
International Trade and Exchange Rates

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Economics Pack



JT Economics

The Business Guys

Short Questions

1) 2015 Q8

- (a) *“The Euro (€) is hitting a four and a half year low against the US \$.”*
(Report: *The Irish Independent*, January 2015)

Explain what the above statement means.

- (b) Outline **two** possible economic effects of this development for the Irish economy:

(i) _____

(ii) _____

(17 marks)

2) 2014 Q6

Outline **two** possible economic effects for the Irish Economy of the **euro** (€) appreciating in value against the **US dollar** (\$).

(i) _____

(ii) _____

(17 marks)

3) 2013 Q5

Outline **three** mechanisms for restricting free trade.

(i) _____

(ii) _____

(iii) _____

(16 marks)

4) 2011 Q6

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

- (i) _____

 - (ii) _____

- (17 marks)**

5) 2009 Q6

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

- (i) _____

 - (ii) _____

- (17 marks)**

6) 2008 Q7

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

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

7) 2007 Q2

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

(i) _____

(ii) _____

(iii) _____

(16 marks)

8) 2003 Q4

Define the term '**Balance of Payments on Capital Account**'. State **TWO** examples of items which may appear in it.

Definition: _____

Example 1: _____

Example 2: _____

(16 marks)

Long Questions**2016 Q6**

- (a) (i) Explain the term **exchange rate**.
 (ii) Outline the possible economic effects on the Irish economy of an appreciation in the value of the euro € against the US \$. [25]
- (b) *“The Balance of Payments (BOP) Current Account had a surplus of €2.7 billion in the second quarter of 2015, equivalent to 5.2% of quarterly GDP.”*
 (Source: Nevin Economic Research Institute (NERI), Autumn 2015)
- (i) Describe the main elements of Ireland’s **balance of payments (BOP) account**.
 (ii) Explain what is meant by a **surplus on the BOP current account**.
 (iii) Can a surplus on the BOP current account pose problems for an economy?
 Explain your answer. [30]
- (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]

[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)

2014 Q7 (c)

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

2013 Q7

- (a) 'The Balance of Payments figures give the most detailed information on Ireland's large and rapidly growing internationally traded services sector' (*The Irish Times*, September 2012).
- Explain the term Balance of Payments Current Account.
 - Explain **two** economic consequences of a surplus on the Balance of Payments Current Account.
 - Describe how foreign firms operating in Ireland may affect Ireland's Balance of Payments Current Account. (30)
- (b) Discuss the possible economic effects for the Irish economy of the euro rising in value relative to many other international currencies. (25)
- (c) 'Exporting businesses need to become the engine of economic growth.'
(Statement of Strategy 2011-2014, Department of Jobs, Enterprise and Innovation)
- Discuss the key challenges for Irish businesses on international markets. (20)

[75 marks]**2012 Q7**

- (a) The table below illustrates the Law of Comparative Advantage.

| Country | Output (production per worker per week) | |
|---------------------|--|-----------------|
| | Food | Clothing |
| United Kingdom | 40 units | 10 units |
| China | 60 units | 20 units |
| Total Output | 100 units | 30 units |

- State the *Law of Comparative Advantage*.
 - Explain how both countries benefit from international trade in the above example.
 - Calculate the terms of trade for both goods. Show your workings. (30)
- (b)
 - Discuss **three** economic factors which affect the competitiveness of Irish firms in international trade.
 - Outline how international trade benefits Irish consumers. (25)
- (c) 'Euro area growth is forecast to slow down from 1.6% in 2011 to 0.2% in 2012'.
(OECD, 2011)
- Discuss the possible effects on the Irish economy of the slowdown in the growth rate in the euro area. (20)

[75 marks]

2010 Q7

(a) *Many believe that export-led growth is the way forward for the recovery of the Irish economy.*

- (i) Explain why international trade is essential for the Irish economy.
- (ii) Discuss **three** measures which the Irish government could take to improve the competitiveness of Irish-based firms in international markets.

(30 marks)

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

(30 marks)

(c) Write a brief account on the role of the International Monetary Fund (IMF) **or** the World Bank in the world economy.

(15 marks)

[75 marks]

2009 Q4 (c)

(c) Outline how the recent tightening (reduction) in the availability of credit may affect:

- (i) The Irish Motor Industry;
- (ii) Inflation;
- (iii) Ireland's Balance of Payments.

(20 marks)

[75 marks]

2009 Q7

- (a) The ‘Law of Comparative Advantage’ suggests that specialisation and trade increases world output.
- Explain the meaning of the underlined term in the context of international trade.
 - Identify the main assumptions underlying this law.
 - Identify **two** sources of comparative advantage for the Irish economy.
- (30 marks)*
- (b) Ireland is a small open economy which relies very heavily on international trade.
- Discuss the importance of international trade to the Irish economy.
 - Are there any economic justifications for a government intervening in order to restrict international trade? Outline reasons for your answer.
- (30 marks)*
- (c) Write a brief note on David Ricardo’s contributions to economic thought.
- (15 marks)*
[75 marks]

2008 Q5

- (a) The table below illustrates the Law of Comparative Advantage.

| Country | Output (production per worker per week) | |
|---------------------|--|-------------|
| | Clothing | Televisions |
| South Korea | 30 units | 10 units |
| China | 40 units | 20 units |
| Total Output | 70 units | 30 units |

- State the Law of Comparative Advantage.
 - Explain how both countries benefit from international trade in the above example.
 - Calculate the **terms of trade** for both goods. (Show all your workings).
- (30 marks)*
- (b) Discuss the economic consequences of a **decrease** in the value of the US dollar (\$) relative to the euro (€) for the Irish economy.
- (20 marks)*
- (c) It is becoming more difficult to attract Foreign Direct Investment (multinational companies) into Ireland. Discuss the economic reasons for this development.
- (25 marks)*
[75 marks]

2007 Q7

- (a) The Balance of Payments is made up of the **Current Account** and the **Capital Account**.

Explain each of the underlined terms. Include details of the main components of **each** account in your explanations.

(30 marks)

- (b) Suppose the euro (€) increases in value relative to the American dollar (\$) and sterling (£). Outline the likely effects this increase would have on any **THREE** components of the Balance of Payments, which you listed in answering (a) above.
[At least one component should be from the Capital Account.]

(25 marks)

- (c) The enlargement of the European Union (EU) continues with the addition of Bulgaria and Romania in January 2007. There are now 27 member states.

Discuss **FOUR** economic consequences for the Irish economy, of the EU enlargement process.

(20 marks)

[75 marks]

2006 Q6

- (a) (i) Explain why international trade is essential for the Irish economy.
(ii) Has Ireland, in recent years, tended to have a surplus or a deficit on the Balance of Payments Current Account? Outline the economic consequences of this situation.

(30 marks)

- (b) State and explain how **imports** into the Euro-zone would be affected by each of the following developments:

- (i) the US dollar **rises** in value against the euro;
(ii) employment within the Euro-zone **increases**.

(20 marks)

- (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)

[75 marks]

2005 Q5

- (a) Explain the following terms:
- Balance of Trade;
 - Balance of Payments on Capital Account;
 - Terms of Trade.

*(25 marks)***(b)**

| Country | Output (production per worker per week) | |
|---------------------|--|-----------|
| | MACHINES | CARS |
| SPAIN | 20 | 5 |
| JAPAN | 40 | 15 |
| Total Output | 60 | 20 |

- Explain how benefits for both countries arise from international trade, in the above example.
- Calculate the Total Output when specialisation takes place. **Show your workings.**
- Calculate the **terms of trade** for both commodities. **Show your workings.**

(25 marks)

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

*(25 marks)***[75marks]****2005 Q7 (c)**

- (c) The **euro** is now well established as a currency in Ireland. Discuss the economic effects which the introduction of the euro has had on:
- Irish consumers;
 - Irish exporters and importers.

(25 marks)

2004 Q7

- (a) Explain **FOUR** assumptions underlying the Law of Comparative Advantage. *(20 marks)*
- (b) Ireland relies heavily on international trade. Explain **THREE** factors which affect the competitiveness of Irish-based firms in international trade. Use examples to support your answers. *(30 marks)*
- (c) The enlargement of the European Union (EU) to include many new countries will be economically significant for Ireland. Outline the main economic opportunities and challenges for the Irish economy following enlargement of the EU. *(25 marks)*
- [75 marks]**

2003 Q7 (b)

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

2003 Q8

- (a) Explain how specialisation and the division of labour promotes globalisation/international trade.
(20 marks)
- (b) The World Trade Organisation (WTO) aims to reduce trade barriers between countries.
- (i) Outline **THREE** possible economic advantages of free trade.
- (ii) Explain **THREE** economic reasons why countries may impose barriers to restrict trade.
- (iii) State and explain **TWO** methods of restricting free trade.
(35 marks)
- (c) Adam Smith, author of ‘The Wealth of Nations’ (1776), explained the reasons for and benefits of free trade.
- Outline **FOUR** other areas in which he made contributions to economic thought.
(20 marks)
- [75 marks]**

2002 Q6

- (a) (i) State the Law of Comparative Advantage.
(ii) State and explain the assumptions underlying this law. (30 marks)
- (b) The table below illustrates the Law of Comparative Advantage.

| <u>Country</u> | <u>Commodity</u> (Hourly Production per Person) | |
|---------------------|--|------------------|
| | Food | Machinery |
| Country X | 5 tonnes | 10 units |
| Country Y | 20 tonnes | 30 units |
| Total Output | 25 tonnes | 40 units |

- (i) Use the above example to show how **both** countries could benefit from international trade.
(ii) Calculate the terms of trade for **both** commodities. (20 marks)
- (c) Ireland, as a small open economy, relies on international trade. Discuss the factors which affect the competitiveness of Irish-based firms in international trade. (25 marks)
- [75 marks]

2001 Q5

- (a) Define clearly any **THREE** of the following terms:
- (i) Invisible Exports;
(ii) Tariffs;
(iii) Balance of Payments on Current Account;
(iv) Balance of Payments on Capital Account. (25 marks)
- (b) Irish exports have been steadily rising in recent years. Discuss how this development affects each of the following:
- (i) the level of Irish imports;
(ii) the amount of borrowing by the Irish government. (25 marks)
- (c) Discuss the possible effects on the Irish economy of the EURO declining in value relative to other international currencies. (25 marks)
- [75 marks]

Answers

Short Questions

1) 2015 Q8

8. (a) “The Euro (€) is hitting a four and a half year low against the US \$.”
(Report: *The Irish Independent*, January 2015)

Explain what the above statement means.

The price of the euro has fallen in terms of the \$ compared to four and a half years ago / the € can buy fewer dollars than it did four and a half years ago.

7 marks

- (b) Outline **two** possible economic effects of this development for the Irish economy:

Possible positive economic effects:

Irish exports to USA become relatively cheaper / less expensive / more competitive / Irish producers are more likely to be able to export more to USA than they did previously / more tourism revenue for Ireland due to more Americans finding Ireland a more attractive destination.

Increased employment due to increase in demand for Irish exports in USA / economic growth due to spending within the Irish economy as a result of job creation.

FDI may be encouraged as it is cheaper to set up FDI operations, if the companies are US MNCs.

Possible negative economic effects:

Irish imports from USA become relatively more expensive / Costs of production for Irish producers importing from USA increases.

Reduced profits for Irish producers who require imports from USA if they cannot pass the increased costs on to consumers.

As many of Ireland’s imports are raw materials for which it has an inelastic demand the import bill will rise e.g. oil.

2 effects at 5 marks each

2) 2014 Q6

Outline two possible economic effects for the Irish Economy of the **euro** (€) appreciating in value against the **US dollar** (\$).

Import prices are cheaper

Price of imports from the US are likely to decrease. This results in a lower import bill for Irish producers / increase in imports from the US.

Export Prices Dearer

Price of exports from Ireland to US are likely to increase and therefore become less competitive. This may result in reduced exports to the US.

Falling Employment

With a reduction in exports, employment in those industries which depend on Irish exports to the US will fall.

Effect on tourism revenue in Ireland

There is likely to be a drop in tourism from the US as it will now be more expensive in dollar terms to holiday in Ireland. More Irish people may holiday in the US.

Foreign Direct Investment / Irish investment in US

FDI from the US may be discouraged as it will now be costlier in dollar terms to invest in Ireland. Investment by Irish companies in the US may be encouraged as it is cheaper in Euro terms.

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

3) 2013 Q5

Outline **three** mechanisms for restricting free trade.

(16 marks)

| | |
|-------------------------|--|
| Tariff | A tax on imports. |
| Quota | A limit on the quantity of goods imported. |
| Embargo | A total ban on imports. |
| Subsidy | A payment to exporters to reduce production costs. |
| Administrative barriers | Rules / regulations applying to imports. |
| Exchange controls | Limit the amount of foreign currency available to importers to buy imported goods. |

6 marks + 5 marks + 5 marks

4) 2011 Q6

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

1. Import prices (from US) dearer

Price of imports from US increased.

This will result in a higher import bill for Irish producers / decrease in imports from the US.
The cost of Irish people visiting the US is dearer so less Irish people may holiday there.

2. Export prices (to US) cheaper

Price of exports from Ireland to US decrease and therefore are easier to sell.

This may result in increased exports to the US.

The cost of Americans visiting Ireland is cheaper so more Americans may holiday here.

3. Employment opportunities

With a possible increase in exports, employment in those industries which depend on Irish exports to the US may increase.

4. Economic growth may increase

With job creation, spending within the economy may rise. Expenditure by the government on social welfare would decrease. Combined, these will impact positively on the rate of economic growth.

5. US Investment in Ireland

It may be less costly for US firms to purchase capital goods/invest in Ireland, so investment may increase.

17 marks (9 + 8)

5) 2009 Q6

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

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

2 points: 17 marks graded.

(17 marks)

6) 2008 Q7

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

Explanation: Total imports exceed total exports

9 marks graded.

Reasons:

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

2 reasons at 4 marks each graded.

7) 2007 Q2

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

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

16 marks graded.

8) 2003 Q4

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

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

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

TWO examples of items that may appear in it are:

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

The examples given by candidates may be stated as follows:

Capital account

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

Financial account

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

Correct definition: 12 marks graded + 2 examples

Long Questions**2016 Q6**

- (a) (i) Explain the term **exchange rate**.
 (ii) Outline the possible economic effects on the Irish economy of an appreciation in the value of the euro € against the US \$.

[25]

- (i) Explain the term **exchange rate**.

The price of one currency expressed in terms of another currency.

The price for which the currency of a country can be exchanged for another country's currency

5 marks

- (ii) Outline the possible economic effects on the Irish economy of an appreciation in the value of the euro € against the US \$.

Imports prices decrease / imports cheaper

Demand for imports from the US may rise as imports are relatively cheaper.

This will result in a lower import bill for Irish producers / an increase in imports from the US.

The cost of Irish people visiting the US will be cheaper so more Irish people will holiday there.

Exports prices increase / exports dearer

Demand for Irish exports in the US may fall as the price of exports from Ireland increase.

This may result in a reduction in Irish exports as they become harder to sell / exports relatively uncompetitive.

The cost for Americans to visit Ireland will increase so there will be less American tourists visiting Ireland.

Falling employment

With a possible fall in exports, employment in those industries which depend on Irish exports to the US may fall.

Slowdown in rate of economic growth

With job losses, spending within the Irish economy may fall. Expenditure by the Irish government on social welfare may increase. A combination of these factors would impact negatively on economic growth.

US investment in the Irish economy

It becomes less attractive for US companies to invest in Ireland as it is now more expensive to purchase capital goods / invest in Ireland. Investment by Irish companies in the US may be encouraged as it is cheaper in euro terms.

4 x 5 marks (2+3)

2016 Continued

- (b) “The Balance of Payments (BOP) Current Account had a surplus of €2.7 billion in the second quarter of 2015, equivalent to 5.2% of quarterly GDP.”

(Source: Nevin Economic Research Institute (NERI), Autumn 2015)

- (i) Describe the main elements of Ireland’s **balance of payments (BOP) account**.
- (ii) Explain what is meant by a **surplus on the BOP current account**.
- (iii) Can a surplus on the BOP current account pose problems for an economy? Explain your answer. [30]
- (i) Describe the main elements of Ireland’s **balance of payments (BOP) account**.

The balance of payments

| Main elements | Description / examples |
|-------------------|---|
| Current Account | <p>The current account is the sum of the trade balance (exports less imports) net income from abroad / net current transfers.</p> <p>It records visible and invisible trade over a period of time. It is the difference between total exports and imports.</p> <p>It includes net income flows such as interest and dividends earned by foreign citizens from Irish assets and dividends and interest earned by Irish citizens from foreign assets.</p> <p>It also includes current transfers e.g. subsidies receivable from the EU; taxes payable to the EU.</p> |
| 7 marks | |
| Capital Account | <p>It records inflows and outflows of a non-recurring nature / capital transfers e.g. amounts receivable from the EU regional development fund.</p> <p>It includes certain EU transfers and transfers of patent and copyright assets / lending money to foreign governments.</p> |
| 7 marks | |
| Financial Account | <p>This section covers transactions in financial assets and financial liabilities.</p> <p>The financial account consists of four main categories: direct investment; portfolio investment; other investment and reserve assets.</p> |
| 3 marks | |

17 marks: 7 + 7 + 3

- (ii) Explain what is meant by a **surplus on the BOP current account**

A surplus on the current account means that the money value of imports is less than the money value of exports. A current account surplus indicates that a nation is a net lender to the rest of the world.

7 marks

2016 Continued

(iii) Can a surplus on the BOP current account pose problems for an economy? Explain your answer.

A BOP surplus implies that a country is exporting more than it is importing. It is necessary to know the size of the current account surplus what is driving the surplus.

BOP Surplus due to weak domestic demand / unbalanced economy / relying too heavily on exports

A country may have a large current account surplus because of relatively weak domestic demand. Weak domestic demand leads to lower consumer spending and as a result employment might suffer. It may indicate that a country is relying too heavily on exports and consumer spending is relatively low.

Current account surpluses finance current account deficits

A country can only enjoy a trading surplus if at least another country has a deficit. The country with a deficit may introduce protectionist measures. The surplus being enjoyed by the developed countries may be at the expense of the developing world.

Manipulating the value of the currency

To make their exports more competitive a country can keep its currency undervalued / stop the appreciation of their currency. This makes their exports more competitive and the imports more expensive. However, such policies carry the risk of allowing an economy to grow too quickly and cause a boom and bust.

A current account surplus must be running a financial/capital account deficit. A country is in effect lending to the rest of the world. This is not a problem for an economy if there is no global economic upheaval but could pose a problem for a country that is lending. China lends to the USA. It lends in US \$. If the \$ falls in value then this will pose a problem for China.

Current account surpluses could cause demand-pull inflation. Aggregate demand in an economy will grow due to an injection into the circular flow of income-if an economy is close to full employment this can lead to demand-pull inflation.

Persistently large surpluses (such as China's) could trigger negative political comment and an **increase in protectionist policies.**

A current account surplus could boost domestic employment if it is due to an improvement in competitiveness, leading to higher demand for exports. However, it could lead to lower domestic employment if the surplus is caused by a recession which has hit domestic demand and led to a fall in import spending.

6 marks (3+3)

(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 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)

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

2014 Q7 (c)

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

Greater choice of commodities / higher standard of living

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

Trade increases our standard of living.

More competitive prices of goods and services

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

Strengthens home economy / boosts employment / investment opportunities

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

Companies benefit from economies of large scale production

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

2 economic benefits: 5 marks each = 10 marks

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

Protect infant industry

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

Prevent dumping

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

Protect employment on the domestic / home market

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

Encourage the domestic production of vital goods / national security

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

3 reasons: 5 marks each = 15 marks

Other acceptable answers marked on their merits

2013 Q7

(a) ‘The Balance of Payments figures give the most detailed information on Ireland’s large and rapidly growing internationally traded services sector’ (*The Irish Times*, September 2012). (30)

- (i) Explain the term Balance of Payments Current Account.
- (ii) Explain **two** economic consequences of a surplus on the Balance of Payments Current Account.
- (iii) Describe how foreign firms in Ireland may affect Ireland’s Balance of Payments Current Account.

(i) Explain the term Balance of Payments Current Account.

- This shows the receipts and payments for visible and invisible trade over a period of time.

or

- This shows the difference between total exports and total imports.

6 marks

(ii) Explain **two** economic consequences of a surplus on the Balance of Payments Current Account.

1. Injection into the economy

As exports are an injection into the circular flow of income the multiplier is increased in size and so national income rises.

2. Increase in our external reserves

Our external reserves may increase and this will increase our ability to make international payments.

3. Jobs created

Higher exports may result in job creation within the economy and this may curb the increase in emigration.

4. Attract FDI

MNCs may become aware of Ireland’s success on foreign markets and this may encourage them to locate in Ireland.

12 marks: 2 points at 6 marks (3+3) each

(iii) Describe how foreign firms operating in Ireland may affect Ireland’s Balance of Payments Current Account.

1. Salaries / wages returned to home country

These companies may bring staff / expertise from their home country. Part of the salaries earned may be returned to the home country thereby leaving Ireland.

2. Imported raw materials / capital goods

These companies will require capital goods and raw materials. Some of these may need to be imported. These are physical imports and will appear in the Current Section.

3. Exported finished products

Some foreign companies produce their commodities mainly for export. These are considered physical exports and appear in the Current Section.

4. Repatriated profits

Once profitable these companies may decide to repatriate their profits. These are considered an invisible import.

12 marks: 2 points at 6 marks (3+3) each

2013 Continued

- (b) Discuss the possible economic effects for the Irish economy of the euro **rising** in value relative to many other international currencies. (25)

1. Imports Cheaper

Price of imports from US / UK / Japan etc. will decrease.

This will result in a lower import bill for Irish producers / increase in imports from these countries.

2. Exports Dearer

Price of exports from Ireland to US / UK / Japan etc. will increase and therefore become more difficult to sell. This may result in reduced exports to these countries.

3. Tourism into Ireland suffers

Fewer foreign visitors will holiday in Ireland because it is more expensive for foreign people to buy euro currency. It may also result in more Irish people holidaying in those countries as it is now cheaper.

4. Employment

With a reduction in exports, employment in Ireland will decrease in those industries which rely on such exports.

5. Slowdown in rate of economic growth

With the loss of jobs, spending within the economy falls. Expenditure by the government on social welfare increases. Combined these will negatively impact on the rate of economic growth.

6. Foreign investment in Ireland discouraged

It will be more costly for firms from these countries to purchase capital goods/invest in Ireland. Investment by Irish companies abroad may be encouraged as it becomes cheaper to do so.

5 points at 5 marks (2+3) each

- (c) 'Exporting businesses need to become the engine of economic growth.'
(Statement of Strategy 2011-2014, Department of Jobs, Enterprise and Innovation)

Discuss the key challenges for Irish businesses on international markets. (20)

1. Finding new markets

It is very hard for Irish firms to break into new markets such as Russia and China. The government could and does help by developing trade links and undertaking trade missions. They could also help these firms research new markets.

2. Global Recession

Even if Irish firms could find new markets abroad, demand in the markets they are selling into has fallen which means consumers in other countries won't buy as much of our exports.

3. Difficulty accessing credit

Irish firms will find it difficult to grow and expand into foreign markets if they can't get credit from banks to fund expansion or even access overdraft facilities while they wait for payments to be made.

2013 Continued

4. Competitiveness

Even though costs of production have fallen in the Irish economy for the last number of years, Irish goods may not be as competitive abroad as goods from other countries. Some of the new EU countries can produce goods cheaper than we can. This will hinder our ability to sell our goods on international markets.

5. Exchange rate

If the Euro rises in value relative to our trading partners our exports will be dearer in countries like the US, UK and China which presents challenges for Irish firms trying to compete abroad.

6. Keep bureaucracy to a minimum

If Governments in other countries remove any unnecessary bureaucracy and 'red tape' it would be easier and faster for Irish firms to develop new markets and products abroad.

7. Education and skills

Some multinational companies have been critical of the Irish education system and our emphasis on rote learning. This may result in a workforce that does not have the problem solving skills of other workforces that can be more innovative in creating goods/services. Also our ability to re-train the pool of workers available will be crucial to our future success.

8. Transport costs

As Ireland is an island nation transport costs can be significant when exporting goods from Ireland and must be incorporated into the final price. A rise in world oil prices means that Irish producers face a rising transport bill over which they have no control.

9. Language skills

Some multinational companies such as Intel have stated that we should improve our language skills such as Chinese so that we can take better advantage of emerging markets in Asia.

4 points at 5 marks (2+3) each

2012 Q7

(a) The table below illustrates the Law of Comparative Advantage.

| <i>Country</i> | Output (production per worker per week) | |
|-----------------------|---|-----------------|
| | Food | Clothing |
| United Kingdom | 40 units | 10 units |
| China | 60 units | 20 units |
| Total Output | 100 units | 30 units |

- (i) State the *Law of Comparative Advantage*.
(ii) Explain how both countries benefit from international trade in the above example.
(iii) Calculate the terms of trade for both goods. Show your workings. (30)

(i) Law of Comparative Advantage

The law states that a country should specialise in the production of those goods and services in which it is relatively most efficient / has the greatest comparative advantage and trade for the remainder of its requirements.

10 (6+4) marks.

(ii) Explain how both countries benefit from trade in the above example.

Option 1

If the student assumes that there are only 2 countries in the world and interprets the question as saying how the world will benefit from trade.

- With specialisation the output of clothing has increased by 10 units or **33.33%**.
- The output of Food has decreased by 20 units or **20 %**
- Therefore since the increase in the output of clothing of $33\frac{1}{3}\%$ is greater than the decrease in the output of food of 20%: the world is better off.

8 (3+3+2) marks.

2012 Continued**Option 2****The student answers part (ii) independently of answering part (iii)****UK**

For each unit of Clothing which the UK imports, provided the UK gives China less than what it would have taken themselves to produce these clothes i.e. less than 4 units of Food, then the UK benefits from trade.

China

For each item of Food which China imports, provided China gives the UK less than what it would have taken them to produce this Food i.e. less than 0.33 units of Clothing, then China benefits from trade.

Option 3**The student answers part (iii) of the question first and then answers part (ii) using the info obtained.**

If the UK can get more than **0.25 of a unit of clothing** for each 1 unit of food which it exports then it benefits from trade.

If China can get more than **3 units of food** for each 1 unit of clothing which it exports then it benefits from trade.

8 marks

- (iii) Calculate the **terms of trade** for both goods. Show your workings.

UK

| | | |
|--------------------|-------------------------------|------------------------|
| 1 unit of Food | is the equivalent of / equals | 0.25 units of clothing |
| 1 unit of Clothing | is the equivalent of / equals | 4 units of food |

China

| | | |
|--------------------|-------------------------------|------------------------|
| 1 unit of Food | is the equivalent of / equals | 0.33 units of clothing |
| 1 item of Clothing | is the equivalent of / equals | 3 units of food |

So the possible terms of trade for

FOOD: lies between 0.25 units of clothing and 0.3 units of clothing.
 CLOTHING: lies between 4 units of food and 3 units of food.

4 at 3 marks.

2012 Continued

- (b) (i) Discuss **three** economic factors which affect the competitiveness of Irish firms in international trade.
- (ii) Outline how international trade benefits Irish consumers. (25)

1. Irish inflation rates v. that of competitors

- If the level of inflation is lower in Ireland than in the firm's export markets then the firm's goods have a price advantage.

2. Value of the Euro v. that of other currencies

- If the value of the euro rises against that of other currencies then the price of that firm's exports will rise.
- In the recent past the euro fell against both the dollar and sterling making exports to these countries cheaper / imports from these countries dearer.

3. Transport costs

- As Ireland is an island nation transport costs can be significant when exporting goods from Ireland and must be included into the final price.
- Transport costs are rising: toll charges; fuel prices.
- The rise in world oil prices has meant that Irish producers face a rising transport bill.

4. Labour Market - Costs

- If labour costs in Ireland rise above that in export markets, then these additional costs must be borne by the final consumer and this increases the price of the exports.
- Industry representatives have stated that Ireland must limit wage increases so as to maintain international competitiveness / lower wages rates in the public sector.
- The introduction of the minimum wage rate has increased labour costs

5. Government policies which affect a firm's cost structure

- Any actions by the government or EU imposing further requirements on industry which have cost implications for firms will have the effect of making exports less competitive.
- Examples include increasing rates of VAT, additional regulations in the market.

6. Costs of production

- Many firms have expressed concern about the cost of utilities i.e. waste disposal; water provision.
- These cost increases force prices up and this makes exports less competitive.
- With rising oil prices energy costs rise leading to reduced competitiveness.

3 at 5 marks each.

2012 Continued

(ii) Outline how international trade benefits Irish consumers.

1. Greater choice of commodities / Commodities not produced in Ireland

- Trade allows us benefit from a greater variety of goods and services than would be available without trade.
- Ireland lacks some essential raw materials for production and trade allows us to import these and produce commodities in Ireland.

2. More competitive prices

- Trade results in greater competition on the market which should lead to more competitive prices for Irish consumers.
- With trade companies may expand production and thus may benefit from economies of scale. These savings may be passed onto the consumers in the form of lower prices.

3. Innovation

- To attract customers companies may invest heavily in product design and innovation. Consumers will benefit through the availability of up-to-date products i.e. Apple iPad.

2 at 5 marks each.

- (c) ‘Euro area growth is forecast to slow down from 1.6% in 2011 to 0.2% in 2012’. (OECD, 2011)
Discuss the possible effects on the Irish economy of the slowdown in the growth rate in the euro area.
(20)

1. Exports

With declining incomes within the euro area the demand for Irish exports will fall.

2. Employment

If demand for Irish exports fall then there will be job losses and unemployment will rise.

3. Standard of living

With declining incomes and rising unemployment our standard of living will fall.

4. Government Finances

With declining economic activity the revenue collected by the government will decline. As unemployment rises the expenditure on social welfare will increase.

5. Emigration

Due to the rise in unemployment in Ireland and the slowdown in economic growth the level of emigration from Ireland may increase.

6. Reduced FDI

With declining demand foreign companies may lack the incentive / funds necessary to expand. This may cause foreign direct investment into Ireland to decline.

7. Imports

If demand for Irish exports falls then production will fall and this may lead to a fall in demand for imports.

8. Interest rate reduction

In an effort to stimulate economic growth the ECB may reduce interest rates.

4 at 5 marks each.

2010 Q7

- (a) *Many believe that export-led growth is the way forward for the recovery of the Irish economy.*
- (i) Explain why international trade is essential for the Irish economy.
 - (ii) Discuss **three** measures which the Irish government could take to improve the competitiveness of Irish-based firms in international markets (30 marks)

- (i) Explain why international trade is essential for the Irish economy.

1. Greater standard of living / increased wealth.

Trade increases wealth / GNP and this allows the purchase of a greater quantity of goods and services.

2. Greater choice of commodities / Commodities we are unable to produce.

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

3. More competitive prices of goods and services.

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

4. Employment / Investment opportunities.

Efficient production means that employment in these industries is more secure. Employment will be created in those industries which are expanding due to the benefits of trade. A healthy trading economy generates confidence in the economy and investment is thus encouraged.

5. Companies benefit from economies of large scale production

With trade, specialisation will take place. Companies will increase production and may benefit from economies of scale. These savings may be passed onto consumers in the form of lower prices and/or greater innovation.

6. Allows for the sale of surplus/ excess domestic output.

If a company is competitive then it has the opportunity to sell that output, which it doesn't/can't sell domestically, on the international market. The Irish domestic market is small.

7. More efficient use of scarce world resources.

By specialising in production countries maximise their combined outputs and thus resources are allocated more efficiently, resulting in less wastage.

8. Lack of domestic demand.

Due to the current economic recession domestic demand has fallen, leading to Irish firms exporting their goods/services.

3 points at 5 marks each.

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

2010 Continued

(ii) Discuss **three** measures which the Irish government could take to improve the competitiveness of Irish-based firms in international markets

1. Reduce the national minimum wage / wage restraint.

Employers would be able to get cheaper labour and therefore reduce costs.

By negotiation the government could reach agreement with the social partners to limit pay rises

2. Reduce utility charges.

A reduction in costs for electricity, gas, postage, waste charges, professional service charges etc. or any state services provided for firms would help reduce their costs of production.

3. Reduce taxation.

A decrease in indirect taxes such as VAT or excise duty on fuel or raw materials will automatically reduce costs to firms.

A decrease in the rate of CPT.

4. Reduce bureaucracy.

Eliminate restrictions and paper work; remove requirements put on businesses by the state and the costs of administrative work would be reduced.

5. Subsidies / grants to firms.

By reducing the rate of employers' PRSI, it becomes cheaper to employ labour.

By subsidising training costs / export credit insurance a firm's costs may decrease and make it more competitive/Grants to foster innovation and R&D in firms.

6. Develop the infrastructure.

Lack of broadband and poor infrastructure in some areas increases costs for firms. By improving the infrastructure it is faster and therefore cheaper to move goods and services around and between countries.

7. Ease credit availability

Continued government action is required to ensure that credit is made available by banks. A firm can continue to exist and so employment is maintained. With the availability of cash they can pay day-to-day expenses and thus avail of discounts, reducing costs.

8. Fund skills development.

The government can fund programmes which help develop skills which are needed by firms. This ensures availability of a skilled workforce which makes workers efficient and helps reduce the costs of firms. Targeted education funding to meet future skills needs of the growth sectors.

3 at 5 marks each.

State: 2 marks. Explain: 3 marks.

2010 Continued

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

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

High population growth rates in less developed countries LDCs.

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

Famine in LDCs.

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

High foreign debts.

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

More uneven distribution of wealth in LDCs

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

Over-dependence on one crop in LDCs.

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

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

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

Unfavourable Terms of Trade for LDCs.

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

Poor infrastructure in LDCs.

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

Lack of capital / Low levels of investment in LDCs.

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

Low per capita incomes in LDCs.

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

Poor levels of education/literacy in LDCs.

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

Political corruption / less stable political institutions.

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

Exploitation by multinationals of LDCs.

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

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

2010 Continued

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

1. Assist foreign aid programmes / capital provision.

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

2. Restructure their national debts.

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

3. Improve trading opportunities.

Improve access to markets in the developed world/outlet for their exports. Improve the terms of trade available/higher prices for their exports.

4. Encourage multinationals to set up firms there.

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

5. Assist LDCs with skills / technologies.

The provision of skills / technologies to the LDCs would help with improving standards of living, increase productive capacity.

6. Assist peace measures and promote political stability.

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

3 at 5 marks each.

State: 2 marks. Explain: 3 marks.

2010 Continued

- (c) Write a brief account on the role of the International Monetary Fund (IMF) **or** the World Bank in the world economy. (15 marks)

The International Monetary Fund

Expansion of World Trade

The IMF encourages expansion in trade by encouraging member countries to adopt sound economic policies.

It monitors economic and financial developments in member countries and gives advice to its members.

Promote exchange rate stability.

The IMF promotes international monetary co-operation. It provides a forum for consultation on international monetary problems. It tries to maintain orderly exchange arrangements among countries and aims to avoid competitive devaluations.

Orderly correction of balance of payments problems.

The IMF lends to member countries with balance of payments problems to provide temporary financing and to support reform policies aimed at correcting the underlying problems.

Operation of a multilateral system of payments.

The IMF operates this system in respect of current transactions between members and aims to eliminate foreign exchange restrictions which may hamper the growth of world trade.

Provision of technical assistance and training.

Where a member needs help the IMF will provide this assistance and training. When the Soviet Union collapsed the IMF stepped in and set up treasury systems for their central banks to help the transition from centrally planned to market based economic systems.

The World Bank

Encourage investment funds to LDCs

Obtains funds from world's advanced countries and uses these resources to provide loans to LDCs so they can invest in roads, schools etc.

Finance capital projects in member countries.

The World Bank gives loans to member states and to private businesses in these countries to assist capital projects.

Examples in Ireland in the past included the building of the original community schools by the DES.

Debt relief for LDCs

The World Bank helps LDCs reduce their debt burden by extending the term of loans and /or re-negotiating interest rates.

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

2009 Q4 (c)

(c) Outline how the recent tightening (reduction) in the availability of credit may affect:

(i) The Irish Motor Industry:

- **Decreased demand for cars.**

It is more difficult for customers to avail of credit in order to purchase cars. This has led to a fall in the demand for both new and second-hand cars.

- **Increased redundancies**

With less demand for cars the numbers of people employed in the sale of cars has declined.

- **Business Closures/Consolidations**

Many small independent car dealerships can not survive and close.

Inability to get credit may result in cash flow problems for the firms, inability to pay suppliers and possible closure.

(ii) Inflation:

- **Inflation will decrease**

The supply of money/credit will fall causing a decrease in the spending power of individuals. This fall will lead to a reduction in demand-pull inflation.

- **Deflation**

The price of goods and services will fall due to falling demand and costs of production.

(iii) Ireland's Balance of Payments:

- **Imports decrease**

If there is a reduction in the demand for goods and services then we can assume that there will be an automatic fall in the demand for imports.

OR

- **Imports Increase**

Consumers with a lower spending power may switch consumption to cheaper imported substitute goods.

OR

- **Exports Decrease**

Business will not be able to avail of credit in order to expand their business. This fall in investment may lead to a decrease in exports.

The credit crunch on international markets may reduce aggregate demand resulting in reduced demand for goods produced in Ireland on export markets.

20 marks graded

2009 Q7

(a) The Law of Comparative Advantage suggests that specialisation will increase world output.

(i) Explain the meaning of the underlined term in the context of international trade.

Where one country is more efficient than another in the production of a particular commodity it should produce that commodity, as this will be to the benefit of the country itself and overall world output

Explanation @ 6 marks graded

(ii) Identify the main assumptions underlying this law.

1. Transport costs do not exist

The LOCA assumes that transport costs do not exist. However, for an island nation like Ireland, transport costs can be a major cost factor and can act as a major barrier to trade. A firm's cost efficiencies may be eliminated by the transport costs involved.

2. The law of diminishing marginal returns (LDMR) does not apply

The LOCA assumes that the LDMR does not apply/assumes constant returns to scale. But this law does apply. Each extra person employed will not continue to produce the same amount as the original person. A point will eventually be reached when an extra person employed will produce less additional output.

3. Free trade takes place

The LOCA assumes that free trade takes place. While this may be true within the EU, free trade is often limited where countries impose barriers to trade for economic, social or cultural, moral reasons.

4. The complete mobility of labour/factors of production exists

We have assumed that the person who becomes unemployed in each country as a result of specialisation occurring can switch to an alternative job and that there are no barriers to mobility. This is not always the case as there are barriers to the complete mobility of labour.

5. Alternative employment is available

It is assumed that people who become unemployed in one sector arising from specialisation can find alternative employment. This may not be the case. Consider countries during a recession the availability of employment is very difficult/ huge adjustment costs in the transition.

6. An equal distribution of benefits occurs

When we calculate the terms of trade we assume that both countries benefit from trade. Consider a developing country – sometimes the terms of trade may not be to its advantage. It may receive very low export prices and have to pay high import prices. Hence, their bargaining position is weak and they may not benefit from trade to the extent that developed more powerful countries do.

4 points @ 4 marks each graded

2009 Q7 Continued

(iii) Identify **two** sources of comparative advantage for the Irish economy.

1. **Climate:** our climate is suitable for the production of crops like potatoes, grazing for livestock.
2. **Raw Materials:** for example Moss Peat, blanket bogs provide the raw material which is scarce in other countries.
3. **Educated and skilled workforce:** companies locate here without incurring exorbitant training costs. the workforce has developed specific skills in production/services over a period of time e.g. ICT, food production, pharmaceutical companies
4. **Low rate of CPT:** this means that the costs of operation may be more competitive in Ireland than in other countries.

2 sources @ 4 marks each graded

(b) Ireland is a small open economy which relies very heavily on international trade.

(i) Discuss the importance of international trade to the Irish economy.

1. **Greater standard of living / increased wealth.**

Trade increases wealth / GNP and this allows the purchase of a greater quantity of goods and services.

2. **Greater choice of commodities / Commodities not produced in Ireland.**

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

3. **More competitive prices of goods and services.**

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

4. **Employment / Investment opportunities.**

Efficient production means that employment in these industries is more secure. Employment will be created in those industries which are expanding due to the benefits of trade. A healthy trading economy generates confidence in the economy and investment is thus encouraged.

5. **Companies benefit from economies of large scale production**

With trade, specialisation can take place. Companies will increase production and thus may benefit from economies of scale. These savings may be passed onto the consumers in the form of lower prices and/or greater innovation.

6. **Allows for the sale of surplus/ excess domestic output.**

If a company is competitive then it has the opportunity to sell on the international market that output which it doesn't/can't sell domestically. The Irish domestic market is small.

7. **More efficient use of scarce world resources.**

By specialising in production countries maximise their combined outputs and thus resources are allocated more efficiently, resulting in less wastage.

3 points @ 5 marks each graded

2009 Q7 Continued

(ii) Are there any economic justification for a government intervening in order to restrict international trade? Outline reasons for your answer.

1. To create/protect employment.

By discouraging competitive imports the government can help stimulate domestic employment.

2. Protect infant industry.

New business may find it difficult to compete against foreign competition in their early years. These industries can be protected until they are capable of competing with foreign firms.

3. Strategic purposes.

An entire industry such as beef production may need to be protected, otherwise it would be unable to compete with cheap foreign competition. Protection may also ensure continuity of supply.

4. To increase government revenue.

Increased revenue may be raised from tariffs to help fund state services.

5. Protect against low wage competition.

High wage economies may introduce protective measures in order to protect their producers from what is deemed unfair low wage economies.

6. Retain wealth within the country / protect the Balance of Payments.

By reducing the amount spent on imports the government could reduce the level of wealth leaving the country/ protection against recurring BoP deficits.

7. Prevent 'dumping'.

Barriers will stop other firms from 'dumping' and so stop their ability to undermine domestic firms, which may result in their closure.

8. Protect the country.

In the past it was necessary for Ireland to impose strict regulations governing the importation of agricultural commodities so as to protect the country from foot and mouth disease and so protect this vital industry.

3 points @ 5 marks each graded

(c) Write a brief note on David Ricardo's contribution to economic thought.

Law of Comparative Costs

Ricardo supported the idea of free trade and developed the law of comparative costs which states that a country should specialise in the production of those commodities in which it is relatively most efficient and trade for the remainder of its requirements.

Theory of Economic Rent

If population increased it was necessary to use inferior / more remote land. For use of this land rent was paid. As a result the price of food rose. Cost of producing on the best land was lower therefore food produced on this land earned a surplus over that produced on inferior land. This surplus led to an increase in rent payable for the use of good land.

Accepted the Subsistence Wages Theory

He believed that any increase in wages above the subsistence level would cause an increase in population which would in turn cause wage levels to fall.

15 marks graded

2008 Q5

- (a) (i) State the Law of Comparative Advantage.
 (ii) Explain how both countries benefit from trade in the above example
 (iii) Calculate the terms of trade for both goods. (Show all your workings) (30 marks)

Law of Comparative Advantage

The law states that a country should specialise in the production of those goods and services in which it is relatively most efficient and trade for the remainder of its requirements.

10 marks graded.

- (ii) Explain how both countries benefit from trade in the above example

Option 1

A candidate may have assumed that there are only 2 countries in the world and interprets the question as saying how the world will benefit from trade.

(In world terms 1 item of Clothing = $(30/70)$ $3/7$ of a TV or 1 TV = $(70/30)$ $2\frac{1}{2}$ items of clothing)

- With specialisation the output of clothing has decreased by 10 units or **14.3%**.
- The output of TV's has risen by 10, or **33 $\frac{1}{3}$ %**
- Therefore since the increase in output of TV's of 33 $\frac{1}{3}$ % is greater than the decrease in output of clothing of 14.3%: the world is better off.

Option 2**South Korea**

For each TV which South Korea imports, provided it gives Japan less than what it would have taken itself to produce this TV i.e. less than 3 items of clothing, then South Korea benefits from trade.

China

For each item of clothing which China imports, provided it gives South Korea less than what it would have taken itself to produce this clothing i.e. less than $\frac{1}{2}$ TV, then China benefits from trade.

Option 3

If South Korea can get more than **1/3 of a TV** for each **1 item of clothing** which it exports then it benefits from trade.

If China can get more than **2 items of clothing** for each **TV** which it exports then it benefits from trade.

8 marks graded.

2008 Continued

- (iii) Calculate the terms of trade for both goods. (Show all your workings)

Terms of Trade**South Korea**

$$\begin{aligned} 30 \text{ tonnes of clothing} &= 10 \text{ TV's} \\ 1 \text{ tonne of clothing} &= \frac{1}{3} \text{ TV (opportunity cost)} \end{aligned}$$

China

$$\begin{aligned} 40 \text{ tonnes of clothing} &= 20 \text{ TV's} \\ 1 \text{ tonne of clothing} &= \frac{1}{2} \text{ TV (opportunity cost)} \end{aligned}$$

$$\boxed{\frac{1}{3} \text{ TV} < 1 \text{ Clothing} < \frac{1}{2} \text{ TV}}$$

South Korea

$$\begin{aligned} 30 \text{ tonnes of clothing} &= 10 \text{ TV's} \\ 3 \text{ tonnes of clothing} &= 1 \text{ TV (opportunity cost)} \end{aligned}$$

China

$$\begin{aligned} 40 \text{ tonnes of clothing} &= 20 \text{ TV's} \\ 2 \text{ tonnes of clothing} &= 1 \text{ TV (opportunity cost)} \end{aligned}$$

$$\boxed{2 \text{ Clothing} < 1 \text{ TV} < 3 \text{ Clothing}}$$

12 marks graded.

- (b) Discuss the economic consequences of a decrease in the value of the US dollar (\$) relative to the euro (€) for the Irish economy. (20 marks)

1. Imports Cheaper

Price of imports from US has decreased.

This has resulted in a lower import bill for Irish producers / increase in imports from the US / more Irish people holidaying in the US.

2. Exports Dearer

Price of exports from Ireland to US has increased and therefore harder to sell.

This has resulted in reduced exports to the US / less Americans visiting Ireland.

3. Employment

With a reduction in exports, employment in those industries which depend on Irish exports to the US will suffer e.g. Waterford Glass PLC.

4. Slowdown in rate of economic growth

With the loss of jobs, spending within the economy falls. Expenditure by the government on social welfare increases. Combined these will negatively impact on the rate of economic growth.

5. Commodities priced in \$s

The strength of the €/€ has shielded Ireland from price increases in commodities which are priced in \$ e.g. oil.

6. US Investment in Ireland Discouraged

It will be more costly for US firms to purchase capital goods/invest in Ireland.

4 points at 5 marks each graded.

2008 Continued

- (c) It is becoming more difficult to attract Foreign Direct Investment (multinational companies) into Ireland. Discuss the economic reasons for this development. (25 marks)

1. Lower wage costs outside Ireland

- Businesses have stated that labour costs in Ireland are prohibitive and cite the introduction of the minimum wage rate, the existence of social partnership etc. as factors that have led to these higher wage costs.
- Labour costs in Eastern Europe and Asia are more competitive.

2. Rising costs of Production

- Many firms have voiced concerns about increasing costs such as insurance, refuse charges, energy costs, the high costs of available land for expansion and development etc.
- These costs increases make exports less competitive.

3. Infrastructural problems

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

4. Assessment of new EU member states

- Since May 2004 many new countries joined the EU and these countries now offer companies access to the EU market/availability of cheaper labour/access to new markets/room to expand etc. Hence they have become an attractive location for mobile industry.

5. Regulatory Framework

- Actions by the central government, local government or the EU have placed further requirements on industry. These actions impose a stricter regulatory framework for firms to operate.
- By moving to Eastern Europe and Asia regulations may be less strict making it easier for companies to operate e.g. protection of the environment may face less protection.

6. Advances in International Communication

- Advances in global communications have made it possible for firms to locate offices in other places and still carry out their business. They can now do so at lower unit costs and thereby increase their profits. An example of businesses which have re-located are international call centres e.g. credit card companies/insurance companies.

5 points at 5 marks each graded.

2007 Q7

(a) The Balance of Payments is made up of the **Current Account** and the **Capital Account**.

Explain each of the underlined terms.

Include details of the main components of each account in your explanations.

(30 marks)

Balance of Payments

| Current Account | Capital Account. |
|---|--|
| 20 marks graded. | 10 marks graded. |
| <p>This shows the receipts and payments for visible and invisible trade over a period of time.</p> <p style="text-align: center;">or</p> <p>This shows the difference between total exports and total imports</p> | <p>This shows a country's receipts and payments for capital items over a period of time.</p> <p style="text-align: center;">or</p> <p>This is a record of a country's inflow and outflow of capital / items of a non-recurring nature</p> |
| Details of the main components | Details of the main components |
| <p>1. <u>Visible Trade / Balance of Trade:</u></p> <ul style="list-style-type: none"> • Visible exports less Visible imports • Trade in goods <p>2. <u>Invisible Trade:</u></p> <ul style="list-style-type: none"> • Invisible exports less Invisible imports • Trade in services | <p>1) Investments by foreign companies/individuals in Ireland.</p> <p>2) Investments by Irish companies / individuals abroad.</p> <p>3) Borrowings / grants from foreign sources.</p> <p>4) Grants / loans to foreign recipients.</p> |
| | <p style="text-align: center;">or</p> <p style="text-align: center;"><u>Capital account</u></p> <ul style="list-style-type: none"> • Amounts receivable under the EU Regional Development Fund & Cohesion Fund. • Migrants transfers (net worth of immigrants / emigrants) • Acquisitions and disposals of non-produced, non-financial assets (patents, copyrights) <p style="text-align: center;"><u>Financial account</u></p> <ul style="list-style-type: none"> • Transactions in foreign financial assets and foreign liabilities. • Direct investment i.e. net investment by foreign companies in Ireland. • Portfolio investment: acquisition & disposal of equity and debt. • Other investment: loans, currency & deposits, financial derivatives & other accounts receivable and payable. • Reserve assets: qualifying assets under the control of the Central Bank of Ireland |

2007 Continued

- (b) Suppose the euro (€) increases in value relative to the American dollar (\$) and sterling (£). Outline the likely effects this increase would have on any **THREE** components of the Balance of Payments, which you listed in answering (a) above. [At least one component should be from the Capital Account]. (25 marks)

Effects of increase in value of euro (€) relative to the American dollar (\$) and sterling (£)

| Current Account | Capital Account. |
|---|---|
| <p>Export prices increase (visible / invisible). Demand for Irish exports may fall. Less foreign revenue earned from exports to US / UK.</p> <p>Import prices decrease (visible / invisible). Demand for imports from US & UK may rise. More euros paid out for imports from US / UK.</p> | <p>Real value of money invested abroad is greater: May result in greater capital outflows.</p> <p>Real value of money from abroad invested in Ireland is reduced: May result in reduced capital inflows.</p> <p>Irish borrowing abroad is more attractive. May result in increased foreign borrowing.</p> <p>Foreign investment in Ireland is less attractive. May result in reduced foreign investment in Ireland.</p> |

Must have a minimum of ONE effect on the Capital account.

25 marks graded.

2007 Continued

- (c) The enlargement of the European Union (EU) continues with the addition of Bulgaria and Romania in January 2007. There are now 27 member states.
Discuss **FOUR** economic consequences for the Irish economy, of the EU enlargement process. (20 marks)

| Positive consequences | Negative consequences |
|---|---|
| <p>1. Larger market Resulting in increased sales opportunities for Irish firms. Irish consumers now have the opportunity to avail of a larger variety of goods/services.</p> | <p>1. Lower costs of production Firms in the new member states have lower costs of production making it difficult for Irish firms to compete with.</p> |
| <p>2. Profitable Investment opportunities Irish firms may see that their profits could increase if they made investments in the new member countries.</p> | <p>2. Increased competition Due to the higher cost base facing Irish firms, Irish consumers may travel to avail of cheaper services resulting in reduced demand for Irish firms e.g dental / health services.</p> |
| <p>3. Source of Labour / New Skills Irish firms may be able to meet their labour shortages by employing citizens from these countries / new skills may also be available.</p> | <p>3. Decline in funds for investment in Ireland Irish citizens may invest in the new member states resulting in less funds being available for investment at home.</p> |
| <p>4. Wage demands moderate If labour from these countries becomes available to Irish firms this may ease the pressure on labour shortages and to a possible moderation in wage demands within Ireland.</p> | <p>4. Agriculture As more of EU funds will be needed in new states to develop their agriculture this may result in less funds being available for Irish Agriculture.</p> |
| <p>5. Educational opportunities With new members, Irish third level students now have the opportunity to pursue part of their studies in these countries – strengthening their opportunities for learning.</p> | <p>5. Irish firms become more peripheral Ireland as one of the few EU member states not connected by land, the transport costs involved in trade act as a further deterrent to trade.</p> |
| <p>6. Expansion of Trade Enlargement means greater peace within the EU. This reduces uncertainty which may encourage greater trade, resulting in economic growth and a growth in international trade.</p> | <p>6. EU structural funds The new members will require a greater proportion of these funds to develop their economies thereby reducing the funds available for existing members, including Ireland or as the EU requires greater finance it may be necessary for Ireland to become a net contributor to the EU</p> |
| | <p>7. Pressure on state's infrastructure Given that the new members have higher unemployment rates than Ireland we can expect an increase in immigration. This may put increased pressure on the state's infrastructure i.e. the health and education sectors.</p> |

4 points at 5 marks each graded.

2006 Q6

- (a) (i) Explain why international trade is essential for the Irish economy.
(ii) Has Ireland, in recent years, tended to have a surplus or a deficit on the Balance of Payments Current Account? Outline the economic consequences of this situation. (30 marks)

- (i) Explain why international trade is essential for the Irish economy

1. Greater standard of living / increased wealth

Trade increases wealth / GNP and this allows the purchase of a greater quantity of goods and services.

2. Greater choice of commodities / Commodities we are unable to produce.

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

3. More competitive prices of goods and services.

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

4. Employment / Investment opportunities.

Efficient production means that employment in these industries is more secure. Employment will be created in those industries which are expanding due to the benefits of trade.

A healthy trading economy generates confidence in the economy and investment is thus encouraged.

5. Companies benefit from economies of large scale production

With trade specialisation will take place. Companies will increase production and may benefit from economies of scale. These savings may be passed onto consumers in the form of lower prices and/or greater innovation.

6. Allows for the sale of surplus/ excess domestic output.

If a company is competitive then it has the opportunity to sell that output which it doesn't/can't sell domestically on the international market. The Irish domestic market is small.

7. More efficient use of scarce world resources.

By specialising in production countries maximise their combined outputs and thus resources are allocated more efficiently, resulting in less wastage.

Marking scheme: 20 marks
4 points at 5 marks each graded.

2006 Continued

- (ii) Has Ireland, in recent years, tended to have a surplus or a deficit on the Balance of Payments Current Account? Outline the economic consequences of this situation.

Ireland's Balance of Payments has a **Deficit** balance.

4 marks

Economic consequences of a Balance of Payments Deficit

1) Income leakage from the economy.

As imports are a leakage from the circular flow of income the multiplier is reduced in size and so national income falls.

2) Reduction in our external reserves.

If our external reserves are used to finance this deficit then we reduce our ability to make international payments.

3) Increased foreign borrowing

If borrowing is used to finance this deficit our national debt will increase placing a greater burden on taxpayers.

4) Job losses

If imports are bought in preference to domestically produced goods it may result in job losses in those domestic industries forced to rationalise.

2 points at 3 marks each graded.

- (b) State and explain how **imports** into the Euro-zone would be affected by each of the following developments:
- (i) the US dollar **rises** in value against the euro.
 - (ii) employment within the Euro-zone **increases**. (20 marks)

Effects on imports into euro-zone countries

| | Statement | Explanation |
|---|-----------------------------|--|
| US dollar rises in value against the euro | Imports will Decrease | <u>Imports from the US are now more expensive</u> hence imports from the US may fall |
| 10 marks graded | | |
| Employment within euro zone countries increases | Imports will Increase | With higher incomes, euro zone citizens can now afford to buy more goods and services As employment increases demand for capital goods and raw materials will increase and this may result in greater imports. |
| 10 marks graded | | |

2006 Continued

- (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 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.**

2005 Q5

- (a) Explain the following terms:
- Balance of Trade;
 - Balance of Payments on Capital Account;
 - Terms of Trade.

(25 marks)

Balance of Trade - 8 marks graded

- Is the difference between visible exports and visible Imports.

Balance of Payments on Capital Account – 8 marks graded

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

Terms of Trade - 9 marks graded

- The ratio between the average price of exports and the average price of imports.
- The amount of imports that can be bought per unit of exports.
- $\frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$

(b)

| Country | Output (production per worker per week) | |
|---------------------|--|-----------|
| | MACHINES | CARS |
| SPAIN | 20 | 5 |
| JAPAN | 40 | 15 |
| Total Output | 60 | 20 |

- (i) Explain how benefits for both countries arise from international trade, in the above example.

In world terms 1 Car = $(60/20)$ 3 machines, or 1 machine = $(20/60)$ $\frac{1}{3}$ car.

- With specialisation the output of machinery has decreased by 20 units or **33 $\frac{1}{3}$ %**.
- If the world is to be better off with trade the output of cars must rise by a minimum of $(20/3)$ 6.67 cars.
- The output of cars has risen by 10 **(50%)**
- Therefore since the \uparrow in 50% is greater than the \downarrow 33 $\frac{1}{3}$ % : the world is better off.

7 marks graded

- (ii) Calculate the Total Output when specialisation takes place. Show your workings. **6 marks – graded.**

| Country | <u>With Specialisation</u> Output (production per worker per week) | |
|---------------------|--|--------------------|
| | MACHINES | CARS |
| SPAIN | $20 \times 2 = 40$ | 0 |
| JAPAN | 0 | $15 \times 2 = 30$ |
| Total Output | 40 | 30 |

2005 Continued

(iii) Calculate the terms of trade for both commodities - **12 marks graded.**

SPAIN

| | | |
|-----------|-------------------------------|------------------------|
| 1 car | is the equivalent of / equals | 4 machines. |
| 1 machine | is the equivalent of / equals | $\frac{1}{4}$ of a car |

JAPAN

| | | |
|-----------|-------------------------------|----------------|
| 1 car | is the equivalent of / equals | 2.67 machines. |
| 1 machine | is the equivalent of / equals | 0.375 of a car |

So the possible terms of trade for

CARS : lie between **4 machines** and **2.67 machines. ($\frac{2}{3}$)**
MACHINES : lie between **$\frac{1}{4}$ of a car** and **0.375 of a car. ($\frac{3}{8}$)**

(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 Continued

(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.

2005 Q7 (c)

- (c) The **euro** is now well established as a currency in Ireland. Discuss the economic effects which the introduction of the euro has had on: Irish consumers; Irish exporters and importers. (25 marks)

| Irish consumers | Irish exporters and importers |
|---|--|
| <p><u>1. Foreign Travel.</u> No foreign exchange costs / no conversion charges apply to those travelling within eurozone countries.</p> | <p><u>1. Exchange risk eliminated.</u> No devaluation or revaluation has taken place resulting in increased certainty in international trade.</p> |
| <p><u>2. Inflation.</u> The introduction of the euro led to inflation within this country in the immediate aftermath of its introduction.</p> | <p><u>2. Easier payment for trading.</u> As no conversion charges apply to trade within the eurozone this facilitates speedier payment.</p> |
| <p><u>3. Price comparisons.</u> Can now be made within all eurozone countries, allowing for greater transparency.</p> | <p><u>3. Lower interest rates.</u> One of the major benefits of the euro has been access to lower competitive interest rates for firms.</p> |
| <p><u>4. Greater choice of financial products.</u> Irish consumers can now choose where to save, borrow, invest and seek insurance thereby facilitating increased competition.</p> | <p><u>4. Cost of imported raw materials / capital goods.</u> These should now be more competitive due to open competition, the absence of currency fluctuations and more transparency in international pricing.</p> |
| <p><u>5. Greater awareness / competition.</u> The euro has resulted in greater awareness as regards prices and Irish consumers can now seek better value for their euro.</p> | <p><u>5. Pressure for domestic competitiveness.</u> Employees are becoming increasingly aware that success as an economy depends on being competitive and this has ensured moderation in wage increases.</p> |
| <p><u>6. Prudent management of the economy.</u> Membership of the euro constrains the government in relation to economic policy and ensures prudent management occurs.</p> | <p><u>6. Increased trade opportunities.</u> Access to EU markets is easier and leads to greater opportunities.</p> |
| <p><u>7. Low interest rates.</u> The lower interest rates since the introduction of the euro have benefited consumers, resulting in increased borrowings.</p> | <p><u>7. Fluctuating value of the euro.</u> Companies whose main market is UK/US, have been affected by the fluctuating value of the euro resulting in a loss of competitiveness.</p> |

Marking: 5 points at 5 marks graded.

2004 Q7

(a) Explain **FOUR** assumptions underlying the Law of Comparative Advantage.

(20 marks)

1. Transport costs do not exist

The LOCA assumes that transport costs do not exist. However for an island nation like Ireland, transport costs can be a major cost factor and can act as a major barrier to trade. A firm's costs efficiency may be eliminated by the transport costs involved.

2. The law of diminishing marginal returns (LDMR) does not apply

The LOCA assumes that the LDMR does not apply. But this law does apply. Hence in the example we've used each extra person employed will not continue to produce the same amount as the original person. A point will eventually be reached when an extra person employed will produce less additional output.

3. Free trade takes place

The LOCA assumes that free trade actually takes place. While this may be true within the EU, free trade is often limited where countries impose barriers to trade for economic, social or cultural, moral reasons.

4. The complete mobility of labour/factors of production exists

In the example used we've assumed that the person who becomes unemployed in each country as a result of specialisation occurring can switch to an alternative job and that there are no barriers to mobility. This is not always the case as there are barriers to the complete mobility of labour.

5. Alternative employment is available

It is assumed that people who become unemployed in one sector arising from specialisation can find alternative employment. This may not be the case. Consider countries during a recession the availability of employment is very difficult.

6. An equal distribution of benefits occurs

When we calculated the terms of trade we assumed that both countries benefit from trade. Consider any developing country – sometimes the terms of trade may not be to their advantage. They may get very low export prices and have to pay high import prices. Hence their bargaining position is weak and they may not benefit from trade as do developed (more powerful) countries.

7. Miscellaneous reasons: strategic reasons for avoiding complete specialisation; limited resources ; innate skills within a country.

Some countries may not want to specialise but prefer to be as self sufficient as possible. A country may possess very limited resources curtailing their ability to specialise. A country may possess innate talents, which allows it great advantages in the production of certain goods.

| |
|---------------------|
| 4 x 5 marks graded. |
|---------------------|

2004 Continued

- (b) Ireland relies heavily on international trade.
Explain **THREE** factors which affect the competitiveness of Irish-based firms in international trade.
Use examples to support your answers. (30 marks)

1. Irish inflation rates v. that of their competitors.

- If the level of inflation is lower in Ireland than in the firm's export markets then the firm's goods are at a price advantage.
- Currently inflation in Ireland is lower than the average rate of inflation within the EU.

2. Value of the Euro v. that of other currencies.

- If the value of the euro rises against that of other currencies then the price of that firm's exports will rise.
- In the recent past the euro rose against both the dollar and sterling making exports to these countries more expensive / imports from these countries cheaper.

3. Transport costs.

- As Ireland is an island nation these costs can be significant when exporting goods from Ireland and must be incorporated into the final price.
- More competitive air transport is helping but road transport costs are rising i.e. toll charges.
- The recent rise in world oil prices has meant that Irish producers face a rising transport bill.

4. Labour Market - Costs.

- If labour costs in Ireland rise above that in export markets, then these additional costs must be borne by the final consumer and this increases the price of the exports.
- IBEC has stated that Ireland must limit wage increases so as to maintain our international competitiveness.
- The introduction of the minimum wage rate has increased labour costs
- the existence of social partnership, industry has operated with industrial peace. If this did not exist, and industrial disputes did occur, then this would increase the costs for Irish industry.
- Social partnership agreements have helped stabilise the increase in prices within the economy

5. Government policies which affect a firm's cost structure indirect taxes / corporations tax / health and safety legislation.

- Any actions by the government or EU which impose further requirements on industry which have cost implications for firms, will have the effect of making exports less competitive.

6. Costs of Production.

- Many firms have voiced concerns about the cost of their insurance premiums. Lack of competition in this area coupled with the costs of meeting compensation claims have resulted in cost increases.
- These cost increases must make exports less competitive.
- Pressure exists on the country's resources and constraints exist on our productive capacity – these are putting pressure on prices to rise within the country (housing) forcing wages up.
- With rising oil prices energy costs rise – reducing competitiveness.

3 x 10 marks graded.

Supporting example must be included with each answer.

2004 Continued

- (c) The enlargement of the European Union (EU) to include many new countries will be economically significant for Ireland.
Outline the main economic opportunities and challenges for the Irish economy following enlargement of the EU. (25 marks)

| <u>Opportunities</u> | <u>Challenges</u> |
|--|--|
| <u>1.Larger market</u> Resulting in increased sales opportunities for Irish firms. Irish consumers now have the opportunity to avail of a larger variety of goods/services. | <u>1. Lower costs of production</u> Firms in the new member states have lower costs of production making it difficult for Irish firms to compete with. |
| <u>2.Profitable Investment opportunities</u> Irish firms may see that their profits could increase if they made investments in the new member countries. | <u>2. Increased competition</u> Due to the higher cost base facing Irish firms, Irish consumers may travel to avail of cheaper services → ↓ demand for Irish firms i.e. dental tourism |
| <u>3.Source of labour / New Skills</u> Irish firms may be able to meet their labour shortages by employing citizens from these countries / new skills may also be available. | <u>3. Decline in funds for investment in Ireland</u> Irish citizens may invest in the new member states resulting in less funds being available for investment at home. |
| <u>4.Wage demands moderate</u> If labour from these countries becomes available to Irish firms this may ease the pressure on labour shortages and to a possible moderation in wage demands within Ireland. | <u>4. Agriculture</u> As more of EU funds will be needed in new states to develop their agriculture this may result in less funds being available for Irish Agriculture. |
| <u>5. Educational opportunities</u> With ten new members Irish third level students now the opportunity to pursue part of their studies in these countries – strengthening the opportunities for learning. | <u>5. Irish firms become more peripheral</u> Ireland as one of the few EU member states not connected by land the transport costs involved in trade act as a further deterrent to trade. |
| <u>6. Expansion of Trade</u> Enlargement means greater peace within the EU. This reduces uncertainty which may encourage greater investment, resulting in economic growth and a growth in international trade. | <u>6. EU structural funds</u> The new members will require a greater proportion of these funds to develop their economies thereby reducing the funds available for existing members, including Ireland or as the EU requires greater finance it may be necessary for Ireland to become a net contributor to the EU |
| | <u>7. Pressure on state's infrastructure</u> Given that the new members have higher unemployment rates than Ireland we can expect an increase in immigration. This may put increased pressure on the state's infrastructure i.e. the health and education sectors. |

Marking Scheme

5 points x 5 marks graded. Minimum of 2 challenges and 2 opportunities required.

2003 Q8

(a) Explain how specialisation and the division of labour promotes globalisation / international trade. (20 marks)

1. Greater efficiency in the allocation of scarce resources.

When countries specialise in producing goods in which they have a comparative advantage, they maximise their combined output and allocate their resources more efficiently.

2. Greater inter-dependence.

A country which specializes is no longer self-sufficient and hence must trade for the remainder of its requirements.

3. Increased wealth, raising aggregate demand.

When specialisation occurs individual countries gain thus increasing wealth and allowing it greater opportunities for engaging in trade / consumers will demand increased choice / variety of commodities.

4. Lower costs and prices.

Specialisation improves efficiency resulting in lower costs and prices. With lower prices for commodities consumers will increase their demand and this leads to more trade.

5. Division of labour.

When labour specialises skills may improve. Labour therefore becomes more mobile thus allowing for greater trade in labour.

6. Economies of scale.

Greater economies of scale may be available when producing a product for a world market that would not be available when producing for a more limited domestic market.

20 marks: 2 points x 10 marks each graded

2003 Q8 Continued

(b) The World Trade Organisation (WTO) aims to reduce trade barriers between countries. (35 marks)

(i) Outline THREE possible economic advantages of free trade. *15 marks graded*

1. Improved standard of living.
2. Greater choice of commodities.
3. More competitive prices.
4. Greater efficiency in the use of scarce world resources.
5. Employment opportunities.
6. Allows specialisation to take place.
7. Allows for the sale of surplus/ excess domestic output.

1. Improved standard of living.

Trade between countries increases the wealth of nations and this allows the purchase of a greater quantity of goods and services.

2. Greater choice of commodities.

Trade between countries allows consumers benefit from a greater variety of goods and services than would be available without trade.

3. More competitive prices of goods and services.

Trade results in greater competition, which should lead to more competitive prices for consumers.

4. Use of scarce world resources.

By specialising in production countries maximise their combined outputs and thus resources are allocated more efficiently.

5. Employment opportunities.

Efficient production means that employment in these industries is more secure. It also means that employment will be created in those industries, which are expanding due to the benefits of trade.

6. Allows specialisation to take place / Companies benefit from economies of large scale production

Free trade ensures that specialisation will take place and countries will thus benefit from the gains resulting from specialisation.

7. Allows for the sale of surplus/ excess domestic output.

If a company is competitive then it has the opportunity to sell that output which it doesn't/can't sell domestically on the international market.

15 marks: 3 points x 5 marks each graded.

2003 Q8 Continued

(ii) Explain THREE economic reasons why countries may impose barriers to restrict trade.

1. Protect indigenous firms / infant industries.
2. Protect domestic employment.
3. Prevent dumping.
4. Prevent imports from 'cheap labour' economies.
5. Protect a declining industry for a period of time.
6. Protect industries/firms susceptible to foreign competition.
7. Safeguard national security.
8. Safeguard the production of strategic goods.

1. Protect indigenous firms / infant industries.

Infant industries may have a difficulty competing with established industries in other countries. By protecting a newly established company it may mature into a strong company worldwide.

2. Protect domestic employment.

Foreign competition may result in job losses. By limiting imports jobs may be protected.

3. Prevent 'dumping'.

Barriers will stop other firms from 'dumping' and so stop their ability to undermine domestic firms, which may result in their closure.

4. Prevent imports from 'cheap labour' economies.

Companies cannot compete with those countries who gain their comparative advantage by paying their workers low wages. Competition from these countries may be considered unfair.

5. Protect a declining industry for a period of time.

In the past some industries have been protected so that their decline can be gradual thus allowing workers retrain and allowing time for sourcing replacement industries.

2003 Q8 Continued**6. Protect industries/firms susceptible to foreign competition.**

Within the EU, agriculture and fishing are seen as important industries. For this reason the EU seeks to protect these industries from external competition.

7. Safeguard National Security.

Recently Ireland imposed strict regulations governing the importation of agricultural commodities so as to protect the country from foot and mouth disease.

8. Safeguard the production of strategic goods.

Countries may wish to ensure that the production of certain commodities, which it deems essential to the operation of the economy, are safeguarded from competition to provide continuity of supply.

12 marks: 3 points x 4 marks each graded

(iii) State and explain TWO methods of restricting free trade.

1. Tariffs.
2. Quotas
3. Embargoes.
4. Administrative barriers.
5. Subsidies to exporters.
6. Exchange Control regulations (non euro-zone).

1. Tariffs.

This is a tax on imported goods. It increases the price of imported goods thus making them less competitive.

2. Quotas

This is a physical limit on the quantity of imports into a country.

3. Embargoes.

This is a total ban on the importation of a commodity into a country.

2003 Q8 Continued**4. Administrative barriers.**

When one country refuses to admit the produce of another country unless they are accompanied by very technical documentation or they meet strict conditions / satisfy very definite specifications.

5. Export subsidies.

Government payments made to domestic firms to encourage exports.

6. Exchange Control regulations (non euro-zone).

A country limits the amount of foreign currencies available to domestic importers so as to limit their purchasing power / ability to buy imports.

8 marks: 2 points x 4 marks each graded.

(c) Adam Smith, author of 'The Wealth of Nations' (1776) explained the reasons for and benefits of free trade. Outline FOUR other areas in which he made contributions to economic thought.

(20 marks)

(i) The pursuit of self-interest

'What best benefited the individual, best benefited the society'.

(ii) Division of Labour

Increased productivity leading to increased wealth in a country. He illustrated his theory with the example of the manufacture of pins.

(iii) The Labour Theory of Value

The value of an item was equal to the amount of labour that went into producing the product.

(iv) 'Invisible hand of competition'

He advocated the operation of a self regulating market, thus ensuring that economic progress was achieved.

2003 Q8 Continued**(v) Perfect Competition**

Adam Smith favoured perfectly competitive markets. This allowed free entry into the market, profits sufficient to reward entrepreneurs, inefficiency penalized and prices based on the cost of production. Monopolies would not persist.

(vi) Laissez-faire

He believed that there was no justification for government intervention in the economy, except for national security such as defence / justice.

(vii) Canons of Taxation

To fund the state's defence/justice systems taxation was necessary and he devised the four principles of a fair tax system: equity, economy, certainty and convenience.

(viii) Paradox of Value

He distinguished between 'value in use' and 'value in exchange'. Some items have a vast utility (air, water) but are not exchanged, while others (diamonds) possess little utility but can command a great value in exchange.

(ix) Protection of property rights

By protecting personal property rights an individual could accumulate wealth. The individual benefited and thus so did society.

20 marks: 4 x 5 marks each graded

2002 Q6**(a) (i) State the Law of Comparative Advantage :****10 marks graded**

The law states that a country should **specialise** in the production of those goods and services **in which it is relatively most efficient**

or

that particular good in which it has the lowest opportunity cost relative to another country's production of the good

and

trade for the remainder of its requirements.

(a) (ii) State and explain the assumptions underlying this law.**5x 4 marks graded****1. Transport costs do not exist**

The LOCA assumes that transport costs do not exist. However for an island nation like Ireland, transport costs can be a major cost factor and can act as a barrier to trade. A firm's costs efficiencies may be eliminated by the transport costs involved.

2. The law of diminishing marginal returns does not apply / Constant Returns to Scale.

The LOCA assumes that the LDMR does not apply, but this law does apply. In the example used each extra person employed will not continue to produce the same amount as the original person. A point will eventually be reached when an extra person employed will produce less additional output.

3. Free trade takes place

The LOCA assumes that free trade takes place. While this may be true within the EU, free trade is often limited as countries impose barriers to trade for economic, social or cultural, and moral reasons.

4. The complete mobility of labour/factors of production exists

In the example used we assume that the person who becomes unemployed in each country, as a result of specialisation occurring, can switch to an alternative job and that there are no barriers to mobility. This is not always the case as there are barriers to the complete mobility of labour.

2002 Continued

5. Alternative employment is available

It is assumed that people who become unemployed in one sector arising from specialisation can find alternative employment. This may not be the case. Consider countries during a recession, employment may not be available.

6. An equal distribution of benefits occurs

When we calculate the terms of trade we assume that both countries benefit from trade. Consider a developing country – sometimes the terms of trade may not be to their advantage. They may get very low export prices and have to pay high import prices, hence their bargaining position is weak and they may not benefit from trade as much as developed, powerful countries.

(b) The table below illustrates the Law of Comparative Advantage.

| <u>COUNTRY</u> | <u>COMMODITY</u> <i>(HOURLY PRODUCTION PER PERSON)</i> | |
|----------------|---|-----------|
| | FOOD | MACHINERY |
| Country X | 5 tonnes | 10 units |
| Country Y | 20 tonnes | 30 units |
| Total Output | 25 tonnes | 40 units |

(i) Use the above example to show how both countries benefit from international trade.

(In world terms 1 ton of food = $(40/25)$ 1.6 units of a machine)

- With specialisation the output of machinery has decreased by 20 units or **50%**.
- For the world to be better off with trade the output of food must rise by a minimum of $(20/1.6)$ 12½ tonnes of food.
- The output of food has risen by 15 tonnes (**60%**)
- Therefore since the \uparrow of 60% is greater than the \downarrow of 50%, the world is better off.

8 marks graded

(Note: Correctly answered alternatives for b(i) were accepted and marked accordingly)

2002 Continued

(ii) Calculate the terms of trade for both commodities

12 marks

Country X

1 ton of food is the equivalent of 2 machines.

1 machine is the equivalent of ½ ton of food.

Country Y

1 ton of food is the equivalent of 1½ machines.

1 machine is the equivalent of 2/3 tonnes of food.

So the possible terms of trade for

FOOD : lie between 1½ machines and 2 machines.

MACHINERY : lie between ½ ton of food and 2/3 tonnes of food.

(c) Discuss the factors, which affect the competitiveness of Irish-based firms in international trade.

25 marks

1. Irish inflation rates v. that of competitors.

If the level of inflation is higher in Ireland than in the firm's export markets, then the firm's goods are at a price disadvantage.

2. Value of the euro v. that of other currencies e.g. sterling, dollar.

If the value of the euro rises against that of other currencies then the price of that firm's exports will rise.

3. Transport costs.

These costs can be significant when exporting goods from Ireland and must be incorporated into the final price.

4. Labour costs – wage rates, PRSI etc.

If labour costs in Ireland rise above that in export markets, then these additional costs must be borne by the final consumer and this increases the price of the exports. Immigration into Ireland has helped stabilise wage inflation.

5. Infrastructure costs – costs of housing / delays in transport.

Pressure exists on the country's resources and constraints exist on our productive capacity – these are putting pressure on prices to rise within the country.

6. Government policies, which affect a firm's cost structure

Indirect taxes / corporations tax / health and safety legislation.

VAT has risen recently and this automatically increases prices. Actions by the government or EU imposing further requirements on industry, that have cost implications for firms, will have the effect of making exports less competitive.

2002 Continued**7. Insurance costs –have risen sharply since Sept.11th.**

Many firms have voiced concerns about the rise in insurance premiums since 11th Sept. These cost increases must make exports less competitive.

8. Social Partnership – has ensured industrial peace, resulting in less unrest.

Due to the existence of social partnership, Irish industry has enjoyed a relatively peaceful industrial climate. If this did not exist, and industrial disputes did occur, then this would increase the costs for Irish industry. Social partnership has helped stabilise price increases within the economy.

4 points : 7 + 6 + 6 + 6 marks graded.

2001 Q5

(a) Define clearly ANY THREE of the following terms:

- (i) Invisible Exports;
- (ii) Tariffs;
- (iii) Balance of Payments on Current Account;
- (iv) Balance of Payments on Capital Account.

(25 marks)

(i) Invisible Exports

- The purchase of Irish services by foreigners.

(ii) Tariffs

- This is a tax/duty on imports.

(iii) Balance of Payments on Current Account

This is the difference between total exports and total imports
Or
[Visible + Invisible exports] – [Visible + Invisible Imports]

(iv) Balance of Payments on Capital Account

This is a record of a country's inflow and outflow of capital
for investment.

Marking Scheme

3 points at 9 + 8 + 8 marks.

2 key points in each definition at 5 + 4, 4 + 4 and 4 + 4 marks.

2001 Continued

- (b) Irish exports have been steadily rising in recent years.
 Discuss how this development affects each of the following:
 (i) the level of Irish imports;
 (ii) the amount of borrowing by the Irish government. (25 marks)

(i)

1. Higher demand for (consumer) goods:

There will be increased incomes, leading to increased spending and this may lead to a rise in the demand for imports of consumer goods.

2. Higher demand for capital goods:

The increase in demand will lead to increased domestic production and firms may require more capital goods / raw materials - which may need to be imported.

(ii)

1. Increased Tax Revenue

With the increased spending within the economy and the possible rise in employment the government will receive additional direct and indirect tax revenue - reducing its need for borrowing.
 Increased exports lead to increased profits resulting in increased CPT revenues.

2. Reduced Government Expenditure

With the increase in employment there will be a decrease in the numbers 'signing on' and this will result in a reduction in expenditure - reducing the need for borrowing.

Marking Scheme 7 + 6 + 6 + 6 marks
State: 4 points @ 3 marks each = 12 marks
Explain: 4 points @ 4 + 3 + 3 + 3 = 13 marks

2001 Continued

(c) Discuss the possible effects on the Irish economy of the EURO Declining in value relative to other international currencies. (25 marks)

1.Imports from Non-Euro Countries

- Price of imports from non-euro countries has increased.
- This has resulted in a higher import bill for Irish producers / reduction in the demand for imports.
- It is now more costly for Irish tourists to visit non-euro countries.

2.Exports to Non-Euro Countries

- Price of exports to non-euro countries has decreased.
- This has resulted in greater exports to these counties / reduced export earnings.
- It is now more attractive for tourists from non-euro countries to visit Ireland.

3.Inflationary pressures on Irish economy

- With higher import prices pressure on domestic prices has increased – e.g. higher oil prices.

4.Increased wage demands.

- Increased inflation in Ireland in the past year, resulted in trade unions re-negotiating PPF and being granted pay increases above those originally negotiated.

5.Changes in interest rates.

- The ECB, with the intention of reducing inflationary pressures, reduced interest rates twice during the past year.

6. Boosts to trade in Euroland / employment in Ireland.

- With exports more competitive, demand will increase resulting in increased employment.
- Less trade risk for countries trading in Euro will boost trade and hence employment.

Marking Scheme 7 + 6 + 6 + 6.

State: 4 points @ 3 marks each = 12 marks

Explain: 4 points @ 4 + 3 + 3 + 3 = 13 marks