Coimisiún na Scrúduithe Stáit
State Examinations Commission

Scéimeanna Marcála *Scrúduithe Ardteistiméireachta, 2004*

Eacnamaíocht *Ardleibhéal*

Marking Scheme *Leaving Certificate Examination, 2004*

Economics *Higher level*

Leaving Certificate Examinations 2004

Higher Level Economics

MARKING SCHEME

and

NOTES

(for use with the Marking Scheme)

- There is no suggestion that the enclosed notes are exhaustive or definitively complete.
- Further relevant points presented by candidates will be marked and rewarded on their merits.
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.

INDEX TO QUESTIONS

Section A

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

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

Marking Scheme: 4 points x 4 marks each = 16 marks

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

Definition: ***12 marks graded***
Example: ***4 marks.***

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

Example: Any appropriate example, such as:
1. Trading in goods/services in a black market.
2. People engaged in 'nixers'.
3. Under-declaration of income.

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

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

<u>4. Identify FOUR features of an oligopolistic market:</u>

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

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

<u>5. State THREE limitations on the power of the banks to create credit.</u>

<u>1. Availability of creditworthy customers</u>
Loans can only be given to those people who are in a position to repay them.

<u>2. Availability of Cash Deposits</u>
A bank can only give loans provided that they can attract cash deposits.

<u>3. Customers' Demands for Cash [Liquidity Ratios – PLR & SLR]</u>
The bank must keep sufficient cash so as to be able to meet the demands of its customers for cash

<u>4.[European] Central Bank guidelines</u>
Commercial banks must note the guidelines of the Central Bank.

<u>5. Demand for loans by customers.</u>
A bank is limited in the amount of loans it creates by the demand for loans.
In a recessionary period the demand for loans will fall.

<u>3 points at 6 + 5 + 5 marks each = 16 marks.</u>

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

Definition: ***9 marks graded***
Assumptions: ***8 marks: 2 x 4 marks each***.

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

Assumptions:

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

2 x 4 marks each = 8 marks

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

Private benefits:

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

Social benefits:

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

2 private benefits + 2 social: 17 marks graded

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

Correct Answer: False: ***<u>1 mark</u>***
Explanation: ***<u>16 marks graded</u>*****.**

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

<u>9. State FOUR reasons why different categories of workers are paid at different wage rates</u>.

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

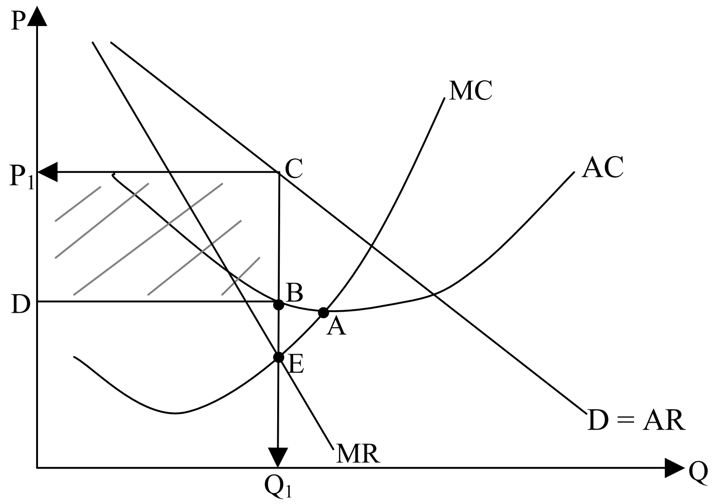
4 points = 17 marks graded.

Section B

Question 1: MONOPOLIES & COMPETITION

(a) Explain, with the aid of a diagram, the long run equilibrium position of a monopoly firm (25 marks)

Diagram



Marking Scheme
9 marks: 9 x 1 mark each

- **Price axis**
- **Quantity axis**
- **D = AR**:
- **MR**
- **AC**
- **MC**

- **Point E / Equilibrium point**
- **Output : Q1**
- **Price: P1**

Explanation: 16 marks graded

1. Equilibrium
- **Occurs at point E where**
- **MC = MR [and MC is rising]**

2. Price / Output
- **The firm produces Q1**
- **and sells it at P1**

3. Cost / Normal profit
- **The cost of producing this output / normal profit is shown at point** *B*

4. SNP's
- **The firm is earning SNP's of** *P_1CBD*
- **because AR > AC)**
- **or they can continue to exist due to barrier to entry.)**

5. Use of Scarce Resources
- **The firm is not producing at the lowest point of AC (point A)**
- **hence this firm is wasting scarce resources / inefficiency**

(b) If firms wish to enter a monopoly market they will face barriers to entry. Explain THREE **of these barriers.** ***(15 marks)***

3 points x 5 marks graded.

1. Legal / Statutory Monopoly.
Other firms may not be allowed into the industry because the government confers on a firm the sole right to supply a particular good or service i.e. Aer Rianta.

2. Ownership of a patent / copyright.
If a firm has the sole right to a manufacturing process then no other firm can compete with it. Other firms are not allowed to use this patent until the time period for it has expired.

3. Sole rights to raw materials.
A firm may have complete control over the source of essential raw materials i.e. an oil drilling company.

4. Large capital investment.

- In some industries the minimum size of a firm required to operate efficiently is so large that there is no room for competitors once one firm has established itself.
- Competitors are discouraged from entering because of the high initial start-up costs.

5. Trade agreements /collusion – cartels.
By entering trade agreements with other firms, a firm can share out the market so that no competition exists within its segment of the market.

6. Mergers / takeovers
A firm may ensure their survival by merging / taking over other (rival) firms in the same line of business - such that it becomes a monopolist and no competition exists within the industry.

7. Monopolies based on fear, force or threats
An individual / firm may stop other individuals/firms providing similar goods/services by threats/force – instilling fear into potential entrants i.e. the supply of illegal drugs.

8. Brand proliferation
A firm may gain monopoly power if through its advertising consumers are convinced that there is no suitable alternative to their particular brands

(c) **If a monopoly firm wishes to engage in price discrimination, certain conditions must apply. State and explain** THREE **of these conditions.** ***(15 marks)***

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

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

3. Different consumer elasticities of demand.
So that consumers with the high price elasticity of demand are charged the lower prices for their goods e.g. students are assumed to have lower incomes and so are not in the position to pay the full price for certain goods and services.

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

5. Lack of awareness by consumers.
Consumers may be simply unaware that the good is available elsewhere at a lower price.

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

3 points x 5 marks graded.

(d) **Irish semi-state transport companies are facing increasing competition.**
Discuss ONE possible **advantage and** ONE possible **disadvantage of this development for:**

- **Consumers** AND
- **Employees of semi-state transport firms.** *(20 marks)*

CONSUMERS

Advantages	Disadvantages
1 x 5 marks graded.	**1 x 5 marks graded.**
1. Quality of services. The competition may force the semi-state companies to improve the quality/efficiency of the service provided.	**1. Loss of non-profit making services.** Non-profit making services may be discontinued by the semi-state company in an effort to reduce costs.
2. More competitive prices. Increased competition may force the firm to offer consumers more competitive prices.	**2. Possible reduction in safety standards.** In the drive towards increased efficiency shortcuts may be taken resulting in a possible decline in safety.
3. Increased choice / availability of services. Consumers may now be able to avail themselves of a wider choice of services.	**3. Decline in standards of service.** The service provided by the semi-state company may deteriorate in quality in an effort to save costs.
	4. Disruption to supply of service. The fear of workers about the effects of competition may cause them engage in industrial disputes disrupting the service for consumers.

EMPLOYEES OF SEMI-STATE TRANSPORT COMPANIES

ADVANTAGES	DISADVANTAGES
1 x 5 marks graded.	**1 x 5 marks graded.**
1. More motivated workforce. Competition may pressurise the workforce to become more innovative in their jobs	**1. Loss of job / reduced job security.** The biggest risk is the loss of their job through rationalisation of services.
2. Reward/Incentive for innovation. If the semi-state firm can meet the challenges of competition, employees may reap more rewards for their innovation i.e. higher bonuses.	**2. Changes in conditions of employment / Loss of benefits** The firm may change the conditions of employment for its employees resulting in a worsening of these.
3. Provision of extra services. It may now be possible for the company to aggressively pursue its share of the market, without state restrictions, ensuring a growth in employment / additional job security.	**3. Curtailment in Pay / Pensions ↑'s** The firm may limit the pay / pension increases due to its employees.
4. Opportunities from settlement packages Workers might take the opportunity to change career / use their settlement packages to invest / start a business.	

Question 2: ELASTICITY

(a) Define the following types or degrees of <u>price</u> elasticity of demand:
(i) Perfectly elastic demand.
(ii) Perfectly inelastic demand.
(iii) Elastic demand.
(iv) Unitary elastic demand.

(20 marks)

Marking Scheme: 4 points x 5 marks graded

(i) **Perfectly elastic demand**.

- This occurs when consumers are prepared to buy all they can of a good at a given price, while any increase in price above this given price will result in quantity demanded to fall to zero.

(ii) **Perfectly inelastic demand**

- The percentage change in price causes <u>no change</u> in the quantity demanded.

(iii) Elastic demand

- The percentage change in demand is <u>greater than</u> the percentage change in the price of the good

(iv) **Unitary elastic demand**.

The percentage change in demand is <u>equal to</u> the percentage change in the price of the good

(b) State and explain FIVE **factors that affect price elasticity of demand.** ***(25 marks)***

Marking scheme
5 points at 5 marks graded.

1. The availability of close substitutes.

- **When a good has a close substitute and its price is increased the demand for the good will be elastic because people will switch to the cheaper substitute.**
- **Where a good has no substitutes and its price is increased there is no substitute to switch to and so it will be inelastic.**
- **The closer the substitutability between goods the more consumers will tend to switch their purchasing behaviour in response to a change in relative prices and thus the greater will be PED.**

2. Complementary goods.

- **If the good in question is the cheaper of two goods, which are in joint demand, then the demand for it is likely to be relatively inelastic in response to changes in its own price.**

3. Is the commodity a luxury or necessity?

- **It is not vital that one should possess luxuries and therefore the PED for them will be relatively elastic.**
- **Necessities are vital for life – people must buy them even when their price is increased – and so their PED will be relatively inelastic.**

4. The proportion of income which is spent on the commodity.

- **In general the greater the proportion of income which is spent on a good, the more elastic is demand for it likely to be in response to a change in its own price – because the more important is a change in its own price.**
- **A rise if 50% in the price of a box of matches is unlikely to have a significant effect on the demand for them.**

5. The durability of the commodity.

- **The more durable the commodity, the more elastic is the demand for it likely to be in response to a change in its own price.**
- **If products such as motorcars are increased in price, it is likely that the public will extend the life of their existing model and postpone the purchase of a replacement.**

6. Expectations as to future changes in price.

- **If, in the face of a price reduction, the public considers that prices are likely to fall even further, they may wait for the further reduction in price, in which case demand may not be very elastic to the initial price reduction.**

7. The length of time allowed for adjustment to price changes.

- **The longer any price change persists, the greater will be the PED.**
- **If the price of electricity rose by 80% a consumer may economics on the use of various appliances in the short term. In the long term the consumer will have to consider substituting other forms of energy. The longer the time period available to figure out possible changes, the more electricity will be saved. The demand will at first be highly inelastic but as time goes on will become more elastic.**

8. Consumer habits / brand loyalty.

- **A consumer may become strongly attached to a particular product through habit or loyalty to that brand. An increase in price for that good will not cause him/her to consume less of the product or to switch to cheaper substitutes. The demand for such goods will therefore be price inelastic.**

9. Number of alternative uses the good has.

- **A commodity which has a large number of uses will usually have a relatively elastic demand. For example sugar is used in direct consumption, sweetening purposes, baking, food processing etc. Any increase in the price of sugar may only result in a small fall in its demand in each of these markets but the total drop overall may be significant.**

(c) A consumer spends €120 per month on a product when its unit price is 80c, and continues to spend €120 per month on this product when its unit price is increased to €1.

(i) Using the formula below, calculate the consumer's price elasticity of demand.
Show all your workings.

$$\frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2}$$

(ii) Is demand for this product elastic, inelastic or unitary elastic?

(iii) Should the seller make any changes in the selling price of this commodity to increase overall revenue? Explain your answer. (30 marks)

Quantity demanded of the product:

Price	Workings	Quantity Demanded
When the unit price is 80c	$\frac{€120}{80 \text{ cent}}$	150 units
When the unit price is €1	$\frac{€120}{€1}$	120 units

(i) Calculate the Price Elasticity of Demand: ***12 marks graded.***

Correct Answer
$\frac{-\ 30}{+\ 0.20c} \times \frac{0.80c + €1}{150 + 120}$
$\frac{-\ 30}{+\ 0.20} \times \frac{1.80}{270}$
- 1.00

(ii) Is demand for this product elastic, inelastic or unitary elastic?: Unitary elastic: ***3 marks***

(iii) Should the seller make any changes in the selling price to increase revenue? ***15 marks* graded**

	Unit elastic
Price Change	The price of the product should be left unchanged
Effect on Demand	Hence the quantity demanded will remain unchanged unchanged.
Effect on Revenue	Thus there will be no effect on the revenue of the firm.
Reason	*Because* The percentage change in quantity demanded equals the percentage change in the price of the product..

Question 3: COSTS

(a) (i) State the **Law of Diminishing Marginal Returns**.
(ii) Using the table below, state after which level of employment diminishing marginal returns set in. Explain your answer.

Number of persons employed	1	2	3	4	5
Total Output (in units)	14	30	50	64	76
Marginal Output (in units)	14				

(15 marks)

<u>(i) Law of Diminishing Marginal Returns</u>

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

<u>Correct definition: 9 marks graded</u>

<u>The point after which Diminishing Returns set in:</u>

When the 4th person is employed / After the 3rd person ***<u>3 marks</u>***

<u>Explanation:</u>

Because marginal output has declined (from 20 units to 14 units) ***<u>3 marks</u>***

(b) <u>The short-run average cost curve of a firm initially slopes downwards and afterwards slopes upwards. Explain why this is the pattern of short-run average costs.</u> **(15 marks)**

Downward sloping	***Upward sloping***
<u>1. Specialisation reduces unit costs</u> - specialists may be employed or - existing workers become more efficient. ***or*** **<u>2. Fixed Cost per unit falls</u>** as the no. of units produced increases	**<u>1. The Law of Diminshing Marginal Returns</u>.** This law will apply after a certain point resulting in an increase in the amount of variable factors used per unit produced, resulting in higher unit costs ***or*** Example to illustrate why costs increase.
<u>7 marks graded</u>	***<u>8 marks graded</u>***

(c) It is generally agreed that the long-run average cost curve initially slopes downward due to economies of scale **and upwards due to** diseconomies of scale**.**
These economies and diseconomies can be both internal and external.
(i) Define the underlined terms.
(ii) Distinguish between internal **and** external **economies of scale, giving** TWO **examples in each case.** ***(30 marks)***

(c) (i) : 2 definitions x 4 marks graded.

Economies of Scale	Diseconomies of Scale
• These result in a reduction in the LRAC of production • as the firm/ industry increases its size of operation	• These result in an increase in the LRAC of production • as the firm /industry increases its size of operation

(c) (ii) : 2 definitions x 3 marks graded.

Economies of Scale	
INTERNAL	**EXTERNAL**
• Forces within a firm which decrease its costs • as the firm grows in size.	• Forces outside a firm which decrease its costs • as the industry grows in size.

Examples: 4 x 4 marks graded. [2 internal + 2 external]	
INTERNAL	EXTERNAL
1. Increased use of specialised machinery A firm may be able to buy/use more specialised equipment/machinery resulting in a ↓ in unit costs	**1. Better infrastructure.** As roads / communications etc. improve these will benefit all firms.
2. Labour economies / greater specialisation of workers If a particular job can be separated into separate and distinct components it may result in a reduction in costs.	**2. Bulk purchasing of raw materials by the industry.** As an industry expands firms require more materials / components. These may become cheaper as suppliers expand to meet ↑ demand.
3. Construction economies Large plants cost less per cubic foot than smaller ones.	**3. Development of specialist firms / Disintegration of the production process** Some of the jobs, which a firm once performed may be, contracted out to specialist firms at reduced costs e.g. the supply of linen to hotels.
4. Buying economies Larger quantities bought ⇒ bigger discounts	**4. Development of separate R & D units** As industry becomes very large R&D agencies may set up to provide facilities for individual firms / The costs of research may be shared between firms or with a public body like Teagasc.
5. Economies in distribution Lower unit cost of delivery.	**5. Suppliers of Machinery.** Manufacturers of machinery will be encouraged to design, develop and produce machines for expanding industry. These advanced machines will help reduce costs.
6. Financial economies Larger firms may avail of the possibility of lower interest rates.	**6. Development of Training Courses.** Workers in expanding industries may be provided with training courses by VEC's, FÁS helping them become more efficient.
7. Managerial economies As a firm grows, management costs may not grow in proportion to the growth in the firm.	**7. Supports from Public Bodies.** Some public bodies help particular industries in general e.g. Bord Failte / FAS may help such firms in the tourism industry.
8. Production Process economies. A large firm will may be able to run one process into the next without costly discontinuities.	**8. Subsidiary Trades may develop** As an industry grows subsidiary trades may develop to service the expanding industry e.g Hotels, B&B's locating close to airports,seaports
9. Indivisibility problem reduced. If the volume of production increases the unit cost may be lower e.g. glass-making furnaces may operate around the clock to save costs of cooling and re-heating.	
10. Marketing economies Savings in the cost of advertising e.g. NIKE advertising globally.	
11. Reduction in Waste. Large firms, with more lines, may reduce waste.	

(d) **While there can be advantages from producing on a large scale, the majority of firms in Ireland are small. Explain THREE reasons why small firms survive in the Irish economy. (15 marks)**

1. Small size of market / Scale of operation

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

2. Personal services

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

3. Consumer loyalty

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

4. Desire of citizens to maintain their community as viable.

Citizens in smaller communities may support local business so that the continuity of supply is ensured, thus helping to maintain a viable community e.g. in many areas throughout Ireland communities wish to maintain the existence of 'community' hospitals.

5. Traditional / Niche markets

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

6. Exclusive nature of the commodity being provided

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

7. Availability of capital

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

8. Membership of voluntary groups.

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

Marking Scheme
3 x 5 marks each graded.

Question 4: Enterprise, Investment and Profit

(a) In relation to the factor of production Enterprise**:** **(25 marks)**

(i) Distinguish between insurable risks **&** non-insurable risks**, stating** TWO **examples in each case.**

(ii) Explain TWO **reasons why 'enterprise' is considered to be a unique factor of production.**

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

<u>(a) (ii) Explain TWO reasons why enterprise is considered unique:</u>

<u>1. It can earn a loss</u>

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

<u>2. Returns can vary</u>

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

<u>3. Return is residual.</u>

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

<u>*Marking scheme:*</u> ***2 reasons x 5 marks graded.***

(b) (i) Explain what is meant by the term Marginal Efficiency of Capital (MEC).

(ii) Discuss FOUR factors, other than MEC, which influence the level of investment by entrepreneurs. ***(30 marks)***

(i) Marginal Efficiency of Capital*: 10 marks graded*

- This is the extra profit earned as a result of employing one extra unit of capital

OR

- It is the Marginal Revenue Productivity of additional capital goods minus their cost

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

1. Rates of interest / Cost of borrowing

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

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

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

3. The cost of capital goods.

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

4. Government policies.

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

5. The international economic climate.

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

6. Irish Labour market.

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

7. The Capital Stock in the economy.

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

4 points x 5 marks graded.

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

1. Encourage risk taking.

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

2. Indicate the best use of resources / consumer demand

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

3. Encourage investment.

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

4. Provide funds for expansion.

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

5. Continuity of production.

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

6. SNP reward innovation.

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

7. Source of revenue for the government.

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

8. SNP's may promote Mergers / Takeovers

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

Marking Scheme ***4 points x 5 marks graded.***

Question 5: Economic Development

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

Own Governments	*Foreign Governments / Agencies*
3 points at 5 marks graded.	***3 points at 5 marks graded.***
1. Promote population control. **Governments could encourage a reduction in population by various measures including: educating the population [in methods of family planning]; improving the welfare of its citizens; providing better social services for its citizens**	**1. Assist foreign aid programmes.** **Governments can continue with aid to help in emergency situations.** **They can also provide more long term aid to help with the development of the infrastructure / provision of education etc.**
2. Improve basic infrastructure. **Provision of clean water & proper sanitation.** **Development of public housing.** **Development of roads, power supplies etc.**	**2. Restructure their national debts.** **If the respective national debts were cancelled then these funds would become available for the country to use for development.**
3. Promote land/ agricultural reform. **Decrease emphasis on one crop - diversify production. Try to spread ownership of land. Improve production methods - modernise the agricultural industry.**	**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. Improve education. **Start with a basic literacy programme to improve literacy skills. Provide technical skills to the population. Provide primary education. Develop the secondary sector and initiate further education programmes.**	**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. Incentives for development of enterprise. **Try to foster a movement away from a dependency culture and encourage enterprise. Use borrowings to encourage enterprise so as to create sustainable employment.**	**5. Assist LDC's with available technologies.** **The provision of simple technologies to the LDC's would help with improving standards of living ; increase productive capacity .**
6. State bureaucracy / corruption; Spending on arms. **Try to reduce bureaucracy within state institutions. Eliminate corruption - so that aid flows to those who it was intended for. Divert funds from arms spending to more urgent current requirements.**	**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.**

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

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

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

1. Abolish the outstanding debt.
The quickest and simplest way to solve the debt crisis is to 'write-off' the existing debts of these countries and start afresh.

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

3. Lower the annual interest repayments.
Reduce the interest repayments on the existing debt.

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

5. Place a limit on interest repayments
The amount of interest to be paid could be limited to a percentage of export earnings by that country.

6. Barriers to prevent the flight of capital
Governments in LDC's could erect barriers to prevent those wealthy enough to do so, from moving their wealth to bank accounts in other countries.

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

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

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

3 x 5 marks graded.

Question 6: National Income

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

<u>(i) Incomes-in-kind</u>: ***6 marks***

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

<u>(ii) Transfer Payments</u>: ***6 marks***

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

<u>(iii) Net Factor Income from the Rest of the World</u>: ***8 marks***

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

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

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

Calculate the following, showing all your workings:

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

(25 marks)

(i) Level of Imports in Period 2:

Y	=	C	+	I	+	X	–	M		
€5,600	=	**€4,750**	+	**€650**	+	**€750**	**-**	M	=	$\boxed{\text{€550}}$

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

(ii) MPM

$\frac{\text{€150}}{\text{€600}}$ = **0.25**	2 figures at 2 marks each + 1 mark for correct answer = ***5 marks***

(iii) MPS

$\frac{\text{€150}}{\text{€600}}$ = **0.25**	**MPS= 1 – MPC** **1 – 0.75** **0.25**	2 figures at 2 marks each + 1 mark for correct answer = ***5 marks***

(iv) The Multiplier

Method 1

Injections = €300. The increase in national income = €600. So the injections have doubled national income. The multiplier is $\boxed{2}$

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

Method 2

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

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

The economic meaning of this figure:

This figure [2] means that for any given injection into the economy, national income will increase by twice the original injection. ***5 marks***

(c) National Income statistics provide important information, but are subject to certain limitations.

(i) Explain **THREE** reasons why it is useful to have these statistics.

(ii) Explain **THREE** limitations as to the use of these statistics. *(30 marks)*

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

3 points x 5 marks graded.

1. Indication of alterations in our standard of living

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

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

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

3. Assist the government in formulating economic policy.

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

4. Evaluate economic policy

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

5. EU Budget Contributions / Benefits

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

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

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

3 points x 5 marks graded.

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

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

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

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

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

6. Measures flow of wealth not welfare
Rising GNP may be accompanied by changing working / living conditions which may cause a loss of welfare.

7. Hidden social costs attached to increases in GNP
If a firm increases output GNP increases. However a hidden cost may be increased pollution.

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

9. Exclusion of important activities from calculation of GNP
The black economy is excluded from the calculation of national income.
The work of housewives and much of the work of voluntary activities is also excluded.
Such activities are most important to the welfare of its citizens.

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

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

12. International comparisons
When comparing the GNP of one country with that of another the following precautions are necessary:

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

Question 7: Trade

(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 tree 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) counties.

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.

(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.**

(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)

Opportunities	**Challenges**
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.**	**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.**
2.Profitable Investment opportunities **Irish firms may see that their profits could increase if they made investments in the new member countries.**	**2. Increased competition** **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**
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.**	**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.**
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.**	**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.**
5. Educational opportunities **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.**	**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.**
6. Expansion of Trade **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.**	**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**
	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.**

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

Question 8: Government in the Economy.

(a) Outline, using appropriate figures, how the Irish economy performed in the past twelve months in **each** of the following areas:
(i) employment; (ii) price inflation; (iii) economic growth; (iv) government spending (20 marks)

(i) Employment

- **53,000 new jobs were created in the 12 months to the end of February.**
- **The number of people at work rose by 2.9 pc to 1.8 million at the end of February.**
- **With a rise in economic growth predicted a further rise in employment is expected.**
- **168,952 persons were recorded on the live register in June 2004.**
- **Represents approx. 4.3% of the labour force. [4.4% in February –CSO]**
- **The Central Bank predicts an average unemployment rate of 5% in 2004.**

(ii) Price Inflation

- **2.3 per cent in June 2004 – a rise of 0.6 pc from the previous month.**
- **1.7 per cent in May 2004 – a rise of 0.2 pc from the previous month.**
- **Inflation has fallen to March 2004 partly due to the increase in the value of the Euro.**
- **However in May inflation rose slightly and in June due to higher energy costs.**
- **Inflation in Ireland is below the euro average of 2.5 per cent.**
- **As measured by the Harmonised Index of Consumer Prices (the EU measure), inflation measured 2.5 per cent in June, compared to 2.4 per cent in the Euro area.**

(iii) Economic growth

- **In GDP terms, the Irish economy is forecast to expand by 3.3 pc this year rising to 4.7 pc next year. Using the GNP measure, the economy is forecast to grow by 3.0 pc this year and 3.9 pc in 2005.**
- **The Irish economy will grow at twice the rate of the 12 nation eurozone this year and next.**
- **GNP grown by 5.1 per cent in the first quarter of 2004, compared with the same period last year.**
- **GDP grew by 6.1 per cent in the first quarter of 2004.**

(iv) Government Spending

- **Current spending expected to be €39.4 billion. (€35.6 billion on services provided by Departments e.g. social welfare, wages, etc and €3.8 billion on debt service, EU Budget contribution, etc.)**
- **Capital spending expected to be €7 billion (of this €5.6 billion will be spent on capital services and infrastructure provided or managed by Departments and €1.2 billion will be invested in prefunding of future pension costs).**
- **Total Gross Government Spending is expected to be €46.5 billion.**
- **Current Budget Surplus of €2.8 billion / Exchequer Borrowing of €2.8 billion.**
- **Current Budget Surplus of €3.0 billion / Capital Budget Deficit of €5.8 billion, Exchequer Borrowing of €2.8 billion.**
- **Tax revenues are presently increasing which will increase this surplus and/or allow the government spend more on current / capital purposes.**
- **The Govt. is constrained under the Euro Stability & Growth Pact to control its level of spending.**
- **Public expenditure as a percentage of GDP is one of the lowest with the EU**

**4 x 5 marks graded: Approximate figure, trend and relevant comment required.
These are actual figures but close approximations are acceptable.**

(b) In recent years Ireland's National Debt as a percentage of Gross Domestic Product (GDP) has declined.
Discuss the economic consequences of this development for the Irish economy. *(25 marks)*

Marking scheme ***5 points x 5 marks graded.***

1. Reduced annual interest repayments.
A declining national debt to GDP means that the annual cost of repaying our national debt is declining.

2. More funds available to the government for current use.
With less funds being used to meet our annual interest repayments the government has more funds available for use for other purposes.

3. Reduced burden on future taxpayers.
The decline will mean that the government will not have to contemplate increasing future taxes on future taxpayers.

4. Improved international credit-rating.
Unlike other countries the fact that Ireland is seen to have a declining national debt as a percentage of GDP will mean that our credit-rating improves.

5. Adhering to requirements of the Euro stability pact.
Unlike other members of the Euro Ireland does not have a difficulty in meeting the conditions of the stability pact and hence no corrective action need to be taken in economic policy matters.

6. Prudent management of economy by government.
Citizens may be made aware that the government's management of the economy is prudent and this may boost morale.

7. Possible deterioration in public services
If the reduced debt to GDP ratio is caused by a reduction in current borrowing the government may spend less on public services resulting in a deterioration of these services i.e. the health service.

8. Reduced spending on infrastructure.
If the reduced debt to GDP ratio is caused by a reduction in capital borrowing then there may be less spending on the state's infrastructure which may inhibit the future growth of the country.

(c) (i) Outline the main sources of government revenue.
(ii) Discuss the economic consequences of a government policy to increase public service charges (e.g. road tolls, bin charges, TV licences) rather than raise tax levels for the Irish economy
(30 marks)

(i) The main sources of government revenue: ***5 x 2 marks each.***

Current Revenue	Capital Revenue
1) Direct tax revenue or examples 2) Indirect tax revenue or examples 3) Profits of state companies 4) Receipts from the sale of semi-state co's 5) Interest on loans to semi-states/local auth. 6) Fees charged for services or examples 7) State savings schemes: PO / prize bonds. 8) Central bank surplus income.	1. Surplus from the Current Budget 2. Loan repayments: local authorities / semi-states repaying loans received from govt. 3. Borrowing through national loans 4. Grants and loans from foreign international institutions / EU 5. Sale of state property.

(ii) The economic consequences of a government policy to increase public service charges

Positive consequences	Negative consequences
1. Less pressure to ↑ taxes/ borrowing By raising public charges there will be less pressure on the government to raise additional revenue by increasing taxation.	**1. Increased cost of living** The prices of those services for which charges are being imposed will increase thereby increasing the cost of living.
2. More efficient use of services Where people pay for services it may encourage a greater efficiency in their use e.g. encourage people to re-cycle / use public transport etc.	**2. Increased inflation** Inflation will rise. This will affect the economy negatively: reduced competitiveness; demand for compensatory wage increases etc.
3. Saving scarce resources Those people who can afford to pay for these services now do so. Hence the resources which were being used to finance these services would no longer be necessary – saving scarce resources.	**3. Affects lower income groups most** The increased charges will have the greatest impact on lower income groups – those with the least ability to cope with the higher prices. Their standard of living will deteriorate.
4. Targeting use of resources economically By charging those who can afford to pay the government can provide direct payments to help those who cannot – thereby targeting the use of our resources more economically.	**4. Viability of Partnership Agreements** Trade unions may consider that the increase in these charges are 'stealth taxes' and this may affect their decision to enter into future agreements / seek higher wage increases.
5. Pressure to improve quality of service Agencies may be forced to improve the quality of service provided as people now pay e.g. – Better frequency of service – More re-cycling centres – Pay-per-weight for refuse	**5. Inequity / fairness** The disparity in charges or in the quality of service / the introduction of charges – may cause disquiet in citizens – cause people to dump their rubbish – avoid toll roads & disrupt local communities
6. Lower Tax base Ireland can maintain a low tax base and hence encourage continue investment into the economy	**6. Higher costs for business** They must now pay higher toll charges; refuse charges; water charges – increasing costs which may require higher prices or reduction in jobs.
7. Uses of revenue collected. Revenue is collected. This can be targeted for best use, to help achieve further aims e.g. the plastic bag tax.	
4 x 5 marks graded.	