (15)

Statement	Explanation	One main influence
Transactionary	People desire to hold money for day-to-day spending / as a medium of exchange.	Level of income: People on higher incomes spend more, and so the transactionary demand will increase.
Precautionary	People hold money for emergencies / for the unexpected.	Level of income: The higher the level of income the greater the precautionary demand for money.
Speculative	People desire to hold money for any possible profitable future investment opportunities. Hold money to avoid losses from holding interest-bearing assets.	Interest rates: If interest rates are high, the demand for bonds is relatively high whereas the demand for money is relatively low. The higher the rate of interest the more attractive it becomes to store wealth in bonds rather than money and with this the speculative demand for money declines.
3 at 5 marks (1 + 2 + 2)		

2015 Q5 (b)

- (b) *In January 2015, the Central Bank of Ireland (CBI) introduced restrictions on residential mortgage lending (bigger deposit requirement for mortgage loans and upper limits on borrowing based on income).*

State and explain the possible economic impacts of these restrictions on the Irish property market. (20)

Possible responses include:

Could ease the trend of rising property prices

The restrictions may limit the increase in house prices by placing a limit on effective demand (purchasing power backed up by income).

Potential supply effect

The restrictions could result in increased demand for rental properties renting / increased rents. There may be a bias towards first time buyers. There may be an increase in the number of mortgages due to their smaller average size.

Could lead to lower levels of construction activity when new homes needed

This contradicts government housing policy which aims to encourage new home supply. The restrictions may discourage house building because developers and their financial backers will be put off.

Greater safety around the mortgage business

The restrictions may increase the resilience of the banking and household sectors to financial shocks / shocks in the Irish property market. Lenders will be less vulnerable in the event of property prices falling by reducing the losses in the event of default.

Help stabilise the business cycle / reduce the boom-bust in the cycle

Prudent lending activity may take place as the housing market activity begins to improve. It could ensure the goal of responsible borrowing is achieved/ the restrictions may eliminate the boom-bust cycle which has occurred.

Could hinder the recovery in the property market

High rents and tax increases have made savings difficult. These restrictions may make it difficult for people to move out of the rental market to home ownership.

3 impacts: 7 marks (4 + 3) + 7 marks (4 + 3) + 6 marks (3 + 3)

2015 Q6 (b) + (c)

- (b) Economists classify unemployment into different types.
- (i) State and explain **three** types of unemployment.
 - (ii) Outline one appropriate government policy response for **each of two** unemployment types that you have explained in part (i) above. (25)
- (i) State and explain **three** types of unemployment.

Cyclical unemployment

This type of unemployment arises due to fluctuations in the business cycle (Keynesian unemployment). Cyclical unemployment arises due to downturns in the economy. In theory those who lose their jobs in the downturn should be re-hired in the recovery phase of the cycle. The deviation of unemployment from its natural rate.

Structural unemployment

This type of unemployment occurs when there is a change in the pattern of demand for a particular skill set. Changes in the pattern of economic activity in an economy/ Industries are unable to adapt or compete in the face of changing demand or new products. New technologies have displaced skills e.g. pre-fabricated buildings have displaced block layers.

2015 Q6 (b) + (c) Continued**Frictional unemployment**

This type of unemployment occurs when people are ‘between jobs’.

The unemployment results because of the time it takes for workers to search for the jobs that best suit their tastes and skills. Workers will leave one firm and move to another. The period when they are searching for new employment causes ‘frictional’ unemployment due to the normal working of an economy: workers quit to find better jobs; employers let workers go to replace them with better workers.

Seasonal unemployment

Unemployment caused by seasonal variations in demand/ by fluctuations in some activities at some period during the year. During the summer months the tourist industry is much busier than winter time and so this industry will employ more workers. These workers may then lose their jobs during the winter months.

Institutional unemployment

This arises due to obstacles to the mobility of labour or the removal of the incentive to work.

It can arise when there is a shortage of housing in areas where jobs are available; when the gap between Job Seekers Benefit and take-home pay in available jobs is so small that there is no incentive for the workers to take up employment. The existence of closed shop practices in workplaces.

3 points at 5 marks each (2 + 3)

- (ii) Outline **one** appropriate government policy response for **each of two** unemployment types above.

Cyclical unemployment

Policymakers should use monetary and fiscal policy to counteract this type of unemployment i.e. take measures to stimulate aggregate demand.

Structural unemployment

This type of unemployment requires that workers be retrained into areas of employment that are needed e.g. ‘Springboard’ programme/ focus on the characteristics of the unemployed person in an effort to make them more employable.

Frictional unemployment

Provide retraining schemes for workers/ Aim to provide a better match of workers skills with employers e.g. SOLAS / Internet/Reduce workers search periods between jobs, by ensuring workers are aware of job vacancies.

Seasonal unemployment

Firms could try to extend their season e.g. hotels could try to attract customers e.g. offer different packages to attract customers at different times of the year.

Institutional unemployment

Improve geographical mobility of labour and try to make it easier for families to move houses.

Offer incentives to take up employment e.g. a reduction in the rate of income tax / reduction in USC for workers who leave social welfare schemes. Try to liberalise working practices so that no barriers to employment exist.

2 measures at 5 marks each (2 + 3)

2015 Q6 (b) + (c) Continued

- (c) *According to the Quarterly National Household Survey (QNHS) the rate of unemployment was 11.1% in the third quarter of 2014.*
- (i) Name **one** other commonly used source of unemployment statistics in Ireland.
 - (ii) State and explain the reasons for the differences between both sources.
 - (iii) Outline the possible economic effects which a rise in the level of **employment**, due to economic recovery in Ireland, may have on the Government current finances. (25)

- (i) Name **one** other commonly used source of unemployment statistics in Ireland.

The Live Register

5 marks

- (ii) State and explain the reasons for the differences between both sources.

The Live Register overstates the “true” level of unemployment because it includes:

1. People who are legitimately working part time and signing on part time, therefore they are not unemployed:
 - All those on Jobseekers Benefit (JB)
 - All those on Jobseekers Allowance (JA)
 - Part-time workers (those who work up to 3 days a week), seasonal and casual workers entitled to Jobseekers Allowance or Benefit
2. People who may be drawing social welfare but who may also be working (in the black economy) at the same time.
3. People who may not be actively seeking employment
4. Those signing on only for ‘PRSI credits’ and are not unemployed

2 reasons at 5 marks each

- (iii) Outline the possible economic effects which a rise in the level of **employment**, due to economic recovery in Ireland, may have on the Government current finances.

(Current) revenue increases

More PAYE, as more people working. Those in employment will have a higher disposable income which they are likely to spend and hence pay more indirect tax to the government.

If firms’ profits rise as a result of increased sales then corporation tax receipts could also rise.

(Current) expenditure decreases

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

2 effects at 5 marks each (2 + 3)

2014 Q4

- (a) Explain, with the aid of an example, **each** of the following terms:
Derived Demand / Transfer Earnings / Supply Price / Economic Rent. (20)

Derived demand

Is where a factor of production is demanded not for its own sake but for its contribution to the production process.

An example of derived demand is the demand for land around Dublin and other large cities, which existed during the boom as a consequence of the demand for housing.

Transfer Earnings

Can be defined as the earnings of a factor in the next best alternative employment.

Appropriate example.

Supply Price

Is the minimum payment necessary to bring a factor into use and maintain it in that particular use.

Appropriate example.

Economic Rent

This is any payment to a factor of production above the necessary supply price of a factor.

Appropriate example.

Explanation: 3 marks each/example: 2 marks each = 20 marks

- (b) (i) Outline **two** economic characteristics of 'land'.
(ii) Discuss **three** economic factors which influence a firm's decision on where to locate its operations within Ireland. (25)
- (i) Outline **two** economic characteristics of 'land'

Land is fixed in supply

An increase in price being offered for land will not bring about an increased supply.

The supply curve for land is a vertical straight line.

Quantities of land can be reclaimed and soil erosion may take place but these have little effect on total supply.

Land has no cost of production to society as a whole

As land is a gift provided by nature it has no cost of production to society as a whole.

Any payment to land is above its supply price of zero and this is termed economic rent.

Land is a non-specific factor

Land can be used for various purposes. It can be switched from agricultural use to industrial / residential use.

2 characteristics: 5 marks each = 10 marks

2014 Q4 Continued

- (ii) Discuss **three** economic factors which influence a firm's decision on where to locate its operations **within Ireland**.

Possible responses include:

Closeness to similar firms

Many IT/ Tech companies (Google, LinkedIn, Facebook) have now located within the same area in Dublin (known as the "Silicon valley" of Dublin). The essential support services are available close by.

Availability of a skilled workforce

Firms need a workforce with diverse language skills / engineering skills / IT Specialists so that they can commence operations and do so with minimum training costs.

Proximity to market / raw materials

A firm which relies on a steady flow of consumers must locate close to the market i.e. a boutique.

A firm which relies on the usage of large amount of raw materials must locate close to the availability of these e.g. a power generating station.

Well developed infrastructure

Having a well developed infrastructure is crucial when firms are deciding where to locate. This includes road, rail and air transport network etc. The availability of high speed broadband is also critical in this regard.

Government Incentives

Availability of Advance Factories together with attractive grants are another consideration to take into account when deciding where to locate. The IDA and Enterprise Ireland provide supports.

Commercial Property Prices

With the downturn in the economy and the property crash, commercial property prices together with commercial rents have significantly reduced. This has made Ireland a more attractive place to locate industry. Google has purchased commercial property recently in Barrow Street, Dublin.

Social Infrastructure

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

Planning Laws

Irish planning laws are flexible enough to facilitate large multinationals who wish to set up here. Such laws facilitated the construction of the Swedish Ikea outlet close to Dublin, which led to the largest retail outlet in the history of the state, being built.

3 factors: 5 marks each = 15 marks

2014 Q4 Continued

- (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 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 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 Q5 (b)

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

Possible responses include:**Employment / improved standard of living / economic growth**

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

Balance of Payments Benefits

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

Investment in Research & Development and Education

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

Increased Government Revenue for the economy

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

Increased demand for Commercial Property

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

Promotes regional development

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

New technology introduced

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

Benefits to indigenous companies

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

Improved reputation for future FDI

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

Indigenous MNCs encourage more FDI

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

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

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

4 points of information: 5 marks each = 20 marks

2013 Q3 (a) + (b) + (c)

(a) State and explain **four** economic influences on an individual firm's demand for labour. (25)

1. Marginal revenue productivity of labour

How productive is the worker? Will the worker generate more revenue than his wage rate?

2. (Minimum) Wage rate

If the wage rate increases then this increases the costs for employers and may reduce their demand for labour.

3. Demand for output

An increase in the demand for the firm's output may increase the demand for labour.

4. Price of other factors of production (including capital)

Prior to employing more labour the firm would compare the cost of the additional labour with that of other factors of production available to determine which is the most competitive.

5. State subsidies

If the state were paying subsidies for the hiring of additional labour then this may make it more attractive to employ additional labour.

6. Taxation Rates on the firm's profits

If the profitability of a firm is reduced by higher tax on a firm's profits then this may affect a firm's decision to employ additional labour.

7. Payroll taxes / Employers rate of PRSI

If the rate of personal taxation increases then labour may seek a higher wage rate making the firm less competitive. Similarly if the rate of PRSI / USC on labour increases this is an additional cost for the firm, which may reduce its demand for labour.

8. Availability of technology

A firm's demand for labour will be affected by the availability of new technologies particularly if it helps to reduce costs.

9. Trade union involvement

If a worker is a member of a trade union then the firm may not employ this worker. This applies to some firms in Ireland who prefer to operate without the involvement of trade unions.

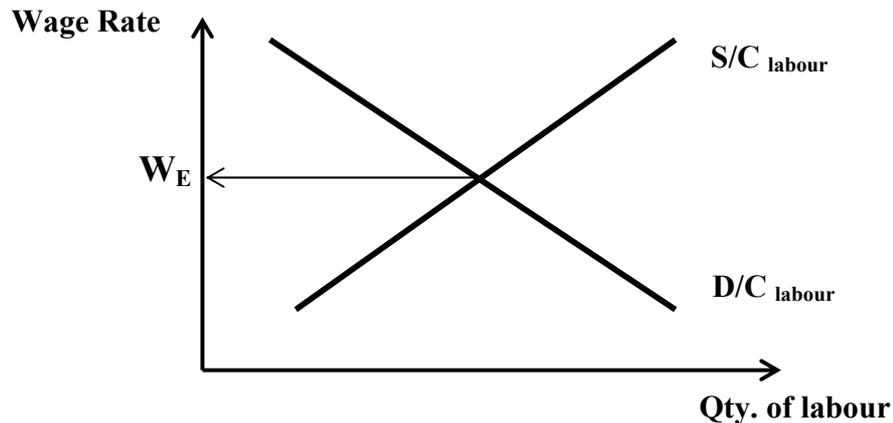
**First 3 points at 7 marks (4+3) each
4th point at 4 marks (2+2)**

2013 Q3 (a) + (b) + (c) Continued

(b) Explain, with the aid of a labour market diagram in each case, how equilibrium wage rates are determined in:

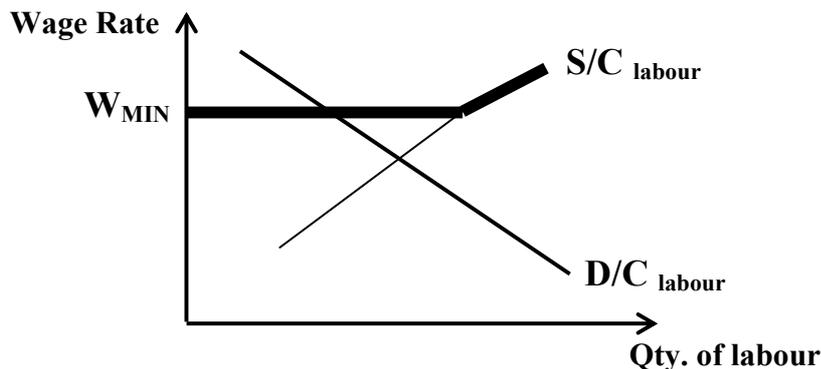
- A free labour market;
- A labour market where a trade union has negotiated a minimum wage.

(25)

A free labour market:

- A free market is one where there are no restrictions on the demand and supply of labour.
- Where the demand for labour equals the supply of labour the equilibrium wage rate is set.

Diagram: 5 marks
Explanation: 7 marks (4+3)

A labour market where a trade union has negotiated a minimum wage

- The trade union may negotiate a minimum wage rate: **this is set at W_{MIN} .**
- No workers will be supplied below W_{MIN} .

Diagram: 5 marks
Explanation: 8 marks (4+4)

2013 Q3 (a) + (b) + (c) Continued

(c) Women in Ireland earn on average 17.1% less per hour than men, according to a study by the European Commission (*Tackling the gender pay gap in the European Union*, 2011). (15)

(i) Outline **two** possible reasons for the lower wage rates earned by women in the Irish economy.

1. Discrimination in the workplace

Women and men may not be paid the same wages even though they do the same work due to illegal discrimination.

2. Lack of enforcement by State agencies

State agencies do not enforce the existing legislation or take legal action against offenders.

3. Balancing work and family responsibilities

Women work shorter hours and often part-time to combine family responsibilities and paid work. Career progression can be interrupted by maternity leave.

4. 'Glass ceiling'/fewer women in senior and leadership positions

Women are under-represented in most senior positions, in politics and in certain sectors within the economy such as on boards of management.

5. Different jobs, different sectors

Women and men carry out different jobs and often work in different sectors. In health and social work women make up 80% of workers.

6. Undervaluing of women's work and skills

Women's skills and competencies are often undervalued, especially in occupations where they are in the majority. This is reflected in lower rates of pay.

7. Gender role of women / Tradition

Some people may still consider that a woman's role in society is to stay in the home and rear children and this may still cause rates to be lower in some societies.

2 points at 5 marks (2+3) each

2013 Q3 (a) + (b) + (c) Continued

(ii) Outline **one** measure that could be taken to close the gender pay gap.

1. Awareness - raising Campaign

Governments could put in place measures to raise awareness on gender equality and company good practice. A widespread advertising campaign during 'European Equal Pay Day' might raise awareness of the gender pay gap and initiate change.

2. Collective Agreements

Social partners could make provisions in collective agreements on gender equality and require companies to report on salaries and plans to close the gender pay gap.

3. Labour Inspections / Name and shame the offenders

Labour inspectors could be trained to carry out inspections on equal pay violations and publish names of offenders.

4. Audits by companies

Gender equality plans and audits enable companies to measure their progress in implementing gender equality and equal pay.

5. Make pay systems transparent

Transparent pay systems are very important in implementing equal pay e.g. software to help companies analyse pay and staffing structures and verify if equal pay exists.

6. Gender Equality Studies

A government could implement studies into the issue and take action to implement strategies to close the gender pay gap.

7. Implement / enforce existing laws

Governments could also ensure that current laws are enforced by taking legal cases against offenders.

8. Education on gender stereotyping

Policies could be pursued which challenge 'traditional' views of women in schools, home and in the workplace.

1 point at 5 marks (2+3)

2013 Q8 (a)

- (a) ‘The rate of unemployment among 15-24 year olds in Ireland has increased by 74% between 2006 and 2011’ (*Profile 3 At Work*, Central Statistics Office, July 2012).
- (i) Explain **three** economic consequences of a high rate of youth unemployment on the Irish economy.
- (ii) Discuss **three** measures which the Irish government may introduce to reduce the problem of youth unemployment. (30)

- (i) Explain **three** economic consequences of a high rate of youth unemployment on the Irish economy.

Statement	Explanation
Increased government (current) expenditure	The government will have to fund a higher social welfare bill.
Reduced government (current) revenue	With fewer people working the government will collect less in both direct and indirect tax revenue.
Loss on return on investment in education ‘Lost generation’	With young people not contributing to society the state loses out on the taxpayers’ investment in their education.
Emigration	With less job opportunities available some people who are able may consider emigrating if job opportunities exist elsewhere.
Social costs to society	Crime, vandalism and anti-social behaviour may increase among young people who are bored and have no stake in society. This could increase policing costs for the government.
Increased demand for places in third level	With employment prospects poor those who had not availed of third level education may now seek that opportunity putting pressure on the resources of both the colleges and the state (for finance).
Less incentive for businesses to invest	As there is less demand for goods and services by people on lower incomes businesses may be less willing to invest resulting in reduced output.

3 points at 5 marks (2+3) each

2013 Q8 (a) Continued

- (ii) Discuss **three** measures which the Irish government may introduce to reduce the problem of youth unemployment.

1. Provide more opportunities for education / training

Universities / ITs/ Solas could ensure that good quality education and skills training is provided to meet the demands of certain growth sectors in the economy.

2. Subsidised work placements/internships

The government could give a welfare 'top-up' to individuals willing to do work experience and offer placements with companies to develop their skills and experience.

3. Lower PRSI contributions

For those businesses which take on and train additional young workers the government could reduce the employer's PRSI.

4. Reduce the minimum wage

This will reduce costs for businesses and may encourage them to hire extra workers.

5. Healthy banking sector

Make sure Irish banks are adequately capitalised and are able to lend to businesses encouraging more employment in businesses in the economy.

6. More school based vocational training

Review the curriculum at second level to reflect the current / future needs of the labour market and thus help address the labour shortages.

7. Policies to encourage geographical mobility

This may allow young people to take up work in other geographical locations thus increasing employment e.g. subsidised accommodation; travel expenses.

8. Reduce costs for business including payroll and other taxes

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 prices.

Demand may increase resulting in an increase demand for labour. This may help decrease export prices thereby increasing aggregate demand, resulting in employment.

9. Reduce rates of social welfare for 'young' unemployed

The differential between the social welfare rate and the wage rate will then be increased and this may encourage more young people into the labour market.

3 points at 5 marks (2+3) each

2012 Q3

- (a) (i) Explain the following terms in relation to a factor of production:
- Supply Price;
 - Transfer Earnings.
- (ii) Explain the concept *Economic Rent* **and** outline **two** circumstances under which a factor of production can earn it. (25)

(i)

Supply Price:

The minimum payment necessary to bring a factor into use and maintain it in that particular use.

5 marks**Transfer Earnings:**

The earnings of a factor in the next best alternative employment.

or

What a factor must receive to keep it in its present use and prevent it from transferring to another use.

5 marks.

(ii)

Economic Rent:

Any earnings of a factor of production above its supply price/transfer earnings.

5 marks.

Two circumstances under which a factor of production can earn it:

1. Shortage in the supply of any factor of production

If land / labour is in short supply, its price will increase.

2. Possession of a rare skill or talent

If a person has a skill which is in great demand e.g. a professional soccer player then they can command high fees.

3. Rent of Ability

An entrepreneur who invents a much sought after commodity may command high income.

4. Completely specific factors of production

There is no opportunity cost in the use of an existing factor of production which is completely specific (not adaptable to other uses e.g. a railway station) . If a payment is made for the use of this specific factor then this entire payment would be economic rent as the opportunity cost is zero.

2 points at 5 marks each.

2012 Q3 Continued

- (b) (i) State and explain the economic reasons why entrepreneurship is important to the development of the Irish economy.
- (ii) State and explain **three** means by which the Irish Government could encourage entrepreneurship in Ireland. (30)

(i) The economic reasons why entrepreneurship is important to the development of the Irish economy.

1. Creates employment

Entrepreneurs need workers to produce goods/services. They provide viable employment opportunities for labour and help decrease unemployment.

2. Organises production

Entrepreneurs organise the other factors of production into production units. Without entrepreneurs these factors of production would lie idle.

3. What to produce / prices to charge

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

4. Innovation

Successful entrepreneurs may invest part of their profits into developing new commodities which will benefit society thereby improving the standard of living / quality of life.

5. Encourages further investment / Enterprise culture

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

6. Outlet for savers funds

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

7. Revenue for the government

Entrepreneurs help generate revenue for the government through taxation revenues: corporation tax; VAT; income taxes.

8. Improve Balance of Payments

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

9. Creates wealth

Successful entrepreneurs create wealth, thereby leading to economic growth / increase in GNP.

3 at 5 marks each.

2012 Q3 Continued

- (ii) State and explain **three** means by which the Irish Government could encourage entrepreneurship in Ireland.

1. Enterprise education

If the government encouraged greater emphasis on enterprise education in schools and colleges then more individuals may be willing to undertake the risks involved.

2. Taxation policies

If the government maintains corporation profits tax rates then individuals may see the possibility of greater profitability. Similarly a reduction in VAT rates may increase demand for commodities and increase sales.

3. Government Policies / regulation

If the government reduced the regulations involved in setting up a business or removed administration obstacles then more people might become entrepreneurs. Also, if they offer grants and other incentives for establishing a business then more people might do so / create a favourable business environment.

4. Labour market policies

The availability of an educated / skilled workforce acts an incentive to individuals to establish a business. Investment in universities / 3rd level colleges.

5. Improved economic outlook / confidence in economy

If the government, through its economic and social policies, presents a positive outlook about the economy then individuals may take more risk.

6. Develop infrastructure

Investment in communications technology through the provision of broadband access will encourage people to start up business.

7. Improve competitiveness

Currently the competitiveness of Irish industry is improving. If measures can be taken to improve competitiveness further then individuals may be encouraged to start a business e.g. more competitive quotes for communications, insurance, energy etc.

8. Availability of bank credit

By stabilising the banks the government may make it possible for the banks to provide credit and so encourage people to borrow and establish a business.

9. Government initiatives

Examples include: 'Action Plan for Jobs 2012' provides support for businesses struggling to access credit with €100m Micro Finance Loan Scheme, €150m Development Capital Scheme and a Loan Guarantee Scheme.

3 at 5 marks each.

2012 Q3 Continued

- (c) ‘There are 200,000 small firms in Ireland employing 655,000 people’.
(Small Firms Association, December 2011)
Discuss the reasons why small firms survive in the Irish economy. (20)

1. Small size of market / Scale of operation

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

2. Personal services

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

3. Consumer loyalty

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

4. Support the community

Citizens in smaller communities may support local business so that the continuity of supply is guaranteed, thus helping to maintain a viable community e.g. farmers’ markets supplying local produce to local business.

5. Traditional / Niche markets

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

6. Exclusive nature of the commodity

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

7. Availability of capital

Small firms may find it very difficult to get the finance to expand their operations and hence the business remains small.

8. Membership of voluntary groups.

Some firms producing on a small scale may offset the disadvantage they have in competition with large firms by engaging in a joint marketing strategy with other small suppliers – hotel groups, individually owned grocery shops trading under a shared name (Spar, Centra etc)

4 at 5 marks each.

2012 Q8 (b)

- (b) (i) State the rate of unemployment in Ireland during 2012, as indicated by the Live Register.
(ii) Outline the limitations of the Live Register in measuring the rate of unemployment in the Irish economy. (20)

- (i) State the rate of unemployment in Ireland during 2012, as indicated by the Live Register.

14.8% (*May 2012: 432,907*)

(Forecasted rate during 2012: 14.1%)

5 marks

- (ii) The limitations of the Live Register in measuring the rate of unemployment in the Irish economy.

Included but should NOT be:

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

Excluded but should NOT be:

- (e) People who though unemployed and seeking employment are not on the live register (because they are not entitled to any benefits).

3 at 5 marks each.

2011 Q3

- (a) (i) Define the term Marginal Revenue Productivity (MRP) of a factor of production.
 (ii) State and explain **two** factors that can influence MRP.
 (iii) Outline **two** difficulties that may arise in measuring MRP. (25)

(i) MRP:

The extra revenue earned when an additional unit of a factor of production is employed.

5 marks

(ii) Two factors that can influence MRP

1. The productivity/ commitment of the factor.

The more productive each additional factor employed is then the more MRP that factor will earn.
 The more conscientious a person is then the more productive that person will be.

2. The selling price of the output.

If the selling price obtained on the market is rising or constant (and not falling) then the higher will be that factor's MRP.

3. The Law of Demand.

On the market, the law of demand dictates that in order for more to be bought then price must be reduced – this affects the MRP obtained by the firm.

4. Quality / Specialised nature of the factors/Unique talent.

If the quality of the factor used improves then that factor may become more efficient and so additional output will be produced, resulting in increased MRP.

5. Training/Education provided for the factors.

If the factor is more highly trained / has attained a good standard of education then it may become more skilled, resulting in increased efficiency and more output.

6. Expertise of the entrepreneur.

If the entrepreneur has expertise in organising the production unit, then each factor may be more productive and work to its maximum efficiency.

7. Law of Diminishing Marginal Returns.

As each additional unit of a factor is used a point will be reached where the additional output produced will decline and so MRP will decline.

2 points x 5 marks each

(iii) Outline **two** difficulties that may arise in measuring MRP.

1. Not all factors produce physical output.

Where services are provided no physical output is produced and so MRP cannot be measured.

2. Output not sold in the market place.

In the public sector where output is not sold in the market it is difficult to calculate MRP.

3. Combination of capital and labour to produce additional output.

It is difficult to measure the contribution of each individual factor.

2 points x 5 marks each

2011 Q3 Continued

- (b) *‘Capital Investment has been an important driver of economic advancement in Ireland over the past ten years, providing the capacity and scope for growth’.*

(The National Recovery Plan 2011 – 2014)

- (i) State and explain **three** reasons why investment is important for the Irish economy.
(ii) Describe **three** factors that currently influence the level of investment in the Irish economy. (30)

- (i) State and explain **three** reasons why investment is important for the Irish economy.

1. Increased productive capacity

Greater investment allows the country to produce more output / it replaces worn-out capital resources.

2. Increased labour productivity

More investment allows labour to become more efficient. Investment allows workers to use more up-to-date capital goods, making them more efficient.

3. Increased employment

Extra investment increases aggregate demand resulting in the demand for more employees to meet this additional demand for goods & services.

4. Increased GNP

Increased investment leads to higher GNP, greater demand, increased spending and a higher standard of living.

5. Investment generates future wealth for the economy

Investment into the economy means that we are safeguarding the future wealth creating capacity of the country, by ensuring that we have capital goods in the future.

6. Increased Government Revenues

An increase in investment will increase economic activity. This will generate additional revenues for the government for use within society.

3 points x 5 marks each

2011 Q3 Continued

(ii) Describe **three** factors that **currently influence** the level of investment in the Irish economy.

1. Rates of interest / Cost of borrowing

As rates of interest increase, the cost of borrowing increases. Thus the lower will be the profit earned. Hence investment will fall / MEC may fall.

2. Business people's expectations

Currently many business people are pessimistic about the economy and so they are less likely to invest.

Irish business people are more pessimistic about the future for various reasons: potentially higher tax rates in Ireland; higher interest rates; poor economic growth rates.

3. Government economic policies

If government policy is favourable towards investment then investment tends to rise.

Examples of favourable policies currently include: attractive state grants; a policy to maintain corporation tax at current levels; continued development of infrastructure etc. The government policy to provide additional training places; reduced VAT for some industries and reduced PRSI for additional workers hired may help attract investment into Ireland.

4. The international economic climate

Ireland is an open economy, which relies on foreign investment.

If the international economic climate is in a slump then this may result in a fall in demand which will cause Irish businesses to suffer.

5. The Marginal Efficiency of Capital

The greater the potential MEC for any possible investment project then the more likely the investment will take place.

6. Stability in the banking sector

The policy of the state to stabilise the banking sector should help the flow of credit, and so encourage risk taking.

7. The cost of capital goods

The greater the cost of capital goods the lower the profitability of the investment, hence investment tends to fall.

8. Availability of a skilled English speaking workforce

The workforce is English speaking which may attract investment.

People have time to re-train during the current period of unemployment.

Ireland currently has a pool of highly skilled workers.

3 points x 5 marks each

2011 Q3 Continued

- (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)

Possible economic advantages	Possible economic disadvantages
<p>Better use of scarce resources There will be less fossil fuels used per passenger, thereby saving scarce resources.</p>	<p>Investment may be costlier than investment in roads The cost of investing in public transport may be greater than the cost of building roads.</p>
<p>Improved public infrastructure/Regional Development 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>People in rural areas disadvantaged. If the investment is confined to areas with large populations then people in rural areas cannot avail of these services.</p>
<p>Reduced CO₂ emissions / Environment better protected 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>Loss of taxation revenues 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>Reduced traffic congestion With the possibility of less road traffic the costs associated with traffic congestion should fall.</p>	<p>Subsidies from the state Public transport may require continued subsidies from government to encourage its use e.g. subsidy for CIE etc.</p>
<p>Reduced imports If more people use public transport then it may result in a reduction in the import of cars and of oil.</p>	<p>Behaviour of roads users unchanged If the number of roads users is not reduced then the investment in public transport may have been wasteful of resources.</p>
<p>Increased employment If demand increases then there may be more employment provided by transport providers.</p>	<p>→ May argue the opposite of this point</p>
<p>Benefits to transport providers 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>Costs of not investing in roads The road infrastructure may deteriorate; the costs for business may increase; Ireland may fall behind in international road developments.</p>
<p>2 x 5 marks</p>	<p>2 x 5 marks</p>

2011 Q5 (c)

- (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.

Positive economic effects	Negative economic effects
<p>1. Pay public sector workers The support means that these workers can continue to be paid.</p>	<p>1. High cost of repayment The high rate of interest on these loans is a further drain on scarce state resources. Inability to borrow in international markets.</p>
<p>2. Maintain public services 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>2. Taxation increases / expenditure cuts 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>3. Continuity of a banking system 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>3. Loss of economic sovereignty Economic policies in Ireland will now be dictated by the EU/IMF, rather than by the Irish government.</p>
<p>4. Acceptance of tax adjustments Citizens may more readily accept the need for taxation measures which will ensure the survival of the economy.</p>	<p>4. Loss of confidence in economy 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>5. Acceptance of wage moderation The need for financial support may encourage all workers to accept the need for wages reductions / increased productivity.</p>	<p>5. Unemployment / Emigration 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 Q3 (a) + (b)

- (a) With reference to the factor of production labour, explain the following terms:
Derived Demand / Marginal revenue Productivity / Wage Drift / Cyclical Unemployment. (20 marks)

Derived Demand

Where **labour is demanded** for its **contribution to the production process**.

MRP

The **extra revenue earned** when an **additional unit of labour**/ is employed.

Wage Drift

When **wage levels rise above the negotiated levels**.

Cyclical Unemployment

Unemployment that results from reduced demand for goods and services.
(Unemployment resulting from the economic recession / decline in trade cycles / reduced aggregate demand).

4 at 5 marks each.

- (b) (i) State and explain **four** factors which influence the efficiency of labour as a factor of production.
(ii) Outline **one** possible economic advantage and **one** possible economic disadvantage, to the Irish economy, of reducing the National Minimum Wage. (30 marks)

Education / Training / Qualifications: the better the quality of education / training / qualifications attained by the worker the more efficient / productive they may be.	Degree of specialisation: by concentrating on performing a single task workers become faster and more skillful and therefore are more efficient.
Innate / natural talent of the worker: some workers may possess innate / natural talents making them highly efficient.	Climatic conditions: if a place of work is too hot or too cold then this may affect the workers productivity.
Quality of the other factors: the better the quality of the other factors which the worker uses then the more efficient the worker.	Management expertise: good managers can get the best out of their workforce, leading to efficiencies, improved staff morale/staff motivation, leading to increased output.
Availability of other factors: efficiency may be improved if the worker has a greater quantity of other factors of production available for use.	Commitment of the worker: if workers are highly motivated and committed to work then they will operate more efficiently
Living conditions of the workforce: if workers are healthy, well nourished and have decent accommodation then they will work in a more efficient manner.	

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

2010 Q3 (a) + (b) Continued

- (ii) **One** possible economic advantage and **one** possible economic disadvantage, to the Irish economy, of reducing the National Minimum Wage.

Advantages	Disadvantages
<p>Lower labour costs Resulting in continued production and reduced risk of business closure.</p>	<p>Reduced standard of living Workers will now receive lower income and so their standard of living will fall</p>
<p>Lower selling prices With production costs falling this may lead to lower consumer prices and increased competition</p>	<p>Reduced aggregate demand /spending Lower incomes will reduce spending and so the demand for goods and services may fall resulting in unemployment/less VAT receipts.</p>
<p>Increased demand / protection of jobs The lower wage rate leading to lower prices may lead to increased demand and hence greater demand for workers. Indigenous jobs are protected e.g. jobs in the tourism sector.</p>	<p>Impact on general wage levels This reduction may indicate to employers that all wage levels should fall and this may result in a possible reduction in standard of living among the entire workforce.</p>
<p>Investment stimulus Reduced costs may lead to increased investment by entrepreneurs / increased foreign direct investment.</p>	<p>Workers on lower incomes suffer most If the reduction is confined to those on the minimum wage rate then the burden is not being shared equally within the workforce, which is not equitable.</p>
<p>Reduced risk of re-location Irish wage levels may fall more into line with other countries and this may result in less firms considering re-locating to countries outside Ireland.</p>	<p>Discourage employment The reduction may not encourage people to join the workforce/ it may lead to a greater participation in the black economy.</p>
<p>1 at 5 marks. State 2 marks. Explain: 3 marks</p>	<p>1 at 5 marks. State 2 marks. Explain: 3 marks</p>

2010 Q8 (c)

(c) *There has been a sharp increase in the rate of savings in Ireland in the past year.*

- (i) Discuss **two** factors currently influencing the rate of savings in the Irish economy.
 (ii) Outline **three** economic effects which an increase in the rate of savings may have on the Irish economy. (25 marks)

(i) Discuss **two** factors currently influencing the rate of savings in the Irish economy.

Future Expectations for the economy

People are concerned about the future of the economy which is affecting consumer confidence. As a result people are tending to postpone purchasing and save instead.

Security of savings

Due to the current economic climate people are less inclined towards risky investments and prefer the security of state backed savings.

Price levels / real rate of interest

Current deflation results in an increase in the real rate of return on savings.

Deflation means that people need to spend less to buy goods and services and so their ability to save is increased. In a period of falling prices consumers may not spend expecting the price to fall further and thereby save instead.

Quality of financial products

If the products available produce reasonable returns then people are more likely to use them as a form of saving. Due to the banking crisis consumers are seeking greater security for their savings e.g. An Post's 'National Solidarity Bond'.

Deferred spending

Though income levels are falling (unemployment is rising and those in employment have reduced disposable incomes due to higher tax rates), deflation is occurring, consumers are spending less and are deferring spending until later. This results in forced savings.

Future Levels of state benefits

The state faces an increasing pensions' bill for public servants. People are fearful for their future pensions and this may be contributing to increasing savings currently.

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

2010 Q8 (c) Continued

(ii) Outline **three** economic effects which an increase in the rate of savings may have on the Irish economy.

Reduced spending within the economy / leakage from circular flow of income.

People who save more spend less and so the demand for goods and services may fall.

Increase in unemployment.

Falling demand for goods and services will result in a reduction in demand for labour resulting in increased unemployment.

More funds available for investment.

Increased savings will mean that more funds are available in financial institutions for borrowing by individuals and businesses. This may help economic growth.

Reduced inflation.

With less spending and falling demand there will be reduced pressure on prices resulting in lower inflation and, possibly, increased competitiveness.

Reduced demand for imports.

Less spending may mean reduced demand for imports thereby helping to improve our Balance of Payments.

Increased revenue for government.

More savings mean increased revenue from DIRT to the government.

In 2008 DIRT was worth €658.8m to the exchequer. In 2002 DIRT was worth €206m.

Stabilise banking sector.

Increased savings result in increased funds available to banks. This may lead to increased stability in the banking sector at a time when confidence needs to be restored.

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

2009 Q8

(a) Discuss the factors that influence the size of the Irish labour force.

1. Wage levels within the economy.

Higher wage levels in recent years act as an incentive for more people to supply labour. However, recent wage restraint may see a fall in this figure.

2. Structure of population/ Size.

Ireland's population has increased with more citizens within the working-age bracket. The size of the labour force increases, e.g. Ireland has a smaller population than France resulting in a smaller labour force.

3. Participation Rate.

The number of people willing to work within the 16-65 age groups has increased. More women working/people who once retired are willing to take up part-time employment.

4. Rates of income tax within the economy.

In the past a reduction in income tax rates acted as an incentive for people to join the workforce. In the 2009 budget the new 'Income Levy' could now act as a disincentive to work and negatively affect the size of the labour force.

5. Labour mobility.

The workforce in Ireland has become more occupationally mobile: there are less barriers in place preventing the movement of workers. With EU enlargement, the free movement of labour is increasing. The recent down turn in the Irish economy may see many immigrants moving home and an increase in emigration of Irish citizens.

6. Government Policies.

The government has moved to ease restrictions on the entry of immigrants to Ireland aiming to liberalise entry requirements into certain occupations e.g. pharmacies; hospital consultants.

3 points @ 8 marks + 6 marks + 6 marks graded

(b) According to the Quarterly National Household Survey (QNHS) the rate of unemployment was 7.7% in December 2008.

- (i) Name one source, other than QNHS, for unemployment statistics in Ireland.
- Live Register
 - Census (of Population)

Source: 4 marks

- (ii) State, with reasons, which of the measurements of unemployment used by each of these sources gives the most accurate estimate of Irish unemployment.

The Quarterly National Household Survey – 3 marks

Provides a more accurate measurement of Irish unemployment because it excludes:

1. People 'signing on' who are actually working.
2. People who work Part-time (working up to 3 days per week), seasonal workers and casual workers (who are entitled to Unemployment Benefit / Unemployment Assistance if they meet the statutory requirements).
3. People who claim UA / UB who are not seeking work /or are not available for work.
4. The QNHS includes those people who are unemployed, but for many reasons, may not draw the dole and do not sign on.

2 reasons @ 4 marks each graded

2009 Q8 Continued

- (c) (i) Outline the main causes of the recent increases in unemployment in the Irish economy.

1. Economic recession / cyclical unemployment.

The current worldwide recession has resulted in a reduction in aggregate demand resulting in the closure of businesses and hence the lay-off of workers. This is not confined solely to Ireland as many firms worldwide have reduced their workforces.

2. Re-location of industry.

Businesses that need to reduce their costs and wish to survive have moved to lower cost locations e.g. Dell manufacturing moved to Poland resulting in job losses in Limerick. The loss of income results in a further job losses and jobs lost in firms who supply to these firms.

3. Irish companies exporting to US and UK.

The rise in the value of the euro against the UK pound sterling and US dollar resulted in a reduction in demand for their output and this resulted in job losses in export oriented industries e.g. Waterford Glass; loss of jobs in the hotel and catering industry.

4. Banking crisis.

The crisis in the banking sector has resulted in a major reduction in the availability of credit for businesses. This has meant that businesses are being forced to close with the resulting loss of jobs e.g. the closure of various restaurants in Dublin.

Some banks may cause closures by foreclosing on those firms who are having difficulty repaying their loans.

5. Uncertainty for the future.

With the downturn in economic activity and the severity of the recession people are fearful for the future. Many are reducing their spending and some are deferring spending. This further reduces demand and results in job losses e.g. the closure of firms in the retail sector and consequent job losses.

6. Reliance on construction sector / structural unemployment.

Much of Ireland's economic growth relied on the development of this sector. With the downturn the immediate effect was the major loss of jobs in this sector with the accompanying loss of jobs in all allied trades / industries. This change resulted in significant job losses.

4 points @ 5 marks graded

2009 Q8 Continued

- (ii) Discuss economic policies which the Irish government might pursue in order to reduce the level of unemployment.

1. Reduce taxation.

If the government reduced rates of VAT this would remove the divergence between rates of VAT in the Republic and those in Northern Ireland. It would also help reduce prices. This may encourage people to spend, thereby increasing demand and leading to an increased demand for labour.

2. Subsidise additional labour employed.

If the government reduced the rates of PRSI on additional labour hired it would help 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 prices. Demand may increase resulting in an increased demand for labour. This may help decrease export prices thereby increasing aggregate demand, resulting in employment.

4. Prudent management of the economy / improved regulatory framework.

Many economic commentators suggest that the government needs to restore confidence in the public. If confidence is restored then people will start to spend, resulting in increased aggregate demand and boost employment. Thus prudent economic management of the economy is essential to restore confidence.

5. Infrastructural development.

Funding of improvements in the capital and social infrastructure 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 for Ireland to continue to attract mobile foreign direct investment. This can be used as part of the package used to attract companies to Ireland and so increase employment.

7. Investment in education / training.

One of the factors which attracts companies to set up in Ireland is the availability of an educated, skilled workforce. To maintain this advantage the government must continue to invest in education and training. Investment will allow workers to up-skill and so acquire those skills in demand currently. Possible availability of EU funding for training and up-skilling workers.

4 points @ 5 marks each graded

2008 Q3

- (a) (i) Define the factor of production ‘**Enterprise**’
 (ii) Outline **two** characteristics which make ‘Enterprise’ a unique factor of production.
 (iii) Do all entrepreneurs earn the same level of profit? Explain your answer. (30 marks)

- (i) Define the factor of production ‘**Enterprise**’

Enterprise is the factor of production that organises the other factors of production into a production unit to produce a good/service. It undertakes all the inherent risks in the hope of making a profit.

12 marks graded.

- (ii) Outline **two** characteristics which make ‘Enterprise’ a unique factor of production.

1. It can earn a loss

- It is the **only** factor that can earn a negative return (loss).
- This does not arise with the other factors of production as they are guaranteed a return

2. Returns can vary

- The returns can vary from super normal profits to losses.

3. Return is residual.

- Enterprise receives its return only after the other factors have received theirs
- It is different from the other factors since their payments are contractual / agreed in advance.

2 points at 6 marks each graded.

- (iii) Do all entrepreneurs earn the same level of profit? Explain your answer.

No, all Entrepreneurs do not earn the same level of profit.

1 mark

This is due to a rent of ability. Some are better than others and can earn a supernormal profit or an economic rent. The entrepreneur cannot be replaced easily by another because of talent and business acumen possessed. If the entrepreneur works in a more competitive industry he/she may earn lower profits than an entrepreneur in a less competitive industry.

5 marks graded.

2008 Q3 Continued

(b) A computer software engineer, who earns €40,000 annually in her current employment, decides to become an entrepreneur and set up her own business in which she expects to earn €75,000 annually.

- (i) What is this entrepreneur's supply price? Explain your answer.
(ii) If the business performs as expected, will the entrepreneur earn an 'economic rent'? Explain your answer. (15 marks)

(i) The entrepreneur's supply price is €40,000 as this is the minimum payment she needs to receive to work as a software engineer.

(ii) Yes, if the business performs as expected the entrepreneur will earn an economic rent. She will earn €35,000. As her supply price is €40,000 and she will earn €75,000 annually as an entrepreneur, the economic rent earned is what she earns in excess of her supply price.

15 marks graded.

(c) Public services are labour intensive and as a consequence the public sector wage bill accounts for a significant proportion of government current spending. (30 marks)

- (i) Explain why Marginal Revenue Productivity (MRP) might not be a suitable method for setting wages in Public Sector.
- Physical output is not always produced. Many jobs in public sector are services, so it is difficult to measure output, thus making it difficult to measure Marginal Physical Product (MPP) and consequently MRP.
 - The goods/services produced within public sector are often not sold on the open market or at market prices. It is therefore difficult to estimate price or marginal revenue.
 - When Capital and labour are used together it is difficult to estimate whether the extra productivity is due to labour or capital e.g. computerisation of government departments in the Civil Service.

3 points at 5 marks each graded.

2008 Q3 Continued

(ii) Outline an alternative method for determining wage levels in the Public Sector.

1. Pay comparability:

As productivity is difficult to measure then it may be best to compare those workers in the public sector with those workers in the private sector doing similar work / with similar qualifications.

2. Benchmarking:

It was introduced by the government as a method of setting wages in the public sector. The Benchmarking Review Body examines the earnings of similar jobs in the private sector and makes a recommendation on wage increases based on this.

1 point at 7 marks graded.

(iii) Identify possible ways in which the Minister for Finance could reduce the Public Sector wage bill.

- Limit the numbers employed in the public sector e.g. ban on recruitment
- Limit pay increases in the public sector e.g. benchmarking
- Introduce a voluntary redundancy package in the public sector.
- Privatised state companies
- Reduce perks for state employees e.g. pension entitlements

2 methods at 4 marks each graded.

2007 Q3

- (a) The demand for labour as a factor of production is a **derived demand** and is affected by that factor's **Marginal Revenue Productivity** (MRP).

- (i) Explain each of the underlined terms.

<i>Derived demand</i>	<i>Marginal Revenue Productivity</i>
Where labour is demanded for its contribution to the production process or from the demand for the goods it produces.	The extra revenue earned when an additional unit of factor of production is employed.

10 marks graded.

- (ii) Outline **TWO** developments, other than a fall in MRP, which may result in a firm **reducing** its number of employees. (20 marks)

Demand for Pay increases.

If the workers are successful with such demands, costs of production will increase and profitability will fall. This may result in the firm having to make workers redundant.

Introduction of new technologies / mechanisation.

Increased mechanisation of the production process / introduction of cost saving technologies will reduce the demand for labour.

Fall in demand for the firm's output.

Any factors that causes a drop in the demand for the firm's output e.g. higher prices for the commodity, may lead to a reduction in demand for workers.

Government Policies.

If the government pursued policies which make it more expensive to employ workers then the employer may reduce the workforce e.g. raising the minimum wage rate.

Increased competition on the market.

If new firms enter the industry existing firms may suffer a reduction in demand, resulting in a loss of jobs in that particular firm e.g. opening of new supermarkets in many towns around the country.

Increases in the costs of production.

Any factor which causes a firm to become less competitive will result in a loss of sales, leading to job losses. e.g. currently oil/petrol costs are increasing which may result in job losses.

2 points at 5 marks each graded.

2007 Q3 Continued

(b) (i) State/explain **THREE** factors which are currently affecting the **supply** of labour to the Irish economy.

1. Wage levels within the economy / Backward bending supply of labour.

Higher wage levels in recent years act as an incentive for more people to supply their labour.

For some workers as wage levels increase they may prefer increased leisure and reduce their supply.

2. Size / Structure of population.

Ireland's population has increased with more citizens within the working-age bracket. S. of Labour increases.

3. Participation Rate.

The number of people willing to work within the 16-65 age group has increased. More women working; people who once retired are willing to take up part-time employment.

4. Rates of income tax within the economy.

In recent years these have fallen acting as an incentive for people to join the workforce.

5. Labour mobility.

The workforce in Ireland has become more occupationally mobile: there are less barriers in place preventing the movement of workers. With EU enlargement, the free movement of labour is increasing.

6. Government Policies.

The government has moved to ease restrictions on the entry of immigrants to Ireland; they are reducing the rate of PRSI on employers and are aiming to liberalise entry requirements into certain occupations e.g. pharmacies; hospital consultants; decreasing the average length of the working week i.e. nurses.

3 at 7 marks each graded.

(ii) The demand for labour has increased significantly in certain sectors of the Irish economy in recent years e.g. construction. Discuss **THREE** economic consequences of this situation. (30 marks)

1. Pressure on wage levels to rise.

Employers will be forced to increase wage levels in order to attract workers into those areas where shortages are occurring.

2. Deterioration / Loss of services.

Where workers are not available it will result in either a deterioration of services in those areas or a total loss of certain services.

3. Loss of investment.

Indigenous and foreign entrepreneurs may see such shortages of labour as a deterrent to investing and starting a business.

4. Inflationary pressures.

If wage levels increase such increases may be passed on to the final consumer in the form of higher prices.

5. Immigration

Shortages of labour in the Irish labour market are reported internationally. FAS has attempted to entice foreign workers to Ireland. The number of applications for refugees' status has also increased.

6. Difficulty in attracting / keeping workers in some sectors.

With current labour shortages and the attractiveness of higher pay in alternative employments certain sectors find it increasingly difficult to attract workers e.g. in the hotel, catering, tourism industries. May require state intervention for the re-training of workers to fill sectors with vacancies.

7. Inability to maintain development of the state's infrastructure.

Because of the shortage of workers, developing the infrastructure at the pace necessary to sustain economic growth is not possible and this may affect future investment.

3 at 3 marks each graded.

2007 Q3 Continued

- (c) ‘At a time of full (or near full) employment in the Irish economy, it is important that there should be the maximum **occupational mobility** and **geographical mobility** of labour’.
- (i) Distinguish between the two underlined terms.
- (ii) Outline THREE economic policies which could increase **either occupational** mobility of labour **or geographical** mobility of labour, in Ireland. (25 marks)

Geographical mobility of labour	Occupational mobility of labour
The ability/ease of a worker to move from one area to another	The ability/ease of a worker to move from one job to another
5 marks graded.	5 marks graded.
Economic policies:	
<p>1. Housing. Increase the availability of affordable housing in those areas of shortages.</p> <p>2. Educational facilities. Improve the availability of educational facilities to ease concerns of parents.</p> <p>3. Social infrastructure. Improve the social infrastructure so as to make the areas more appealing for families e.g. shops, parks, leisure facilities.</p> <p>4. Supports by Government. The government might provide adequate supports so as to entice people to move e.g. help with re-location costs etc.</p> <p>5. Information / Knowledge: Provide up-to-date information on the possibilities of moving. Improve knowledge on the opportunities available for mobility.</p>	<p>1. Education courses. Provide courses for further education opportunities and at costs accessible to workers.</p> <p>2. Training / Re-training. Provide opportunities for training / re-training at times / costs suitable for workers.</p> <p>3. Government Policies. Change regulations on work permits; on access; FAS Training schemes; remove unnecessary language / cultural barriers.</p> <p>4. Trade Union Barriers. Reduce barriers to entry into occupations e.g. NUJ, Equity; Irish Hospital Consultants.</p>

3 policies at 5 marks each graded.

2006 Q3(a) Distinguish between the following terms, using relevant examples in **each** case:

- (i) Fixed Capital and Social Capital;
- (ii) Savings and Investment;
- (iii) Capital Widening and Capital Deepening.

(25 marks)

	Fixed Capital	Social Capital
<i>Explanation</i>	The stock of fixed assets 2 marks	The assets/wealth owned by the community/society in general 2 marks
<i>Example</i>	<i>Plant, Equipment, Tools</i> 2 marks	<i>Hospitals, Parks, Roads</i> 2 marks
	Savings	Investment
<i>Explanation</i>	Owners of capital who receive interest. The decision to save is made by individuals. Income not spent 3 marks	Users of capital who pay interest. The decision to invest is made by producers/firms. Production of capital goods / Additions to capital stock 2 marks
<i>Example</i>	<i>Income €100 less Spending of €80 means Savings = €20</i> 2 marks	<i>Purchase of new machinery by a firm</i> 2 marks
	Capital Widening	Capital Deepening
<i>Explanation</i>	The amount of capital per worker remains unchanged. An increase in the capital stock, which leave the capital/labour ratio unchanged. 2 marks	The amount of capital increases resulting in more capital per worker in the economy. 2 marks
<i>Example</i>	<i>Period 1: 4 machines & 4 men Period 2: 8 machines & 8 men</i> 2 marks	<i>Period 1: 4 machines and 4 men Period 2: 12 machines and 8 men</i> 2 marks

2006 Q3 Continued

(b) State and explain **FIVE** factors affecting the level of investment in the Irish economy. (25 marks)

1. Rates of interest / Cost of borrowing

The higher the rate of interest - the higher the cost of borrowing – the lower the profit earned. Hence investment will fall / MEC may fall.

2. Business people's expectations about the economic future.

If business people are optimistic about the economy or their sector they are more likely to invest. Currently Irish business people are more optimistic about the future for various reasons: lower tax rates in Ireland; good industrial relations climate; low interest rates; rising economic growth etc.

3. The cost of capital goods.

The greater the cost of capital goods the lower the profitability of the investment, hence investment tends to fall.

4. Government policies.

If government policy is favourable towards investment then investment will tend to rise. Examples of favourable policies include: attractive state grants; reduction in corporation tax ; development of infrastructure etc.

5. The international economic climate.

Ireland is an open economy, which relies on foreign investment. If the international economic climate is booming then this may result in a growth in demand, benefiting Irish business.

6. Irish Labour market.

- Due to the existence of the partnership model, Ireland has a relatively peaceful industrial climate. This ensures uninterrupted production and is helpful to increasing investment.
- The availability of an educated / skilled workforce may continue to attract high 'value-added' type firms to Ireland.

7. The Marginal Efficiency of Capital.

The greater the potential MEC for any possible investment project then the more likely that that investment will take place.

5 factors at 5 marks each graded

2006 Q3 Continued

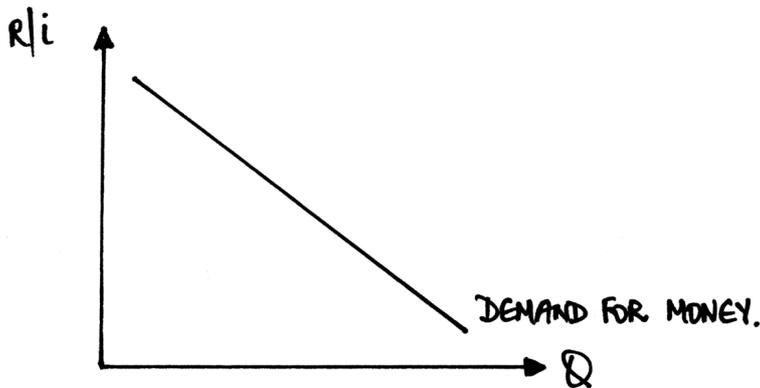
- (c) (i) State and explain Keynes's
- THREE**
- motives for holding money:
- 15 marks graded.**

<i>Transactionary</i>	<i>Precautionary</i>	<i>Speculative</i>
Money demanded for day-to-day expenses	Money demanded for emergencies <i>e.g. illness, house repairs.</i>	Money demanded for any possible profitable investment opportunity

- (ii) Explain, with the aid of a diagram, Keynes's theory on the relationship between the holding of money and the rate of interest.

10 marks graded

<i>Motive</i>	<i>Rate of Interest</i>
<i>Transactionary</i>	<i>The demand for money for transactionary reasons is not affected by the rate of interest.</i>
<i>Precautionary</i>	<i>The demand for money for precautionary reasons is affected slightly (negatively) by the rate of interest.</i>
<i>Speculative</i>	<i>The demand for money for speculative reasons is greatly affected (negatively) by the rate of interest.</i>



- When the rate of interest is low, the opportunity cost (of the interest foregone) is low, so people prefer to hold money.
- When the rate of interest is high, the opportunity cost is high – as it is now more costly to hold money – so now less money is held.

2006 Q6 (c)

- (c) Ireland has attracted many multinational companies to establish operations in recent years. There has also been a trend for some of these companies to relocate to eastern Europe or Asia.
- (i) Outline reasons why multinational companies locate in Ireland.
 - (ii) Outline possible reasons for the current relocation to other regions. (25 marks)

(i) Outline reasons why multinational companies locate in Ireland.

1. Availability of a skilled/English speaking workforce.

Firms have available a large, highly educated and multi-skilled workforce.

This helps reduce the training costs for these firms. An English speaking workforce is a major attraction for foreign firms.

2. Low rates of taxation.

The rate of corporation profits tax in Ireland is one of the lowest within the EU.

3. Access to EU market / Member of the euro currency.

Firms which locate in Ireland have access to free movement of their goods within the EU.

Ireland is a member of the euro and this makes payment for international transactions within the eurozone much easier and hence more attractive.

4. Availability of state incentives.

Firms can avail of attractive grants and other incentives provided by the state.

Examples include: advance factories; serviced industrial estates; contribution towards training costs; grants towards research and development etc.

5. Good industrial relations.

Social partnerships have resulted in relative industrial peace offering firms uninterrupted production.

6. Attractive rates of return on investments.

Firms locate here because the rate of return on their investment is sufficiently more attractive than is available elsewhere.

7. High rate of economic growth.

The rate of economic growth in Ireland is one of the highest within the EU and this has led to confidence amongst investors, who see Ireland as an attractive market for their goods.

9. Stable economic climate.

By international standards Ireland's economy is performing exceptionally well. This has increased business confidence which encourages firms to locate here.

15 Marks: 3 points at 5 marks each graded.

2006 Q6 (c) Continued

(ii) Outline possible reasons for the current relocation to other regions.

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 our exports less competitive.

3. Infrastructural problems.

- Ireland faces many problems with infrastructure. Examples include transport difficulties; lack of affordable housing etc. Workers now face very high costs for buying a home resulting in higher wage demands by workers.

4. Assession of new EU member states.

- Since May 2004 ten new countries joined the EU and these countries now offer companies access to the EU market; availability of cheaper labour; 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 to operate e.g. protection of the environment may face less protection.

6. Advances in International Communication

- Advancements in global communications have made it possible for service firms to locate to places which were not options in the past 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 i.e. credit card companies.

**Marking Scheme: 10 marks
2 points at 5 marks each graded.**

2006 Q8 (b)

- (b) The Irish economy is currently experiencing close to **full employment**.
- Explain the underlined term.
 - Discuss TWO economic benefits and TWO economic difficulties of a full employment economy in Ireland today.

*(25 marks)***(b) (i) Full Employment is defined as :****9 marks graded**

Full employment exists when all those seeking work are working at existing wage rates.

Economic consequences of a full employment economy in Ireland today	
Economic benefits	Economic Difficulties
<u>1. Increased standard of living.</u> Higher incomes will allow a greater quantity of goods and services to be purchased.	<u>1. Possible labour shortages.</u> These may occur causing difficulties for employers in meeting production targets. Need for recruitment overseas / relaxed immigration rules.
<u>2. Increased government tax revenues.</u> With high employment the government will collect more direct and indirect tax revenue.	<u>2. Inflationary pressures.</u> Rising incomes and spending tends to fuel inflation within the economy.
<u>3. Reduced social welfare bill.</u> The government will be paying out less in social welfare payments.	<u>3. Pressure on the state's infrastructure.</u> Difficulties may occur with housing, roads, child minding services , public services etc.
<u>4. Increased aggregate demand within the economy / Economic growth</u> High employment will increase aggregate demand within the economy and this will further increase GNP.	<u>4. Wage Demands.</u> Where shortages of labour are occurring employers may be forced to increase wage rates in order to retain their workforce.
<u>5. Increased investment.</u> A buoyant economy encourages further investment as demand is rising, and expectations are positive about the future.	<u>5. Deterioration / Loss of services.</u> In those sectors with low wage rates it may be difficult to attract workers and the quality of service may deteriorate or the service may discontinue.

4 points at 4 marks each graded.

2005 Q3

(a) Marginal Revenue Product (MRP) equals Marginal Physical Product (MPP) multiplied by Marginal Revenue (MR).

(i) Explain the underlined terms. (ii) Outline the factors which influence MPP and MRP. (25 marks)

	<u>Marginal Physical Product (MPP)</u>	<u>Marginal Revenue Product (MRP)</u>
Definition	The extra output produced when an additional unit of factor of production is employed.	The extra revenue earned when an additional unit of factor of production is employed.
Factors Influencing MPP and MRP	<p>1. Quality / Specialised nature of the factors. If the quality of the factors used improves then they become more efficient and additional output will be produced.</p> <p>2. Training/Education provided for the factors. If the factors are trained they become more skilled resulting in increased efficiency and more output.</p> <p>3. Expertise of the entrepreneur. If the entrepreneur is expert in organising the production unit then each factor will be more productive and work to their maximum efficiency.</p> <p>4. Law of Diminishing Marginal Returns. As each additional unit of a factor is used a point will be reached where the additional output produced will decline.</p>	<p>1. The productivity of the factor. The more productive each additional factor employed is then the more MRP that factor will earn.</p> <p>2. The MR / selling price of the output. If the selling price obtained on the market is rising or constant (and not falling) then the higher will be that factor's MRP.</p> <p>3. The Law of Demand. On the market, the law of demand dictates that in order for more to be sold then price must be reduced – this affects the MR obtained by the firm.</p>
25 marks graded.		

(b) (i) Define LAND as a factor of production. (ii) Outline TWO economic characteristics of land.

(i) Land: Anything supplied by nature which helps in the production of output. **6 marks graded.**

(ii) Economic Characteristics of land: **12 marks graded.**

Factor	Explanation
Land is fixed in supply	Nature has provided only a certain amount of land and this cannot be increased by man.
The earnings of land are economic rent / it has no cost of production.	This is because land is a gift of nature.
It is a non-specific factor of production	This means that it is not confined to one specific use but its uses can change.
The price of land does not affect the quantity available	This is unusual for factors. In the case of labour if wages fall the supply of labour may increase or decrease.

2005 Q3 Continued

(iii) Explain the concept of Economic Rent and illustrate with a relevant example: **12 marks graded**.

Economic Rent: Any earnings of a factor above its supply price/transfer earnings.

Example: Any appropriate / relevant example.

(c) The price of residential property has increased in Ireland in recent years.
Discuss **FOUR** reasons for this development.

(20 marks)

Reason	Explanation
1. General Inflation.	<ul style="list-style-type: none"> ▪ Inflation in Ireland has been rising – this leads to a general increase in prices, including house prices.
2. Demand: <ul style="list-style-type: none"> ▪ Reduced interest rates ▪ Availability of loans 	<ul style="list-style-type: none"> ▪ Interest rates continue at a low level and this has led to substantial increases in mortgage lending by financial institutions. ▪ Financial institutions have also eased lending restrictions in recent years.
3. Demand: Economic growth	<ul style="list-style-type: none"> ▪ With economic growth and high employment more people are entering the property market thereby increasing demand.
4. Demand: <ul style="list-style-type: none"> ▪ Age structure of population ▪ Growth in urban centres ▪ Immigration 	<p><u>The following factors have led to an increase in demand:</u></p> <ul style="list-style-type: none"> ▪ An increasing proportion of Ireland's population is within the age- group capable of buying property. ▪ Returning emigrants and a rise in immigration. ▪ Land supply is limited in urban centres putting upward pressure on house prices in these areas. ▪ Socio-economic factors i.e. divorce / separations etc.
5. Demand: <ul style="list-style-type: none"> ▪ Speculation in houses. 	<ul style="list-style-type: none"> ▪ Increases in property prices fuels speculative demand with more people seeking investment opportunities in property / growth in demand for 'second homes'. ▪ Availability of Section 23 incentives and tax designated zones has attracted investment in certain areas leading to demand for holiday homes.
6. Inadequate supply.	<ul style="list-style-type: none"> ▪ Supply side issues include: lack of zoned land; hoarding of land; planning difficulties; labour shortages etc. All these factors limit supply thereby increasing prices.
7. Inflation in the Construction industry.	<ul style="list-style-type: none"> ▪ Inflation within the construction sector is running at a higher rate than the general rate of inflation further fuelling property price increases.
8. Government policies.	<ul style="list-style-type: none"> ▪ The lack of affordable housing has forced prices for rental accommodation upwards and this has fuelled speculative demand for property.

4 points at 5 marks graded.

2005 Q5 (c)

(c) Ireland is promoted abroad as an attractive location for investment by foreign firms.

(i) Discuss **THREE** economic reasons why foreign firms choose to invest here.

1. **Availability of a skilled workforce.**

Firms have available a large, highly educated and multi-skilled workforce.

This helps reduce the training costs for these firms.

2. **Low rates of taxation.**

The rate of corporation profits tax in Ireland is one of the lowest within the EU.

3. **Access to EU market / Member of the euro currency.**

Firms which locate in Ireland have access to free movement of their goods within the EU.

Ireland is a member of the euro and this makes payment for international transactions within the eurozone much easier and hence more attractive.

4. **Availability of state incentives.**

Firms can avail of attractive grants and other incentives provided by the state.

Examples include: advance factories; serviced industrial estates; contribution towards training costs etc.

5. **Good industrial relations.**

Social partnerships have resulted in relative industrial peace offering firms uninterrupted production.

6. **Attractive rates of return on investments.**

Firms locate here because the rate of return on their investment is sufficiently more attractive than available elsewhere.

7. **Availability of an English speaking workforce.**

An English speaking workforce is a major attraction for foreign firms.

8. **High rate of economic growth.**

The rate of economic growth in Ireland is one of the highest within the EU and this has led to confidence amongst investors who see Ireland as an attractive market for their goods.

9. **Stable economic climate.**

By international standards Ireland's economy is performing exceptionally well. This has increased business confidence which encourages firms to locate here.

Marks: 3 points at 5 marks graded.

2005 Q5 (c)

- (ii) Describe how these foreign firms, operating in Ireland, may affect Ireland's Balance of Payments.

Effect on the Balance of Payments – Current Account.

1. These foreign firms may bring with them staff / expertise from their home country. Part of the salaries earned may be returned home (invisible imports).
2. Once they establish a plant they will require capital goods and raw materials. Some of these may need to be imported (visible imports).
3. Some foreign firms produce their commodities for export (visible exports).
4. Profitable foreign firms may decide to repatriate their profits (invisible import).

Effect on the Balance of Payments – Capital Account.

1. When the foreign firms first come to Ireland they bring with them additional capital investment. This is a long term capital inflow into Ireland.

Marks: 2 points at 5 marks graded.

2004 Q4

- (a) In relation to the factor of production Enterprise: (25 marks)
- (i) Distinguish between insurable risks & non-insurable risks, stating TWO examples in each case.
- (ii) Explain TWO reasons why 'enterprise' is considered to be a unique factor of production.

	Insurable	Non-insurable
Definition	Those risks which can be mathematically estimated and an entrepreneur can insure against occurring <i>and</i> An insurance policy can be purchased to provide compensation in the event of loss <u>2 marks</u>	Those risks which an entrepreneur cannot insure against occurring <i>and</i> An insurance policy cannot be purchased to provide compensation / the entrepreneur suffers the entire loss <u>3 marks</u>
Examples	1. Theft of stock or cash. 2. Fire to premises/ damage to stock caused by fire. 3. Accidents to members of staff. 4. Accidents to members of the public / public liability etc. <u>2 x 2 marks</u>	1. Loss of profit. 2. Bad decision-making. 3. Industrial relations disputes/Strikes 4. Changes in taste or fashion. 5. Entry of competition into the industry. 6. Changes in competitive conditions e.g. new legislation. <u>2 x 3 marks</u>

(a) (ii) Explain TWO reasons why enterprise is considered unique:**1. It can earn a loss**

- It is the **only** factor that earns a loss.
- This does not arise with the other factors of production as they are guaranteed a return

2. Returns can vary

- The returns can vary from super normal profits to losses.
- The returns to the other factors are contractual while that to enterprise is residual – the difference between revenue and costs (in the short term) accrues to enterprise.

3. Return is residual.

- Enterprise receives its return only after the other factors have received theirs.
- It is different from the other factors since their payments are contractual – it is agreed in advance.

Marking scheme:
2 reasons x 5 marks graded.

2004 Q4 Continued

- (b) (i) Explain what is meant by the term Marginal Efficiency of Capital (MEC).
 (ii) Discuss **FOUR** factors, other than MEC, which influence the level of investment by entrepreneurs. (30 marks)

(i) Marginal Efficiency of Capital: 10 marks graded

- This is the extra profit earned as a result of employing one extra unit of capital
- OR
- It is the Marginal Revenue Productivity of additional capital goods minus their cost

(ii) Factors influencing the level of investment, other than MEC:

1. Rates of interest / Cost of borrowing

The higher the rate of interest - the higher is the cost of borrowing – the lower the profit earned. Hence investment will fall / MEC may fall.

2. Business people's expectations about the economic future.

If business people are optimistic about the economy or their sector they are more likely to invest. Currently Irish business people are more optimistic about the future for various reasons: lower tax rates in Ireland; good industrial relations climate; low interest rates; rising economic growth etc.

3. The cost of capital goods.

The greater the cost of capital goods then the lower the profitability of the investment. Hence investment tends to fall.

4. Government policies.

If government policy is favourable towards investment then investment will tend to rise. Examples of favourable policies include : attractive state grants ; reduction in corporation tax ; development of infrastructure etc.

5. The international economic climate.

Ireland is an open economy. We rely on foreign investment. If the international economic climate is booming then this may result in a growth in demand benefiting Irish business.

6. Irish Labour market.

- Due to the existence of the partnership model - Ireland has a relatively peaceful industrial climate. This ensures uninterrupted production and is helpful to increased investment.
- The availability of an educated / skilled workforce may continue to attract high 'value-added' type firms to Ireland.

7. The Capital Stock in the economy.

In the long-term, the greater the stock of capital goods the lower will be the MEC and thus the lower the level of investment.

4 points x 5 marks graded.

2004 Q4 Continued

(c) **Discuss the role of profits in promoting development in a modern market economy.** (20 marks)

1. Encourage risk taking.

- Profits are a prerequisite for encouraging entrepreneurs to undertake the risks inherent in business.
- Without profits no firms would supply goods or services.

2. Indicate the best use of resources / consumer demand

- Profits are an indication to entrepreneurs what goods and services consumers want (demand) and hence
- indicate what areas are the most suitable for the use of scarce resources.

3. Encourage investment.

- When profits are earned this may encourage entrepreneurs to invest further in ventures.

4. Provide funds for expansion.

- Entrepreneurs may use the profits earned to invest in their existing business
- to expand their existing activities / diversify production etc.

5. Continuity of production.

- If normal profits are not earned then an entrepreneur will cease operating
- hence they are essential to ensure that production continues.

6. SNP reward innovation.

- Those entrepreneurs who earn SNP's do so because they may be more efficient and or
- because they are innovative or because they are minimizing their costs of production.

7. Source of revenue for the government.

- Any profits earned by entrepreneurs are taxed (with exceptions) by the government and become a source of revenue for the state.
- They can use these profits to further develop the economy.

8. SNP's may promote Mergers / Takeovers

- The existence of SNP's within some industries may entice large multinationals to takeover these profitable business so that they
- Increase their overall profits / gain a foothold in the Irish market e.g. rumours about AIB.

Marking Scheme
4 points x 5 marks graded.

2003 Q4

Question 4 The Labour Market

(a) Define each of the following:

- (i) Supply price of a factor of production.
- (ii) Transfer earnings.
- (iii) Economic Rent.

(20 marks)

Supply Price:

The minimum payment necessary to bring a factor into use and maintain it in that particular use.

7 marks graded

Transfer Earnings:

The earnings of a factor in the next best alternative employment.

or

what a factor must receive to keep it in its present use & prevent it from transferring to another use.

7 marks graded

2003 Q4 Continued**Economic Rent:**

Any earnings of a factor **above its supply price.**

6 marks graded

(b) A principal factor influencing the demand for labour by an individual firm is the Marginal Revenue Productivity of Labour (MRP).

- (i) Explain what is meant by the underlined term.
- (ii) Discuss the factors, other than MRP, which influence the demand for labour by an individual firm.

(30 marks)

(i) MRP of labour

10 marks graded

the extra revenue earned when an additional unit of labour is employed

(ii) Discuss the factors, other than MRP, which influence the demand for labour by an individual firm.

1. The wage rate.
2. Demand for the firm's output.
3. Price of capital relative to labour.
4. State subsidies paid to the firm.
5. Taxation Rates on the firm's profits.
6. Payroll taxes.
7. Availability of technology.
8. Trade union involvement.

4 points at 5 marks each graded

The Wage Rate

If the wage rate the worker is seeking is higher than the revenue that the worker generates then this worker will not be demanded.

Demand for output

If demand for the firm's output increases then this may lead to an increased demand for labour.

Price of other factors of production (including capital)

Prior to employing more labour the firm would compare the cost of the additional labour with that of other factors of production available to determine which is the most competitive.

2003 Q4 Continued**State subsidies**

If the state were paying subsidies for the hiring of additional labour then this would make labour more competitive and increase demand.

Taxation Rates on the firm's profits

If the profitability of a firm is reduced by higher tax on companies' profits then this may affect a firm's decision to hire additional labour.

Payroll taxes

If the rate of personal taxation increases then labour may seek a higher wage rate and this makes labour less competitive. Similarly if the rate of PRSI on labour increases this is an additional cost for the firm, which may reduce their demand for labour.

Availability of technology

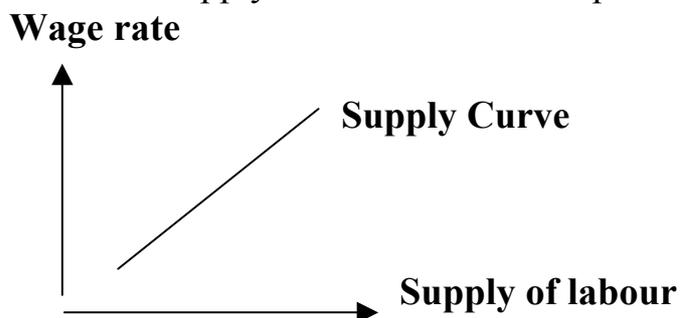
A firm's demand for labour will be affected by the availability of new technologies, particularly if it helps to reduce costs.

Trade union involvement

If a worker is a member of trade union then the firm may not employ this worker. This applies particularly to some firms in Ireland, which operate without the involvement of trade unions.

Marking Scheme:20 marks 4 points x 5 marks each graded

(c) The diagram below represents the supply curve of labour to a particular firm.



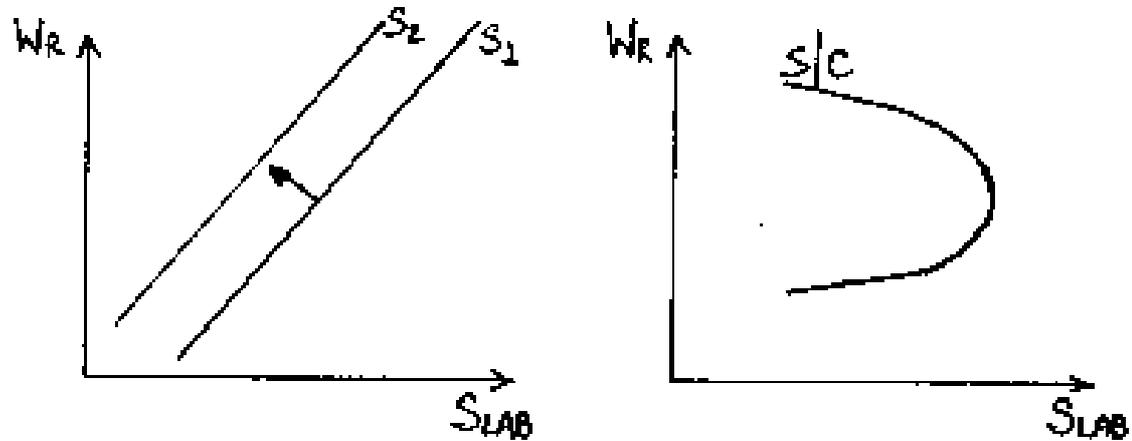
Explain the effect which each of the following developments may have on this supply curve. Illustrate each answer by means of a diagram.

- (i) The workers shift their preference towards increased leisure time
- (ii) The workers' trade union negotiates a minimum wage. (25 marks)

2003 Q4 Continued

(i) Workers shift their preference towards increased leisure time: **13 marks graded**

Diagram: 6 marks



Explanation:

7 marks graded

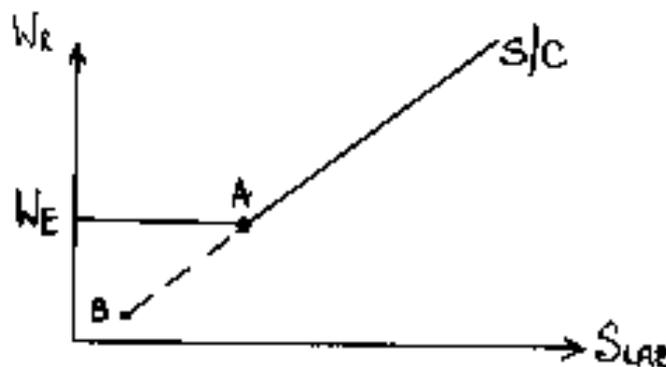
Workers will reduce the number of hours worked. Hence the supply curve of labour may:

- (a) shift to the left, work less hours at all wage rates
- (b) after a certain higher wage rate work less hours, the backward bending supply curve.

(ii) The workers' trade union negotiates a minimum wage:

12 marks graded

Diagram: 6 marks



Explanation:

6 marks graded

If a minimum wage level is set at W_E then no labour will be supplied below this wage rate **or** portion AB of the supply curve of labour will no longer apply.

2002 Q4**Q4 Factor Market****7+7+6 graded****(a)****(i) Capital**

Anything man made which is used to produce goods and services

(ii) The Marginal Efficiency of Capital

- This is the extra profit earned as a result of employing one extra unit of capital.
- It is the Marginal Revenue Productivity of additional capital goods minus their cost

(iii) Investment

- Involves the production of capital goods
- any addition to capital stock in the economy.

(b) (i) 2 reasons why investment is important for the Irish economy.**10 marks****1. Increased productive capacity:**

Greater investment allows the country to produce more output / It replaces worn-out capital resources.

2. Increased labour productivity:

More investment allows labour become more efficient. Investment allows workers to use more up-to-date capital goods, making them more efficient.

3. Increased employment.

Extra investment increases aggregate demand resulting in the demand for more employees to meet this additional demand for goods & services.

4. Increased GNP.

Increased investment leads to higher GNP, greater demand, increased spending and a higher standard of living.

2002 Q4 Continued**5. Investment generates future wealth for the economy.**

Investment into the economy safeguards the future wealth creating capacity of the country by ensuring that capital goods exist in the future.

6. Increased Government Revenues.

An increase in investment will increase economic activity. This will generate additional revenues for the government for use within society.

2 points x 5 marks graded.

(ii) State and explain FOUR factors that influence the level of investment in the Irish economy at present.

20 marks

1. Rates of interest / Cost of borrowing

The higher the rate of interest - the higher the cost of borrowing.
Hence investment may fall / MEC may fall.

2. Business people's expectations about the economic future.

If business people are optimistic about the economy or the sector they are more likely to invest.

3. The cost of capital goods.

The greater the cost of capital goods, the lower the profitability of the investment, hence investment tends to fall.

4. Government policy.

If government policy is favourable towards investment then investment will tend to rise.
Examples of favourable policies include: attractive state grants; reduction in corporation tax; development of infrastructure etc.

5. The international economic climate.

Ireland is an open economy. It relies on foreign investment.
If the international economic climate is booming then this may result in a growth in demand benefiting Irish business.

6. Industrial Relations Climate.

Due to the existence of the partnership model, Ireland has a relatively peaceful industrial climate.
This ensures uninterrupted production which impacts positively on investment.

7. The capital Stock in the economy.

In the long-term, the greater the stock of capital goods the lower will be the MEC and thus the lower the level of investment.

4 factors x 5 marks graded

2002 Q4 Continued

(c) J.M. Keynes identified three reasons (motives) for holding money.

Explain the **THREE** reasons and outline **ONE** main influence on each reason. **25 marks**

Transactionary	Precautionary	Speculative
Money demanded for day-to-day expenses	Money demanded for emergencies e.g. illness, house repairs.	Money demanded for any possible profitable investment opportunity
<u>Level of Income</u> higher incomes \Rightarrow the greater our daily expenditure.	<u>Level of Income</u> People are aware that emergencies will arise and it will be necessary to have money available to meet these emergencies.	<u>Interest Rates</u> As interest rates rise people prefer to hold their cash in liquid form rather than invest in bonds.
<u>OR</u>		
No.of transactions / level of expenditure	<u>Interest Rates</u>	Market value of bonds
	As interest rates rise it is more costly to hold money for this purpose so less cash will be held.	

8+8+9 graded

2002 Q8

- (a) (i) 1. **Quarterly National Household Survey**
(formerly the **Labour Force Survey**)
2. **The Live Register.**
3. **Census** (of population)

2 x 3 marks

- (ii) **The National Household Survey-**
Provides a more accurate measurement of Irish unemployment.

2 marks

Because:

1. People who are 'signing on' the Live Register do not describe their status as unemployed when questioned in the NHS.
2. A high percentage of those surveyed in the NHS indicated that they had full-time jobs.
3. Some, in the sample, are working part-time.
4. More on the Live Register indicated that they were neither looking for work or wanted work.

12 marks graded

2002 Q8 Continued**OR****The candidate may answer the question, by stating why the Live Register is inaccurate:****The Live Register provides inaccurate data because it includes:**

1. People 'signing on' who are actually working.
2. Part-time (working up to 3 days per week), seasonal workers and casual workers who are entitled to Unemployment Benefit. / Unemployment Assistance if they meet the statutory requirements.
3. People who are signing on for credited Social welfare contributions who are not receiving the 'dole'.
4. Some claiming UA / UB are not seeking work are or are not available for work.
5. People who are unemployed, but for many reasons, may not draw the dole and do not sign on.

12 marks graded**(b) (i) Full Employment is defined as :**

All those seeking work are working at existing wage rates

10 marks graded

(b)(ii) Economic consequences of very high employment in the Irish economy. 4 x 5 marks graded	
<u>Positive</u>	<u>Negative</u>
<u>1. Increased standard of living.</u> Higher incomes will allow a greater quantity of goods and services to be purchased.	<u>1. Possible labour shortages.</u> These may occur causing difficulties for employers in meeting production targets. Need for recruitment from overseas / relaxed immigration rules.
<u>2. Increased government tax revenues.</u> With high employment the government will collect more direct and indirect tax revenue.	<u>2. Inflationary pressures.</u> Rising incomes and spending tend to fuel inflation within the economy.
<u>3. Reduced social welfare bill.</u> The government will be paying out less in social welfare.	<u>3. Pressure on the state's infrastructure.</u> Difficulties/shortages may occur with housing, roads, child minding services, public services etc.
<u>4. Increased aggregate demand within the economy.</u> High employment will increase aggregate demand within the economy and this will further increase GNP.	<u>4. Wage Demands.</u> Where shortages of labour occur, employers may be forced to increase wage rates in order to retain their workforce.
<u>5. Increased investment.</u> A buoyant economy encourages further investment, as demand is rising expectations	<u>5. Deterioration / Loss of services.</u> In those sectors with low wage rates it may be difficult to attract workers and the quality of

2002 Q8 Continued

about the future are positive.	service may deteriorate or the service discontinue.
<u>6. Economic growth.</u> Rising demand, rising tax revenues, and increased investment all will have a positive effect on <u>future</u> economic growth.	<u>6. Increased demand for imports.</u> With higher spending within the economy, the demand for imports may increase due to our high MPM.

(c) In 2001 the Irish economy began to experience a downturn in the level of economic activity. Discuss the reasons for this development in the Irish economy. 25 marks

1. Loss of competitiveness

The Irish inflation rate has been higher than our EU trading partners. This has placed our goods at a price disadvantage in our main export markets, resulting in a drop in exports.

2. Resource and capacity constraints within the economy.

The Irish economy has achieved major growth in recent years. However with unemployment falling to 3.7% in the early part of 2001, the economy experienced certain shortages of labour. This, accompanied with inadequacies in our infrastructure, meant that the economy could not continue to grow at the same rate.

3. Loss of business confidence.

Fears about Government finances / fears about wage demands are affecting business confidence. This has had the effect of reducing investment and contributed to the slowdown in economic activity.

4. Contraction in the Information Communications Technology (ICT) sector.

This sector has seen a major worldwide contraction, and Ireland which has a high dependence on this sector has not been immune to this.

5. Foot & Mouth.

Measures deemed necessary to limit the risk of foot-and-mouth disease had a significant effect on the economy and resulted in a downturn in major sectors of the economy.

6. International economic climate.

Export volumes were severely affected by the deterioration in the international environment, in particular by much weaker demand growth in our country's main trading partners.

7. Decline in Irish tourism sector.

Since 11th Sept. and the advent of the measures to control F&M, the number of tourists visiting Ireland has declined. This sector has seen a significant slowdown since these events.

8. Recession in the US economy.

The US experienced a major decline in economic activity, which resulted in many US companies rationalising their operations. This led to some closure / cutbacks in employment in these companies here in Ireland.

4 points: 7 + 6 + 6 + 6 graded

2001 Q4**Q4 LABOUR MARKET**

(a) A principal factor determining the wages to be paid to a worker is the Marginal Revenue Productivity of Labour (MRP)

(i) Explain what is meant by the underlined term.

(ii) Discuss the factors, other than MRP, which influence the wage rates paid to different categories of workers. (30 marks)

(i) MRP of labour – 10 marks

the extra revenue earned when an additional unit of labour is employed

Marking Scheme : 10 marks

Extra Revenue: 5 marks; Additional unit of labour: 5 marks

(ii) Discuss the factors, other than MRP, which influence the wage rates paid to different categories of workers. (20 marks)

1. Different skills.

The skills attaching to different jobs vary and pay is commensurate with the level of skill involved.

e.g. a doctor receives a higher rate of pay than that of a nurse.

2. Training.

Workers who undergo longer periods of training will receive higher levels of pay.

e.g. a nurse who trains and becomes more specialised will receive higher pay.

3. Educational qualifications.

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

e.g. a teacher with an honours degree receives a higher allowance than a teacher with a pass degree.

2001 Q4 Continued

4. Nature & Conditions of the job.

These may vary between jobs and pay levels will reflect this.

e.g. dangerous work, unsociable hours, the temporary nature of the job.

5. Negotiating strength of the workers trade union.

If a worker is a member of a strong trade union this union may obtain wage levels in line with that workers MRP.

e.g. recent negotiations by the trade unions in the ESB.

6. Tradition attaching to certain jobs.

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

7. Possession of innate talents.

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

8. Gender Bias.

Despite legislation a bias exists in the payment of women in the Irish workforce. Women workers in Ireland earn roughly 80% to that of their male counterparts.

9. Monetary & Non- Monetary benefits of the job.

Workers in difference jobs may receive other benefits: low interest loans, pension entitlements, VHI/BUPA subsidised, long-holidays, subsidised travel etc.

Marking Scheme

State: 4 points @ 2 marks each = 8 marks

Explain: 4 points @ 3 marks each = 12 marks

(b) How appropriate is MRP for setting wages in the public sector?

Explain your answer.

(20 marks)

1. Not all workers in the public sector produce physical output and hence it is difficult to calculate that worker's marginal physical output e.g. teachers.
2. For those workers in the public sector who produce physical output this output may not be sold in the marketplace. It is difficult to calculate the marginal revenue (selling price) for the output produced e.g. a carpenter in the office of public works.
3. Where a combination of capital and labour is required to carry out an economic activity e.g. a civil servant and a computer it is not possible to allocate an MRP to the civil servant alone.
4. Pay comparability: because productivity is difficult to measure it may be best to compare those workers in the public sector with those workers in the private sector doing similar work and set pay levels accordingly i.e. account for the net-benefits of the job.

2001 Q4 Continued

Marking Scheme : 2 points x 10 marks each.

State: 2 points @ 5 marks each. Explain: 2 points @ 5 marks each.

c) At present, the demand for labour exceeds the supply of labour in certain sectors of the Irish economy. Discuss the possible effects, which this situation may have on the Irish economy.

1. Pressure on wage levels to rise / industrial Unrest / inflationary pressures.

Employers will be forced to increase wage levels in order to attract workers into those areas where shortages are occurring. If wage levels increase such increases may be passed on to the final consumer in the form of higher prices.

2. Deterioration / Loss of services.

Where workers are not available it will result in either a deterioration of services in those areas or a total loss of certain services e.g. the health/education sectors.

3. Loss of investment.

Indigenous and foreign entrepreneurs may see such shortages of labour as a deterrent to investing and starting a business.

4. Immigration

Shortages of labour in the Irish labour market are reported internationally.

FAS has attempted to entice foreign workers to Ireland.

The number of applications for refugee status has also increased.

5. Difficulty of attracting / keeping workers in some sectors.

With current labour shortages and the attractiveness of higher pay in alternative employment, certain sectors find it increasingly difficult to attract workers e.g. in the hotel, catering, and tourism industries.

6. Inability to maintain development of the state's infrastructure.

Because of the shortage of workers, developing the infrastructure at the pace necessary to sustain economic growth is not possible and this may affect future investment.

7. Reduction in Government Social Welfare Bill

With shortages in labour, unemployment falls, resulting in a reduced social welfare bill for the government.

8. Increased Training Costs.

To meet the labour shortages industry / the government must increase the amount of training places available and this will increase costs of training.

2001 Q4 Continued

9. Changed composition of the Irish labour force

School children 'attracted' to early leaving, more housewives / retired workers being enticed into labour force.

Marking scheme : 5 points at 5 marks each.

State: 5 x 3 marks each = 15 marks. Explain: 5 x 2 marks each = 10mks