

Irish Independent  Institute of Education

exam **brief**

PART 3 * 20.02.2008

Talking about money

24 pages on Leaving Cert financial subjects



Persistence pays... Gillian Judge repeated the Leaving Cert at the Institute of Education and got the 600 points she wanted, including an A1 in Business. She is now doing Medicine in Trinity College.

With economic turmoil around the world, financial subjects have never been so important. Our **Money ExamBrief** gives you the complete guide to three vital Leaving Cert subjects - **Economics, Business and Accounting.**

Get the highest return on your study investment with our guide to the exams in 2008

The A1 students who did the Leaving Cert last year tell you how they achieved their A1s in Economics, Business and Accounting

The A1 Students * Dos and Don'ts * Tips from top Teachers

Financial ExamBrief - your guide for Leaving Cert 2008

WELCOME to Part 3 of our guide to the Leaving Cert in 2008. Today's supplement covers three financial subjects -- Economics, Business and Accounting. Our first supplement two weeks ago offered a complete guide to the Maths exams. Last week's Languages Supplement covered English, Irish and French.

The weekly ExamBrief supplements for Leaving Cert 2008 are being published by the Irish Independent in association with The Institute of Education. There will be five supplements in the Leaving Cert series followed by a sixth supplement for the Junior Cert.

The Institute of Education is Ireland's leading private tuition college, sending more students to university than any other school over the past few years. Part of its success is attributed to the teacher notes supplied to its students.

These notes, together with additional advice from the teachers, form the basis of this series of supplements. They provide an overview of the entire course in each subject with invaluable practical advice on how to study and how to maximise exam performance.

Last year the Institute was the No 1 provider of students to UCD, Trinity, the Royal College of Surgeons, DCU and DIT. Now with our ExamBrief series, all students can benefit from the notes and advice that have been so successful at the Institute.

Next week there will be a Sciences Supplement, covering Physics, Chemistry and Biology. And the Leaving Cert series will conclude the following week with a fifth supplement covering other subjects, including History, Geography and Home Economics.

Supplements Editor: John Spain



Peter and Raymond Kearns, directors of the Institute of Education

The Institute of Education
79/85 Lower Leeson St., D.2 (Beside the LUAS)

Choose Wisely
Choose Excellence
Choose The Institute of Education


• Easter Intensive Revision Courses 2008 •
Four day intensive courses for Junior & Leaving Cert. 2008
Course 1 - Pre-Easter 4 Days
Tues. 18th - Fri. 21st March 2008 (incl.)
Course 2 - Post-Easter 4 Days
Tues. 25th - Fri. 28th March 2008 (incl.)
Oral Preparation Courses
4 Hour Block Sessions for Leaving Cert.
Wednesday 26th March & Thursday 27th March 2008

• Courses Offered - Now Enrolling •
• Fifth Form College – Leaving Certificate 2010
• Sixth Form College – Leaving Certificate 2009
• Easter Revision Courses
• Evening/Saturday Tuition (Leaving & Junior Cert.)
• Oral Preparation Courses
• May Revision Course
• Study Skills Seminars

Intensive Revision for Junior & Leaving Certs 2008
"ENROLLING NOW"

Online Booking now available at www.ioe.ie
Tel: 01 661 3511 | www.ioe.ie | info@ioe.ie

Economics



ARTHUR RUSSELL
Economics Teacher

Arthur Russell, B.Comm., H.Dip. (Hons), has been teaching part-time in the Institute of Education since 1978. He has written articles for many publications, including *Business and Finance*, *Exambrief* and other business magazines

PAPER STRUCTURE

HIGHER & ORDINARY PAPERS TOTAL MARKS 400

Section A: 100 marks
In this section students must answer 6 questions out of a possible 9. Questions carry either 16/17 marks each.

Section B: 300 marks
In this section students must answer 4 questions out of 8. All questions carry 75 marks.

TIMING

Total exam time is two and a half hours
Students should use the following only as a rough guide.

Reading the paper and highlighting the key words	10 minutes
Answering Section A -	30 minutes
Answering any of the 4 Questions in Section B	25 minutes each
Tidy-up time	10 minutes



TEACHER'S VIEW

Topical areas this year include, the collapse of the stock market with some Irish companies losing over 50% of their value in 12 months, the shortfall in government revenue and the very difficult budgetary position of the government, migration into Ireland, the reluctance of the ECB to reduce interest rates, the overdependence of the Irish economy on the construction sector and the fall in house prices, the effect the sub prime market has had on the banking system and the action taken by the Central Banks to calm the markets. Expect to see some topical area appearing as part of a Section B question.

GENERAL ADVICE

1 Many questions have 3 to 4 separate parts. You may be able to answer 2 parts very well and the rest of the question you may know very little about. So make sure to read all of the question before attempting to answer the question.

2 Practise answering questions within the time allowed. For Section B questions the time allowed is 25-30 minutes. Do not exceed this time limit.

3 Highlight the instructions given in the question. The amount of information required for an answer will vary according to whether you are asked to list, state, outline, define, discuss etc....

4 Students should answer Section A first. Some of the 9 questions in this Section are 17 marks and some are 16 marks. To score the maximum of 100 marks you should answer 4 at 17 marks and 2 at 16 marks. You are strongly advised to revise the previous 10-12 years examination papers, as examiners sometimes repeat the same question such as 'The Law of Diminishing Returns', 'Tax Wedge' etc.... Answers with examples are required in this section.

5 Generally Section B questions should be answered in point form and make sure to begin each point with a new paragraph. Start your exami-

nation with the question you feel most comfortable with and this will give you the feel-good factor, and take the pressure off for the remaining questions. Expect to be asked at least 2 and probably 3 Micro-Economic questions on e.g. 1) Demand, Supply and Elasticity 2) Costs and Competition 3) Factors of Production. Answers to these questions normally include diagrams clearly titled and with each line and curve labeled. Allow yourself plenty of room when drawing these diagrams.

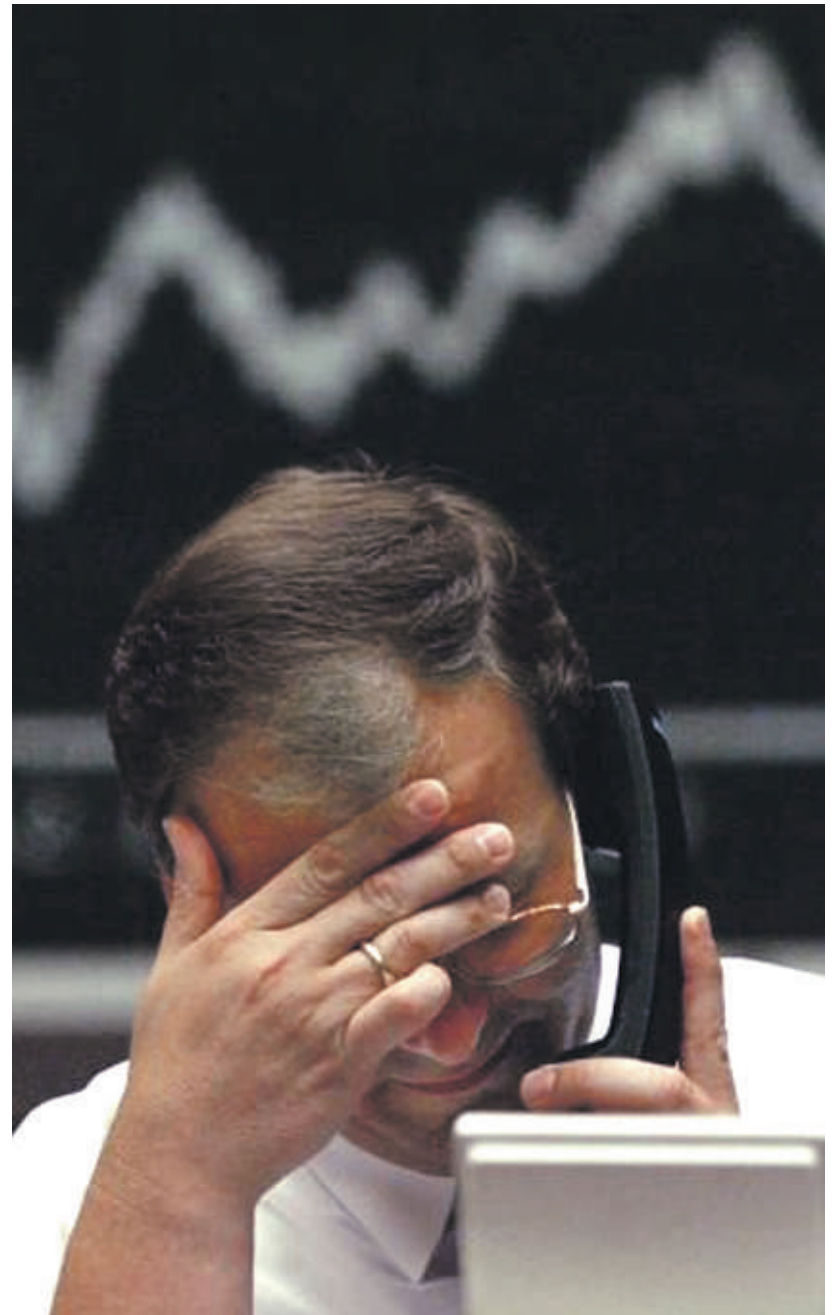
6 Answers to Macro-Economics questions in Section B must be of a detailed nature and should include statistics on unemployment, inflation, economic growth, government finances, balance of payments and so on. (Examine the facts at your fingertips section in this article).

7 Do not take too many shortcuts when you are in the process of revision. A lot of students tend to omit the section on the history of economic thought. This strategy is not to be recommended, as the history of economic thought area is often asked as a small part of a 75-mark question. In questions on National Income, Keynes is often included. In questions on Competition, Adam Smith is sometimes included. Likewise Friedman in questions on Inflation/Banking. In Population questions, Malthus often appears, and so on.

The only way is down the global markets had a bad year in 2007

Most Popular Section A Questions

	07	06	05	04	03	02	01	00	99	98	97	96	Pre 96
Land										1			
Capital								2					
Mobility of Labour					1								
Supply Price of a Factor							1		1		1		1991
Economic Rent	1												
Monopoly Supplier of Labour												1	1993
MRP/MPP									1				
Profits		1			1		1						1995
Insurable/Uninsurable Risks							1						
Labour- Marginal Cost		1			1								
Wages				1									
GNP/GDP			1			1			1		1		95, 94
Multiplier						1						1	1993
Population		1					1			1	1		93, 92
Tax Wedge										1		1	95, 93
PSBR/SSIA		1	1						1	1			95, 91
Tax					1	1							1994
Black Economy				1				1				1	
NTMA		1											1
Neutral Budget													1994
Student Fees								1					
Semi-States							1						
Law of DMU				1					1		1		1993
Consumer Surplus			1				1						94, 92
Consumer Behaviour		1	1		1								
Demand					1								
Supply				1					1				
Law of Diminishing Returns						1		1				1	
Social Costs	1			1	1		1					1	1993
Economies of Scale		1	1		1							1	
Costs of Production							1						
Opportunity Cost	1		1	1									
Monopoly	1	1											95, 91
Oligopoly				1		1				1	1		1995
Maximisation of Profit			1									1	1994
Barriers to Entry								1					
PLR										1			1995
Money Supply								1					1994
Demand Pull Inflation	1									1			
Consumer Price Index			1			1							
Energy Costs	1												
Monetary Policy					1								
Central Bank	1								1				
Credit Creation				1									
Monetarists							1				1	1	
Smith								1					
Keynes			1			1							
Economists				1									
Law of Comp Advantage.	1								1				
PPP Theory												1	
Balance Of Payments					1			1					
Unemployment									1				
Price Elasticity of Demand	1							1				1	
Economic Development		1					1	1					



It was a stressful year on the stock market



The threatened property slump has become a reality

Frequency of Exam Topics and mark values - Section B

	07	06	05	04	03	02	01	00	99	98	97
Demand		15	75		75		50	75	75		50
Supply	75						25				25
Elasticity		60		75	75	75	75		75	75	
Perfect Competition	75					75					75
Monopoly/Price Discrimination				75			75		75		
Imperfect Competition			75								
Oligopoly		75			75				75		
Costs of Production/Social Costs		30		75		75		75			
Labour	75				75		75				55
Enterprise				45					75	75	
Land			75								
Capital		25		30		50		50		75	
Unemployment		25			20	75				75	20
Banking/Interest Rates		50	75		40	75		80			75
Inflation		50			35		75	20			
National Income/Multiplier	50	100	75	75	75		75	75		75	75
Law of Comp. Adv./Internat.Trade		25	50	75	55	75		50	50		75
Exchange Rates/Bal. Of Trade	75	50	25				75	25	25	75	
Government/Tax/Decentralisation	130	70	105	55		55	75	50	150	75	150
Population/Emigration			45		55						
Economic Growth/Development	25			75						75	
Economic Performance				20		20		25			
Economists	20	25			20	25					
Economic Systems	55										

QUESTIONS & ANSWERS

The following are a cross-section of typical Leaving Cert Honours Section B questions. It is important to remember that this is not a forecast of likely questions for the year 2008.

DEMAND QUESTION

A) State and explain 5 factors that affect a consumer's demand schedule.

B) A consumer, D Carroll, spends all of his income on 2 goods X and Y. The 2 goods are both normal but are not complementary. The price of good X is reduced but the price of good Y is unchanged. The consumer continues to spend all of his income on the 2 goods. Distinguish between the Substitution Effect and the Income Effect of the price reduction in good X.

C) Explain 3 assumptions concerning consumer behaviour.

SOLUTION

A) The factors that may influence a consumer's demand schedule are -

1 The price of the product itself - Normally as the price of a good falls consumers buy more of that good because consumers are getting better value for the money that they spend. A change in the price of the product itself causes a movement along the demand curve.

2 Income of the consumer - For normal goods as income rises demand also rises, witness the explosion in demand as a result of the substantial increases in income over the last 10 years. For normal goods, a rise in real income causes a shift in a demand curve to the right.

3 Prices of other goods - if the price of a complementary good falls then demand for our good rises, e.g. a fall in the price of cars may result in a rise in demand for petrol as consumers may purchase bigger engine models and the demand curve for petrol shifts to the right. If the price of a substitute good falls then demand for our good will fall as it has become relatively dearer and the demand curve for our product shifts to the left

4 Consumer tastes or preferences - When a

commodity comes into fashion there is an increase in the quantity demanded at each price and of course advertising has a major impact on consumer tastes and preferences.

5 Government regulations - a health education campaign to reduce the demand for cigarettes may have had the effect of reducing demand for cigarettes.

B) **The Substitution Effect** - as the price of good X falls the consumer buys more of this cheaper good because of the law of equi-marginal returns, and the consumer not being in equilibrium any more. The law of equi-marginal returns states that the consumer is in equilibrium when he spends his income in such a way that the ratio of marginal utility to price is the same for all the goods that he buys. When the price of good X falls the marginal utility, for every cent spent, on good X increases, and in order to maximize his utility the consumer buys more of X. Demand for good Y falls because it is relatively dearer.

The Income Effect - A fall in the price of good X causes a rise in real income. As both goods are normal goods demand for both X and Y increases.

C) **1 The consumer acts rationally** which means that he acts in a way that is consistent with his personal preferences. This means that if a consumer knows that the same product is priced differently in 2 shops that are located nearby he will buy from the cheaper store.

2 The consumer has limited income - Because the consumer has not enough income to satisfy all of his desires he must make a choice between those goods that he wishes to buy.

3 The consumer aims to get maximum satisfaction from his income. The consumer will obey the Equi-Marginal Principle of Consumer Behaviour which states that he will spend his income in such a way that the ratio of marginal utility to price is the same for all the goods that he buys.



ELASTICITY QUESTION

A Canny, Domican and Flannery Ltd. has calculated the following Cross Elasticity of Demand values for a number of its products as follows:

Cross Elasticity of Demand between Good A and Good B = + 5

Cross Elasticity of Demand between Good A and Good C = - 0.3

Cross Elasticity of Demand between Good A and Good D = + 0.6

Cross Elasticity of Demand between Good A and Good E = -2.9

What is the significance of the above figures? Include in your answer an explanation of Cross Elasticity of Demand and the formula by which it is measured.

SOLUTION

Cross Elasticity of Demand measures the percentage change in the demand for one good caused by the percentage change in the price of other goods.

The formula is $\frac{\Delta Q}{Q} \times \frac{P_1 + P_2}{Q_1 + Q_2}$

Q = Quantity of one good

P = Price of another good

Δ = The change in

1 Cross Elasticity of Demand for **substitute goods** is always **positive** - the greater the positive value the closer the substitutes. When the price of butter rises, consumers switch from butter to margarine and the demand for margarine rises. Both demand and price move in the same direction (upwards in this case). When the figures are inserted into the formula we end up with a positive value. Goods B and D are both substitutes for Good A, with B being the closest

substitute.

2 Cross Elasticity of Demand for **complementary goods** is always **negative** e.g. if the price of cars rise the demand for cars (eventually) falls and as a result the demand for petrol falls. Therefore the demand for petrol and the price of cars move in opposite directions. When inserted into the formula we end up with a negative value. Goods C and E are complementary to A.

B Explain the meaning of the words Elastic and Inelastic as they apply to Income Elasticity of Demand?

SOLUTION

Elastic means sensitive and inelastic means not sensitive. In the case of Income Elasticity of Demand a product like milk is **inelastic** because if income increases the quantity consumed of milk remains much the same. Milk has a low posi-

TOPAGE 8

Facts at your fingertips

National Income

	2008 F €M
Consumption	97,000
Investment	49,000
Government Spending	29,000
Exports of Goods/Services	163,000
Imports of Goods/Services	-141,000
Gross Domestic Product at Market Prices	197,000
Net Factor Income from the rest of the world	-30,000
Gross National Product at Market Prices	167,000



Economic Growth for 2007 came in at 4.75%. This is lower than last year reflecting a declining construction sector. The outlook for 2008 is very uncertain however, due to the following factors - the US and the UK look likely to be heading into a recession, the euro may strengthen further against the \$ and the £, oil prices may continue to rise and interest rates are unlikely to fall until the ECB has brought inflation back into line. Also the effect of the SSIA payout will have declined at this stage. The pattern of growth is unbalanced with strong domestic growth combined with a slightly improving export performance. Certainly the era of massive economic growth of over 10%, recorded in 1997 and again in 1999, is long gone and we will be lucky to grow by 3% in 2008.

Consumer spending has increased in 2007 by up to 7% caused mainly by the expansion in employment, the maturing SSIA's and income tax cuts. If the trend of interest rate increases continues over the next year and consumers become uncertain about employment and house prices, then the outlook for 2008 is not very bright. Expect consumer spending to increase by less than 4% in 2008.

Investment spending is registering marginal growth as strong investment in the infrastructure is offset by a declining house-building sector. Investment expenditure is expected to grow by nearly 1% in 2008.

Government spending is expected to increase by 6% in 2008 and this will also contribute to higher demand.

Export demand has increased by over 5% in 2007, which is an improvement on 2006. This is unusual given the deterioration in competitiveness and the strengthening of the € against the \$ and against £.

Government Finances

	2008 €m
Current Revenue	49,600
Current Expenditure	44,900
Current Budget Surplus	4,700
Exchequer Borrowing for Capital Purposes	9,600
Exchequer Borrowing Requirement	4,900

Government finances at the end of 2007 turned out to be much worse than what was expected at the start of 2007. The public finances ended up with a deficit of close to €1,700m instead of a planned deficit of €550m with tax revenues much weaker than anticipated. The major contributors to the shortfall in tax revenues were stamp duty receipts and capital gains tax and this was mainly due to the weakening housing market. Income tax and corporation tax receipts were slightly ahead of budgeted figures as was VAT reflecting robust consumer spending.

Population Ireland

	Total Population	Males	Females
1841	6,528,799	3,222,485	3,306,314
1891	3,468,694	1,728,601	1,740,093
1926	2,971,992	1,506,889	1,465,103
1961	2,818,341	1,416,549	1,401,792
1981	3,443,405	1,729,354	1,714,051
2001	3,917,203	1,946,164	1,971,039
2006	4,234,925	2,118,209	2,116,716

Since 2001 the population of Ireland has risen above the 4 million mark. Ireland has the largest population growth in the EU, over the last 10 years, with an annual growth of 1.6%, followed by Cyprus and Luxembourg. By 2020 the population of this country is expected to reach 5 million. The 2006 figures are the highest recorded since 1861.

Balance of Payments (Current Account)

	2008 F €m
Balance of Trade Surplus	26,000
Services Deficit	-5,000
Net Factor Income Deficit	-29,000
International Transfers	-600
Balance on Current A/C	-8,600

In recent years, the Balance of Payments has moved into the 'red' due to the huge increase in the importation of consumer goods and services. The above figure represents a deficit on the current account of the balance of payments of almost 5% of GNP and this is unsustainable in the long-term.

Inflation

Recent figures have shown an inflation rate of 4.7% for Ireland. This is an improvement on the figure for 2006 of 5%. High energy prices, increased mortgage interest rates and strong domestic demand are partly to blame for this level of inflation. However the increased strength of the € making imports cheaper, will help to moderate inflation and next years inflation rate should fall close to the European average of around 2-3%. The 2007 rate of 4.7% is only an average figure with certain goods and services rising in price and others falling in price. In 2007 for example, clothing and footwear recorded a fall in price of 6.2%

The HICP which is the EU Harmonised Index of Consumer Prices recorded a 3% inflation rate for Ireland in 2007, this calculates the rate of inflation excluding housing costs.

INTERNATIONAL INFLATION RATES

	%
Zimbabwe	1,200
Japan	0.2
Germany	1.8
France	1.9
Holland	1.7
Poland	3.1

World GDP per head

	\$
Luxembourg	78000
Norway	90000
IRELAND	62,000
UK	47000
Germany	41000
Iraq	2100
Zimbabwe	300

The Current account of the Balance of Payments

	\$B	% of GDP
Japan	+170	4
China	+165	7
Germany	+120	4.3
IRELAND	-8	4
US	-800	5
UK	-60	3

World Gross Domestic Products

	\$bn
US	14400
Japan	5000
Germany	3400
China	3900
UK	2800
France	2700
Italy	2200
IRELAND	270

Employment Figures

Labour Force - % of the Population

	%
China	59
UK	51
USA	49
Germany	48
IRELAND	47
Egypt	30

	2006	2007E	2008F
Agriculture	115000	113000	113000
Industry and Construction	539000	567000	558000
Services	1298000	1415000	1457000
Total Employment	1952000	2095000	2128000
Unemployment	89000	102000	116000
Labour Force	2041000	2197000	2244000

Effectively the Irish economy is at full employment i.e. all those seeking to find jobs at the existing wage rate can find paid employment. Ireland's unemployment rate is in 2007 is 4.7% compared to the EU average of over 8%. This however is expected to worsen to over 5.2% in 2008. Historically Ireland has suffered from very high unemployment e.g. in 1990 the unemployment rate was 14%.

Foreign Aid 2007

	\$ Billions	% of GDP
Norway	2.8	0.93
Holland	5.1	0.8
Denmark	2.2	0.84
France	10	0.47
Germany	10	0.4
UK	11	0.5
IRELAND	0.8	0.45
U.S.	22.0	0.25

The aim is to donate 0.7% of GDP and Ireland falls well short of this target.

Births, Deaths and Migration Statistics

Average annual per Thousand

	Births	Deaths	Natural Increase	Net Migration Migration	Change in Population
1926 - 1936	58	42	16	-17	-1
1956 - 1961	61	34	27	-43	-16
1971 - 1979	69	33	36	+14	+50
1986 - 1991	56	32	24	-27	-3
1996 - 2002	54	31	23	+26	+49
2002 - 2006	61	28	33	+46	+79

FROM PAGE 5

tive Income Elasticity of Demand value e.g. + 0.3

On the other hand a product like fillet of steak is **elastic** because if income increases the quantity consumed will rise substantially and it will have a high positive Income Elasticity of Demand value e.g. + 3.

C Harris, Negi and O'Sullivan Ltd. produce two goods that have income elasticity values as follows - Good A - 0.5 and Good B + 4.

Which of these values is likely to represent income elasticity of demand for foreign travel and why?

SOLUTION-

Foreign travel is very sensitive to income changes i.e. it is highly elastic. This means that if income increases by 10% demand will increase by more than 10% and it is likely to have a value of +4. So Good B represents foreign travel.

Good A is an inferior good as it has a negative income elasticity of demand meaning that as income rises demand for this particular good falls. An example of an inferior good would be cheap cuts of meat.

D Twieg, Dunne and Parsons Ltd. produce one product whose Income elasticity of demand is + 2 and whose sales this year are 40,000 units. If consumers' incomes are expected to rise by 5% next year, calculate next year's expected level of sales.

SOLUTION-

The answer is 44,000 units and is calculated as follows - Income increases by 5% so demand increases by 2 times 5%, which is 10%. Therefore 10% of 40,000 units is 4,000 units. Therefore demand next year is expected to be 44,000 units.

E Sherwin, Patterson and Walshe Ltd considers that Elasticity can be put to great use by producers in the decision making process. Discuss this statement.

SOLUTION -

Producers use price elasticity of demand because it indicates the sensitivity of demand to a change in price. Inelastic goods and services should be raised in price and elastic goods and services should be lowered in price.

Producers also use income elasticity of demand because it will indicate the likely change in demand if income in the economy grows. The last number of years was a very good time to be involved in the production of elastic goods and services such as foreign travel, because as income rose demand rose by an even greater amount.

The producer can also use information on cross elasticity of demand because this will indicate how demand will respond to price changes in substitute or complementary goods. At the moment coal producers will be examining the likely effect on business of the recent rise in oil prices.

Foreign Exchange Question

A State and explain 5 factors which affect the foreign exchange value of the Irish currency (Euro).

B Irish exports have risen, in recent years. Discuss the effects of this development on each of the following:

- (1) The amount of borrowing by the Irish government.
- (2) The level of imports into Ireland.

C Explain the difference between the Balance of Trade and the Balance of Payments on the Current Account.

SOLUTION

A The foreign exchange value of the Irish currency is the price of that currency in relation to other currencies. Its value is determined by demand and supply. If demand by foreigners for the Irish currency exceeds the supply of the Irish currency then its value will rise and vice versa.

The main factors affecting its value are:

1 Irish Exports: Irish exports create a demand for the Irish currency, €, causing its value to rise on international currency markets.

2 Irish Imports: Imports into Ireland must be paid for, eventually, in foreign currency. Irish individuals and companies must sell the Irish currency to get their hands on foreign currency. This selling causes the supply of the Irish currency to rise forcing the value of the Irish currency to fall.

3 Interest Rates: If interest rates in Ireland

are higher than in the U.K., British individuals and companies who have large sums to invest will lodge it in Irish banks. This action creates a demand for the Irish currency and a supply of Sterling. As a result the value of the Irish currency rises on foreign currency markets. At the moment Euro interest rates are below UK rates putting pressure on the € to fall in value against sterling..

4 Speculation: Foreign speculators, who feel that the Irish currency is undervalued, will rush out and buy the currency creating a demand for it, thereby pushing its value higher. Speculators are now in the process of selling the \$ for this reason.

5 Central Bank Intervention: If the Irish/European financial authorities feel that the Irish currency is undervalued they will enter the currency markets and buy up Irish currency (Euro) selling Dollars and Sterling. This creates a demand for the Irish currency and its value hardens.

B(1) An increase in the demand for Irish goods by foreign countries causes an acceleration of economic activity in Ireland. Companies must expand in order to produce these extra goods for export. Therefore they need to hire extra workers to allow increased production to take place. As a result of all of this extra economic activity the government collects more revenue from higher income tax, indirect tax and corporation tax receipts. Also unemployment falling allows a cut in government spending on social welfare. The result of all of this increased tax revenue and lower government spending is that borrowing by the Irish government falls.

(2) Increased domestic production of



goods for export will automatically increase the demand for imports into Ireland for the following reasons:

To produce more exports we need more raw materials most of which has to be imported.

To produce more exports Irish business needs to buy extra machinery a substantial amount of which is imported.

The extra workers who are employed to produce the goods for export will receive

National Income Question

A Define each of the following: 1 Gross Domestic Product at Market Prices. 2 Gross National Product at Market Prices. 3 Gross National Product at Factor Cost. 4 National Income.

B Explain the relationship between Gross National Product at Market Prices and Gross National Product at Factor Cost.

C In Ireland would you expect G.N.P. to be greater than, equal to or less than G.D.P.?

D Ireland is a very small open economy. Trace the likely economic consequences if the government used an expansionary fiscal policy to stimulate the economy.

E GNP at Current Market Prices for 2007 was 60% higher than the figure for 2000. State and explain 5 other pieces of information that would be useful to assess whether the average standard of living has risen by 60% in that period.

SOLUTION

A 1 **Gross Domestic Product at Market Prices** is a measurement of the economic activity (income earned) taking place within the state including the contribution made by foreign factors of production operating in Ireland. However it does not include the economic activity of Irish factors of production operating overseas. It includes indirect taxes but does not include subsidies.

2 **Gross National Product at Market Prices** is a measurement of the economic activity of, or income earned by, Irish owned factors of production operating in Ireland and overseas. It excludes the income earned by foreign factors of production operating in Ireland. It includes indirect taxes but does not include subsidies.

3 **Gross National Product at Factor Cost** is a measurement of the income earned by Irish owned factors of production operating in Ireland and overseas. It excludes the income earned by foreign factors of production operating in Ireland, and indirect taxes, but includes subsidies.

4 **National Income** is the income accruing to the permanent residents of the state from current economic activity over a period of one year.

B Gross National Product at Market Prices 20
Indirect Taxes (6)
Subsidies 4
Gross National Product at Factor Cost 18

Gross National Product at Market Prices less indirect taxes and plus subsidies equals Gross National Product at Factor Cost

Indirect taxes are **subtracted** because Factor Cost is a measurement of the income earned by factors of production and market prices include indirect taxes, which are taken by the government and never become income for factors of production.

Subsidies are **added** because they are not included in market prices but are part of the income of factors of production.

C In Ireland **G.N.P. is less than G.D.P.** because Net Factor Income is a negative fig-



extra income a significant part of which will be spent on imported consumer goods and services.

CThe Balance of Trade is the difference between visible exports and visible imports whereas the Balance of Payments is the difference between total exports (visible and invisible) and total imports (visible and invisible). Ireland enjoys a large surplus on the Balance of Trade but is suffering a large deficit on the Balance of Payments.

ure. The largest component of Net Factor Income is the income earned by foreign companies operating in Ireland, which is greater than the income earned, by Irish companies operating abroad. Most of these profits are repatriated. Also included in Net Factor Income is interest paid on the Irish government's foreign debt, which represents a large movement of funds out of this country. Finally there are a substantial number of foreigners working in Ireland who send large sums of money out of this country to subsidise their families abroad and this is known as emigrants' remittances.

Gross Domestic Product 190
 - Net Factor Income (30)
 Gross National Product 160

DIreland is a **small economy** e.g. the G.D.P. of the U.S. is over \$14,400 Billion whereas the G.D.P. of Ireland is €167 Billion.

Ireland is also a **very open** economy. In 2008 Visible Exports are forecast to be over €90Billion and Visible Imports over €65 Billion. These are huge figures when compared with a G.D.P. of €167 Billion.

So if the government decides to adopt an

TO PAGE 10

Higher level The A1 Economics Student's view

Name: Fergal Mullins
School: Clongowes Wood College
Results: 575 points in Leaving Certificate in 2007. French A1, Irish A1, Accounting A1, Economics A1, Music A2, English B1.
College: Now studying Law in Trinity College, Dublin.

I believe Economics is a very attractive option for Leaving Cert candidates for two reasons. Firstly, it's interesting, providing a detailed analysis of the production, distribution and consumption of goods and services by our society. Secondly, very high marks are attainable in the subject.

Economics students should be aware of the following factors which will help to get those high marks.

In the Short Answer Section of the Paper, students are obliged to answer six of the nine questions outlined. All students should ensure that they answer all nine questions available as they will awarded the marks for their best six. The questions require concise, relevant answers and guessing is not penalised. Therefore, regardless of knowledge, it is highly advisable that candidates do not overlook any of the questions.

It is imperative that students familiarise themselves with the core topics in the course. Expect a question on Market Structures, Elasticity, Factors of Production, Supply/Demand and National Income. Acute examination of past papers will prove very fruitful. Consult the papers and ascertain what came up in previous years, eg. Since Monopoly has not appeared since 2004, there is a significant chance it could appear this year as the Market Structures question. Furthermore, students should be comfortable with comparing and contrasting the various markets and factors as these questions appear quite frequently.

The ability to construct clear, labelled diagrams is a discipline that all students should be familiar with. Students should consider the presentation of their diagrams very carefully. Think of it from the examiner's perspective.



Fergal Mullins... elaborate as much as possible

Allow them to award you the most marks possible. Therefore, big, intelligible diagrams will be rewarded. Label diagrams clearly, use a ruler and different colours to aid the examiner.

Students should endeavour to elaborate as much as possible with their answers. This requirement very often differentiates a great answer from a good answer and shows the examiner your real understanding of the question concerned. In the long answer section, one-line answers will simply not suffice.

Students should ensure to give suitable examples to illustrate their ideas to the examiner. Regardless of how trite you think the example may be, it is an essential part of getting the marks in almost all sections of the paper.

It is essential that students become familiar with the layout of the paper. Doing practice questions within the specified time without the aid of study notes will prove very beneficial for the actual exam. Moreover, as the exam is two and a half hours long, students should allocate a strict amount of time for each question. Students should

spend twenty minutes on the short answer section, half an hour on each of the four long answer questions, leaving ten minutes for them to review their paper.

In my study of the course, I found one book particularly useful, Leaving Certificate Economics by Denis L. O'Grady, which offers an in-depth analysis of the course in a very presentable, legible format.

Furthermore, students should try to read economics related articles as much as possible. Both the Business sections of national papers and The Economist provide relevant material which can enhance your answers.

You should also use www.examinations.ie, which provides both past exam questions and marking schemes. This gives the layout of the papers as well as an insight into the type of answers examiners expect.

In conclusion, be familiar with the likelihood of certain questions appearing on this year's exam, giving particular regard to previous years (see the Questions chart on page 4) and practise doing lots of past exam questions.

FROM PAGE 9

expansionary fiscal policy by cutting taxes and raising government expenditure, the effect of this policy is to give people extra spending power. Aggregate demand increases and a huge percentage of this extra spending power leaks abroad in the form of higher demand for imports. This is because Ireland has a high marginal propensity to import. Therefore imports rise causing Balance of Payments problems.

On top of all of this there is another problem created by these tax cuts and increased government spending i.e. in order to finance the tax cuts the Irish government may have to borrow, raising the National Debt.

An expansionary fiscal policy may also put upward pressure on inflation, as the extra demand may not be satisfied by an increase in domestic supply. This higher inflation will cause problems with the trade unions because they will demand compensatory wage rises in order to protect the living standards of their members.

E1 Population changes - If GNP grows at a faster rate than the population then GNP per head increases and the average standard of living increases. Ireland's GNP is growing at a faster rate than the population at the present point in time.

2 Inflation - If the rate of inflation increases this will automatically increase GNP at current market prices. So it is much better to adjust for inflation by using the figure for GNP at constant market prices.

3 Levels of direct and indirect taxation - An increase in levels of taxation will result in a fall in the average person's standard of living.

4 Excluding certain activities when calculating GNP - The work of homemakers is excluded from GNP calculations as is the black economy and many voluntary activities that are vital to the standard of living of many people.

5 Government services at cost price - Government services like hospitals and schools are included at cost while private services are provided at selling price, which includes a profit margin. A country like Ireland where the government provides many services will record a lower GNP than a country like the US where the health services are private.

A General Question on the Economy

How has the Irish economy performed in the past year in the following areas?

- 1 Employment/Unemployment
- 2 Inflation
- 3 Interest Rates
- 4 Economic Growth
- 5 Public Finances

SOLUTION

1 EMPLOYMENT: Ireland has enjoyed unprecedented growth in employment over the last ten years with unemployment falling below 4% of the labour force in 2001. At the moment unemployment stands at 4.7% with the Labour Force Survey giving us an unemployment figure of a little more than 110,000 people who are without paid employment. Shortages of workers still exist in certain sectors and in the past the government has had to recruit workers from abroad. The number of people at work has risen to over 2.1 million people. With the slowdown in economic growth job losses have been announced in major industries like the computer and mobile telecommunications industry and the prognosis in the short term is far from being positive. The decline in the construction industry, the imminent US recession and the turbulence in the stock market will have an adverse impact on employment. In 2008 unemployment is expected to rise to 5.2%.

2 INFLATION: Inflation is estimated to be close to 4.7%. This is a reduction on the

figure for 2001 of 7% and the figure for 2006 of 5%. However it is well above the E.U. average of 2%. Ireland's standard of living depends very much on exporting, so if our inflation rate stays above our trading partners we will soon lose competitiveness and jobs. The reasons for the rise in the inflation rate include: continuing high consumer demand in the economy, rising mortgage rates, a rise in energy prices and a rise in the price of services such as health insurance although other insurances have fallen in price.

3 INTEREST RATES: Since the beginning of 2005 the Federal Reserve Bank in the US increased interest rates to over 5%. European interest rates have also risen but not to the same extent and now stand at 4%. A hardening of interest rates reduces economic activity as individuals and companies are encouraged to save and discouraged from borrowing. Therefore aggregate demand in the economy falls and the economy contracts. Interest rates in Ireland, of course, are the same as European rates and are decided by the European Central Bank. These higher interest rates are one of the reasons why house prices are beginning to fall in Ireland at present. The prospect for interest rates in Europe, in the short-term, is uncertain as the ECB has been reluctant to increase interest rates due to the fragile nature of the banking system at present e.g. Northern Rock.



Costs of Production Question

A Explain the relationship between average cost and marginal cost in the short-run.

B What is the difference between an internal economy of scale and an external economy of scale? Give examples as part of your answer.

C What causes the short-run average variable cost curve to be the shape that it is?

SOLUTION

A Average cost is the cost per unit whereas marginal cost is the addition to total cost as a result of producing one extra unit.

When marginal cost is less than average cost then average cost is pulled down. When marginal cost is greater than average cost then average cost

is driven up. When marginal cost equals average cost then average cost remains the same. Marginal cost crosses average cost at its minimum point. A diagram is essential here and numerical examples would be very useful as follows- a firm is producing two units whose total cost is 12 and whose average cost is 6. It decides to produce one additional unit whose cost is 3 i.e. the marginal cost is 3. The total cost of the 3 units together is 15 and the average cost is now 5. So when the marginal cost of 3 is less than the original average cost of 6 then the new average cost falls to 5.

B An internal economy of scale is a factor that causes cost per unit to fall as the firm produces a larger number of units. Examples include the availability of

bulk buying discounts and the specialisation of the workforce.

An external economy of scale is a factor that causes cost per unit of the individual firm to fall as the industry, in which the firm operates in, grows in size. Examples include the establishment of specialised firms producing

component parts for the larger firms and the provision of specialized training courses for the workforce.

Both of these lead to a fall in the long-run average cost curve of the firm.

C The declining part of the average variable cost curve is caused by specialization of the workforce which causes the productivity of each worker to rise. The increasing part of the average variable cost curve is caused by the law of diminishing returns. This law states that as you add more and more of a variable factor of production to a fixed factor of production, eventually a point will be reached whereby the increase in output, as a result of employing the last factor, begins to decline





4 ECONOMIC GROWTH: In 2007 growth has been a little less than 5%. This very positive result has been mainly due to strong consumer demand and a slight increase in exports. Ireland's economic growth is way above the average for the EU of 2%. This increase in GNP causes the following:

- a) A rise in employment, Ireland has one of the best rates in the EU.
- b) A rise in demand-pull inflation, Ireland has one of the worst rates in the EU.
- c) An improvement in government finances, Ireland has one of the healthiest public finances in the EU.
- d) A disimprovement in the balance of payments as more imports are bought, Ireland has an unsustainable deficit with its foreign trade.

The prospects for growth in 2008 are not very good as the housing sector begins to implode and the stock market collapses. Some economic commentators are predicting a growth rate of 1% for 2008.

5 PUBLIC FINANCES: The public finances deteriorated in 2007. The government had anticipated a borrowing requirement of €550 million but ended up with a borrowing requirement of just short of €1700 million. This is because the construction sector has declined leading to a big fall off in stamp duty and capital gains tax receipts. The prognosis for 2008 is for a further slippage in government finances with Brian Cowan having to borrow a lot more in order to finance his major infrastructural projects. The national debt as a percentage of GDP is expected to be 25% in 2008 which is a very healthy figure indeed.

The Law Of Comparative Advantage Question

Country	Commodity	
	Food	Machinery
A	16 Tonnes	4 Units
B	32 Tonnes	16 Units
Total Output	48 Tonnes	20 Units

Using this example, explain the likely terms of trade between Country A and Country B.

SOLUTION

The Law of Comparative Advantage states that each country should concentrate on the production of those goods in which it has the greatest comparative advantage and trade with the rest of the world for its other needs.

In the above example B has an absolute advantage over A in the production of both food and machines. However it has a comparative advantage in machinery production. This is because B is 4 times better than A at machinery production but only twice as good as A at producing food. Therefore B should devote all of its resources to machinery production and A to food production. Both countries must then find a swapping rate (terms of trade) where they will both

gain from trading. To determine this swapping rate we must now examine the opportunity costs.

Let us examine B first - From its own resources if B decided to produce one less machine it would gain an extra two tonnes of food i.e. $32 \div 16$. Therefore when trading with A, it will require from A more than two tonnes of food for its one machine.

Let us now examine A - From its own resources, if A wished to produce one extra machine it would have to sacrifice 4 food i.e. $16 \div 4$. Therefore when it trades with B it will want to give B less than 4 food for one machine.

The terms of trade will be
1 machine > 2 food < 4 food.

Any figure more than two food and B will gain. Any figure less than four food and A will gain.

The terms of trade can also be stated as follows
- 1 food > .25 machines < .5 machines.

COMPETITION QUESTION

A What are the assumptions underlying Imperfect Competition?

B State 2 features of a firm in long run equilibrium in Imperfect Competition that would be common to a firm in long run equilibrium under Monopoly.

C Give an example of an industry operating under conditions of an Oligopolistic market structure.

D What does it mean for a firm to: 1) collude and 2) be a profit maximiser?

SOLUTION

A 1. There are a large number of buyers and sellers. Each seller acts independently and can influence the quantity sold by the price it charges for its output.

2. Product differentiation exists i.e. it has been established in the minds of the buying public, through competitive advertising and branding, that there are differences between products. The products are however close substitutes.

3. There is freedom of entry to and exit from the industry. No barriers to entry exist within the industry.

4. There is reasonable knowledge as regards profits and losses made by other firms, but consumers may not be fully aware of the prices being charged for different products

5. Each firm tries to maximise profits i.e. they endeavour to produce the level of output where marginal cost is equal to marginal revenue and they aim to minimise cost.

B 1. Both types of market structures are wasteful of resources i.e. they do not produce at the minimum point on the average cost curve. 2. Both face a downward sloping demand curve because both must lower price in order to increase demand.

C An example of an oligopolistic industry is the retail petrol market. In this market there are a few sellers such as Statoil, Esso and so on. The products sold are very close substitutes with companies maintaining brand loyalty by all sorts of product promotion schemes. The firms are also interdependent taking into account the likely reaction of their competitors to any changes they are going to make.

D 1. To collude means that a number of firms come together to manipulate the market in their favour, at the expense of the consumer, and at the expense of other firms that are not in the agreement.

They can do this in a number of ways such as limiting production and forcing up the price, dividing up the markets, not competing in each other's section, and not supplying those firms who buy from firms not in the agreement.

2. To be a profit maximiser the firm produces the level of output where $MC = MR$ and beyond that level of output $MC > MR$. Also in the short run a firm's revenue must cover its variable costs and make a contribution to its fixed costs. In the long run a firm's revenue must at least equal total costs including normal profit.

Quantity	Total Cost	Marginal Cost	Total Revenue	Marginal Revenue	Profit
1	110	110	100	100	-10
2	210	100	200	100	-10
3	280	70	300	100	20
4	340	60	400	100	60
5	380	40	500	100	120
6	430	50	600	100	170
7	530	100	700	100	170
8	650	120	800	100	150

The level of output 7 units is the maximum profit level of output because the MC of the 7th unit is 100 and this equals the MR of the 7th unit of 100. Beyond this level of output, at 8 units, MC of 120 is greater than MR of 100. The 8th unit costs 120 to produce and earns revenue of 100 resulting in profits falling by 20. There is one other level of output where $MC = MR$ and that is at 2 units. However this is not equilibrium because beyond that level of output $MC < MR$ i.e. at 3 units the MC is 70 and the MR is 100 so the 3rd unit adds 30 to profit.

The Economists

What are the fundamental differences between John Maynard Keynes, Milton Friedman and Adam Smith.

SOLUTION

John Maynard Keynes (1883 – 1946)

He wrote **The General Theory of Employment Interest and Money**. He represented the UK government at the Versailles peace conference in 1919 and at Bretton Woods in 1944. He strongly criticized the laissez-faire balanced budget policies of the UK government in the 1920's and 1930's. He maintained that full employment was not a natural state and that economies could settle in equilibrium at less than full employment i.e. an economy could slide into a slump and stay there. His unorthodox views created a storm among the establishment but he stuck to his view that the government would have to intervene in the economy, increase its own spending and raise aggregate demand to the full employment level. Keynes was not in favour of overthrowing capitalism but instead put forward ideas to support it. Keynes also had his Liquidity Preference Theory of Interest Rates and The Multiplier. Keynes was into controlling the economy through fiscal policy and demand management.

Milton Friedman (1912 – 2006)

He wrote **A Monetary History of the United States 1867-1960**, which he wrote jointly with Anna Schwartz. Friedman was against government intervention in the economy and advocated a return to free markets. He said that government intervention to increase aggregate demand simply caused inflation in the longer-term and had no effect on long-term unemployment. He believed that inflation was caused by a rapid growth in the money supply and that in order to control inflation the money supply must be restrained.



According to Friedman, who was very much in favour of the Classical Economists like Adam Smith, the welfare state should be reduced and the power of the trade unions should be curtailed because both led to labour markets operating inefficiently. He was also a strong supporter of privatisation and government withdrawal from the operations of the economy. He was a strong advocate of laissez-faire and opposed Keynes. He was into controlling the economy through monetary policy.

Adam Smith (1723 – 1790)

In 1776 Smith wrote **An Inquiry into the Nature and Causes of the Wealth of Nations**. He was one of the classical economists along with Ricardo, Malthus and others.

This work, in 5 books, argues for free markets in the sense that they serve the public interest better than any other system of organising the economy. According to Smith, like an invisible hand, free markets guide the resources of the economy into the most efficient method of production and consumption. Every person acting through their own private self-interest and operating through free markets, results in the promotion of the best interests of society.

He argued for laissez-faire at home and with foreign trade, and that the government should interfere as little as possible in the operations of the economy. He also saw the dangers of unrestrained economic activity, and that perfect freedom to operate might result in the development of monopolies, thereby damaging the consumer.

He also proposed the advantages of the specialization of the labour force and the canons of taxation.

ORDINARY LEVEL ECONOMICS

The structure and timing of the Ordinary Level Economics paper is the same as the Honours paper - (check above). A number of typical Section B questions are shown below.

BANKING/INTEREST RATES/EURO QUESTION

- a) **In the last 2 years the ECB has increased interest rates. State the effects of rising interest rates on the Irish Economy.**
 b) **What are the advantages of the introduction of the Euro for the Irish economy?**

SOLUTION

- a) 1 Savings are encouraged - therefore aggregate demand declines.
 2 Borrowing is discouraged - again aggregate demand declines.
 3 Those who have mortgages will find their monthly repayments rising - again aggregate demand declines.
 4 As a result of the above three factors aggregate demand falls and economic growth slows, creating unemployment, lower government revenue from taxes etc....
 5 The value of the Euro may rise as 'hot money' is attracted into the Euro area.
 6 The cost of repaying the domestic portion of The National Debt rises.

b) The advantages of the Euro to Ireland include:-

- 1 No exchange rate risk attached to business contracts within the Euro area.
- 2 The cost of changing the currency, within the Eurozone, is eliminated.
- 3 Consumers will be able to compare prices much more easily across all Euro countries. This is called transparency of pricing and should lead to price reductions on many items.
- 4 Consumers will have greater access to foreign insurance and financial services, which should reduce their cost as well.
- 5 Inflation should fall and economic growth should increase as the final barrier to international trade in Europe is removed

GOVERNMENT QUESTION

- a) **Name 4 government companies that have been privatised in recent years.**
 b) **State the positive and negative effects of the Irish government's National Debt.**
 c) **How does privatisation benefit 1 The consumer and 2 The taxpayer?**

SOLUTION

a) **Aer Lingus, Telecom Eireann, Greencore (Irish sugar) and Irish Life** are 4 companies that have been privatised in recent years.

- b) **Positive effects include:**
 1. Some of the money borrowed

by the government has been invested in the infrastructure adding to the efficiency of the economy.

2. Some of the debt has been used to improve schools, hospitals which is a major investment in the social capital of the country.
3. Extra borrowing by the government has resulted in increased demand, and this has helped to maintain employment.

Negative effects include:

1. National Debt has to be repaid in the future, with interest - this is a burden on future taxpayers.
2. A substantial proportion of the National Debt has been borrowed from foreign banks. If the Irish currency falls in value the Irish government ends up with a higher debt and higher taxation may have to be imposed. This only applies to money borrowed from outside the Euro zone.
3. Interest on the foreign portion of the National Debt results in a loss of income from the Irish economy and makes our GNP lower than what it otherwise would have been. This is part of Net Factor Income from abroad.

c) **1 The consumer benefits** from privatisation through lower prices and a better quality service.

- 2 The taxpayer benefits from privatization through lower taxes due to the government receiving extra revenue from the sale of the company, and the elimination of the need for the government to pay subsidies to some of their loss-making companies.



Business



KEITH HANNIGAN
Business Teacher

Keith Hannigan is the Senior Business and Economic Teacher at the Institute of Education. Keith graduated from T.C.D. in 1996 and has been teaching Higher Level Business and Economics for ten years. He has contributed to a number of newspaper articles on the Business and Economics.



TEACHER'S VIEW

Never take short cuts in your revision. You must study the entire course, all 7 units. You must never leave a unit out of your revision. Pay extra attention to Units 5, 6 and 7, as questions from these units will appear in all 3 Parts of the exam.

Michael Martin... Minister for Enterprise, Trade and Employment

PAPER STRUCTURE

ORDINARY PAPER

PART 1 – Short Questions (25% of the exam)
There are 15 short questions on the Ordinary level exam and students must answer 10. The question will come from all 7 units and students have 38 minutes to complete this section (roughly 4 minutes a question).

PART 2 – Long Questions (75% of the exam)
There are 8 long questions divided into 2 sections. Students must attempt 4 long questions.

Section 1 contains 3 questions from Units 1, 6 and 7.

Section 2 contains 5 questions from Units 2, 3, 4, 5.

Students can do 1 question from Section 1 and therefore 3 from Section 2

OR

2 from Section 1 and therefore 2 from Section 2. (Students roughly have 28 minutes to complete each long question)

HIGHER PAPER

PART 1 – Short Questions (20% of the exam)
There are 10 short questions on the Higher level exam and students must answer 8. The question will come from all 7 units and students have 36 minutes to complete this section (again roughly 4 minutes a question).

PART 2 – Applied Business Question (20% of the exam)
The Applied Business Question (ABQ is compulsory). You will read a short business Case Study and answer questions based on the story. The questions will be taken from 3 Units of the Course (There are 7 Units in the complete business course).

The Units for 2008 Sixth Year are Units 5, Unit 6 and Unit 7. There are 80 marks for the Applied Business Question, yet about 32 marks are available for simply quoting from the story to support your answer. In answering an Applied Business Question, State your Bullet point, then explain your point with references from the text and then back up each point with a quote from the text, the quote will link your answer to the story.

PART 3 – The Long Questions (60% of the exam)
There are 7 long questions divided into 2 sections. Students must attempt 4 long questions. Section 1 contains 3 questions from Units 1, 6 and 7. Section 2 contains 4 questions from Units 2, 3, 4, 5. Students can do 1 question from Section 1 and therefore 3 from Section 2.
OR
2 from Section 1 and therefore 2 from Section 2. (Students roughly have 27 minutes to complete each long question)

GENERAL ADVICE

■ A good strategy for Short Questions is to study and **practice answering the previous Part 1 Questions** from the past years, as they sometimes repeat.

■ The Short Questions may contain many questions that require the student to do some calculations, such as Ratios or Insurance. **So do not forget your calculator.**

■ A good tactic is to try to complete at least 9 short questions, if candidates have time remaining at the end of the exam, **as a contingency plan.**

■ **Highlight Key Words** in the questions in all parts of the exam.

EVALUATE – You must give your opinion, make a judgement.

ILLUSTRATE – You must explain the point and draw a graph to back it up.

DEFINE – Precise definition of the point and an example of the point.

COMPARE – Show similarities between the two points.

CONTRAST – Differences between the two points. Outline – Explain the point but leave out the in-depth detail (give extra bullet points).

ANALYSE – Give the advantages and disadvantages associated with the questions or the steps involved in the process being examined.

Applied Business Question

CLI - HE - 2003
CLI - HE LTD.

Clodagh is a new brand name in children's toys and games business. The name is also that of a new business venture that Clodagh has recently established. An engineering graduate with a flair for design, she has, to her credit, won two innovation awards for product development in recent years. Clodagh sees a bright future for a business with original ideas in the growing children's leisure business. The challenges of setting up a new business venture however are very significant, especially where to find the necessary resources and expertise.

Clodagh plans to market the Cli - He brand to a niche segment of the "green" market. This niche market is made up of environmentally conscious consumers, with high disposable income who have young families. The price of Cli - He products will reflect this environmental premium but the range will not, however, be as high as its competitors' products.

Clodagh plans that the business will be environmentally conscious in all its production methods and will use raw materials that are sensitive to the environment. Its marketing will make this green image clear to customers. The Irish base for this new business start - up has been agreed with Enterprise Ireland. Future plans include marketing its products into Europe, the United States of America and other parts of the world through the use of the internet. Clodagh feels that on - line trading is the way of the future and is a suitable way to market her new product range

to her target market.

QUESTION

Describe how Clodagh can ensure that Cli - He is an environmentally conscious company? (30 marks).

SOLUTION -

The question is 30 marks, so I have to give 5 detailed bullet points (6 marks each) on how Cli - He can become environmentally friendly and link my answers to the text with references and quotes.

■ Management Commitment

■ **Explain It** - Clodagh must exhibit high levels of personal commitment concerning environmental issues. She must ensure "Chi - He" is committed to do things in the most effective and efficient "environmentally friendly" way.

■ **References** - Socially Responsible Management like Clodagh who act as role models and set an ethical, caring culture within their firms "Clodagh plans that the business will be environmentally conscious".

■ Recycling / Waste Management

■ **Explain It** - Chi - He must minimise bad waste disposal practice and Clodagh should encourage a sorting system for the raw material, paper and glass waste from Chi - He "production methods".

■ **References** - This recycling will help Clodagh establish a

"niche segment of the green market" and will appeal to the "environmentally conscious consumers with high disposable incomes".

■ Environmental Impact Audits (EU Eco Audit Scheme) / Social Study

■ **Explain It** - Cli - He Ltd should conduct a Social Audit (EU Eco Audit Scheme) which is an independent study of the social impact of the Cli - He Ltd activities on the range of stakeholders affected by the firm's operations and the assessment Cli - He Ltd commitment to being "sensitive to the environment".

■ **References** - Clodagh must conduct an EU Audit on the impact of her new "environmentally conscious firm" and the impact of "the new Irish base for this new business start up" on the local environment and community.

■ The EU Eco audit should also focus on the environmental impact of her "childrens toys and games business".

■ Since Clodagh wishes to "marketing its (Cli - He) products into Europe" an EU Eco audit is vital for Cli - He Ltd to carry out, to ensure a "green image".

■ Sustainable Development

■ **Explain It** - Clodagh must adopt environmentally friendly "production methods" of using the planets resources to provide for the needs of the present generation, without damaging the planet for future generations.

■ **References** - Clodagh must ensure the machinery she purchases for "the new Irish base" is clean, quiet and effi-



cient. She has negotiated and could look for grants to help her achieve this, by generating a "green" image in her "niche market" by purchasing wood pellet heating systems and solar panels to generate power and heating. She can also ensure a sustainable development for Cli - He Ltd as she "will use raw materials that are sensitive to the environment". Clodagh should reject excess packaging on her products.

■ Shares and Consults / Transparency

■ **Explain It** - Cli - He Ltd must be transparent and honest about environmentally issued and Clodagh should not hide industrial accidents behind barbwire walls and closed doors.

■ **References** - Clodagh should be ready to listen and engage new methods and new ideas on environmental issues she may learn from "Enterprise Ireland" or over the "Internet". Clodagh must consults with all interested parties such as the "environment conscious consumers and Enterprise Ireland" when developing new plans such as, "marketing its (Cli - He) products into Europe, United States of America and other parts of the world through the use of the internet".





Student must be familiar with the management skills of communication

Long Questions

Unit 1

■ Unit 1 has a central theme of business relationships. You will study the relationship between the different stakeholders that all have distinct roles to play in the business. The examiner will expect you to be able to illustrate co-operative, competitive, and dynamic relationships within the enterprise.

■ The Law of Contract will form a legally binding relationship. With Industrial Relations and Consumer Laws you will investigate co-operative and competitive relationship that exist between the enterprise and its employees and with its consumers. Evaluate is a major verb in Unit 1.

PEOPLE IN BUSINESS

Describe the competitive and co-operative relationships that exist typically between Mecca and other businesses organisations. (20 marks) - 2004

20 marks question, you must give 4

detailed bullet points outlining the relationships within Mecca Enterprises. This long question is a mini applied business question in unit 1 and you must refer to the paragraph in your answer

The Chief executive of Mecca Enterprises, a national firm in the leisure business, believes that good relationships, which help in resolving situations of conflict between business organisations, are most important. At present, however, she feels that there is a very high risk of ongoing conflict into the future.

■ Co-operative Relationship exists where joint effort is required so people can work in unison to everyone's benefit.

■ Mecca will have a co-operative relationship with its suppliers who provided the leisure equipment for Mecca receiving the equipment on credit with discounts and paying for it on time. Mecca may also have a co-operative relationship with media as it uses media outlets to promote Mecca to its target market.

■ Competitive Relationship means the

UNIT 3

■ Unit 3 central theme is management. Student must be familiar with the management skills of communication, leading and motivating and the management activities of planning, organising and controlling.

MANAGEMENT SKILLS

Illustrate the importance of the management skills in the home, local community, Government department or in setting up a new business? (20 marks) - 2002

You must illustrate with examples the 3 management skills in action in one of the above options. 3 bullet points for 20 marks, therefore the marking scheme will be (7,7,6)

■ Management is the process of planning goals and achieving these goals through the use of their skills, staff, equipment and the financial resources available to them.

■ A skill is the ability to do a task expertly. The management skills are leading, motivating and communicating (define them if time).

■ In the home the management skill of leader-

ship is essential, as the parents act as role models for their children and influence their children to achieve their fully potential. The parents will lead the family through bad times and into good times.

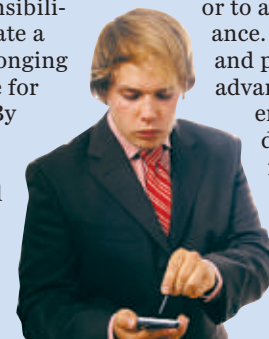
■ Democratic leadership will be used as the family consult before major decisions are made, and trust will be shown as the parents delegate roles to their children. Autocratic leadership maybe adopted when children need to be reprimanded. Free rein leadership will be adopted as the children get older and the parents set general guidelines, but allow the children the freedom to achieve their own goals without too much interference.

■ Motivation is demonstrated in the household, as the parents inspire and energise their children to achieve their full potential in life. Maslow can be seen to be used as parents praise their children, give them responsibilities and create a sense of belonging in the house for the family. By providing shelter, security and food the families needs are satisfied.

■ McGregor can be seen to operate in the household as the parents treat the children in a positive theory Y manner, thereby motivating their behaviour and increasing their commitment so family goals are achieved.

■ Communication is essential to the family household, to ensure disputes are resolved quickly. Meetings are used to find out family members opinions, to plan and gather information before decisions are taken, and to air grievances. Barriers to family communications are eliminated (padding, jargon, not listening), to ensure effective family communication at all times. The appropriate method of communication is always chosen to avoid conflict.

■ Feedback is used to clear up misunderstandings. Memos are used for short messages and letters are filled out to receive grants from government or to apply for insurance. Speeches are used and prepared in advance at family gatherings like weddings. In the modern world the internet is becoming an important communication tool within the family unit.



firm is trying to achieve its goals at the expense of the other stakeholders (Win/Lose Situation).

■ Mecca will have a competitive relationship with other leisure business in the area as it competes over price, quality of service, market share, sales and with promotional campaigns to gain new customers.

■ Businesses like Mecca therefore operate in a mixture of competitive and co-operative relationships with their stakeholders. Co-operating in research and development, marketing alliances, distribution and storage arrangement for their mutual benefit, yet competition occurs in areas concerning price (predatory pricing), sales, market share and advertising (competitive advertising) with its competition in the leisure industry.

UNIT 6

■ The central theme of Unit 6 is the Domestic Scene. Students must be familiar with issues such as, Ethics, Government and the Economy and Community Development.

■ Contrast, Compare and Analyse are importance verbs in Unit 6.

BUSINESS ORGANISATIONS

Contrast an Alliance with a Franchise. (30 marks) - 2003

30 marks, so give 5 detailed bullet points (6 marks each). The verb is contrast so show the differences between both organisational structures.

1. Both are formed by a contract, however alliances tend to be short term in nature, such as a Disney and MacDonal'd's alliance which will last the duration of the film. Franchises are long term contracts between the Franchiser and the Franchisee, where the Franchisee is given the licence to sell the product under the Franchise brand name, such as MacDonal'd's.

2. A business alliance is a relationship forged between the enterprises and despite the fact that the firm are still independent, a bond or link is created to unite them to promote the business interests of both and they work together as equal partners free of charge. A Franchise in contrast, occurs when the Franchisee asks for permission and pays the Franchiser an initial fee of as much as € 250,000 for permission to use the brand name so they are not two equals, as the Franchiser has most of the power.

3. The Franchisee must follow the strict rules in the contract, such as a KFC Licence will not allow the Franchisee to sell any food other than poultry, so with a Franchisee there are many restrictions on the Franchisee. In an alliance they are no initial restrictions as both parties in the alliance draw up the contract in terms that suit each of their goals.

4. High standards of the franchise must be maintained, yet if an individual outlet damages the reputation/brand name, then all franchises consequently will be damaged for the following weeks, such as an individual Burger King having poor hygiene standards published in a newspaper, all Burger Kings suffer. In the alliance if one of the firms damages their reputation the other firm will simply break the alliance without any damage done to its reputation.

5. Franchises benefit from economies of scale as the franchiser due to the centralised purchasing of stock. Promotional Alliance occur when the firms in the alliance promote each others goods, such as MacDonal'd's and Disney to increase their sales, yet the economies of scale are not as significant as those enjoyed by a Franchisee.

UNIT 5

■ **The central theme of unit 5 is marketing. The process of identifying customers needs and then producing the correct product, at an appropriate price, promoted in a manner that will reach and appeal to the target market and sold in the correct place, so customers needs are satisfied. Break even analysis is in this unit and student must practice this question regularly.**

MARKETING MIX

Evaluate the Marketing Mix for a Product of your choice. (30 marks)
The examiner wanted 4 bullet point (Marketing Scheme 7,7,6,6). You must illustrate for a product of your choice, so you must use and develop the same example in each bullet point. You must give your opinion on each element of the Marketing Mix.

PRODUCT

Louis Cartier pens – target market are businesspeople and professionals.



UNIT 7

■ **The central theme in Unit 7 is the international scene. Students must be able to back up each point with an example of how it affects Irish businesses.**

GLOBAL MARKETING

Discuss the Role / Importance of Global Marketing for Irish Business? (20 marks) – 2004
20 marks, Define Global marketing and give 4 Bullet Points required and students must relate global marketing to the Irish economy.

1. Globalization – Is a modern strategy that Irish firm must understand to compete in the modern business environment. The world is viewed as a single market by global firms, who produce and sell goods and services in the same way worldwide, regardless of culture, traditions, language or characteristics of the local market, by concentrating on the similarities between people worldwide (common global needs) and produce a product to satisfy these global needs successfully.

2. Economies of Scale – Irish firms must understand the importance that if they go global, they will enjoy economies of scale, such as mass production, continuous production lines, bulk buying discounts, and cheap labour and lower construc-

tion costs. Irish Distillers Ltd., enjoys economies of scale as it exports 1 million cases of Jameson Whiskey worldwide.

3. Global Adaption to Ensure Success and No Offence – However Irish firms must understand the importance that global firms do accept that the world market is not totally homogeneous and realize that some of their products need small changes to suit a specific global market or to ensure certain global cultures are not offended (product adaption). The Irish brand of Alcohol Irish Mist had to adapt its name to suit the German market.

4. Management Activities – Irish firms must understand the importance of globally planning, globally organizing (video conferencing) and globally controlling all their activities on a global basis, such as the Quinn Groups' recruitment of staff is planned and advertised on a global basis by using international magazines like the Economist, to ensure Irish global firms have access to the world premium personnel.

5. Global Brand – Global firms products are globally marketed under the one common global brand (Nike Air, Apple iPods). The global firm tries to supply identical products under the one brand name to the global market place. Such as Waterford Crystal, which sells its product range under the family brand name in top department stores in more than 70 countries (It has become one of Irelands greatest consumer exports).

Product

- Produced in metallic and silver (gold and silver colours give an exclusive image).
- The product is produced mainly in black ink (blue rarely).
- It is recyclable (refills – eco friendly).
- It has a high quality Brand name, to appeal to businesspeople.
- In its lifecycle, the average Cartier pen has 1 owner and a guarantee given.
- Cartier pens are packaged in luxurious and

expensive wooden boxes, to give a high quality image.

■ In my opinion the product looks executive and has an expensive and luxurious brand name that will appeal to the target market, helping Cartier achieve its goals. The metallic high quality of the pen will appeal to business people because it will make them professional looking in board meetings.

Price

■ The price is the value placed on the product in the market place.

■ The Cartier Fountain pen has a high price of €1,150.00, to give them an exclusive image and a psychological ego boost to the purchaser (premium pricing).

■ In my opinion this high price strategy will help increase the sales of Cartier pens, as it gives the pen a premium image and exclusive which will appeal to the high income target market.

Promotion

■ Cartier relies on persuasive advertising to communicate to its target market and generate sales.



McDonalds... a triumph of global marketing

■ Cartier advertises in business magazines like the Economist and on in-flight magazines, to capture the business class section of most commercial flights (and often in cinemas).

■ Merchandising is vital for Cartier as they display their pens in luxurious rotating glass boxes cabinets.

■ In my opinion advertising in the Economist and on in-flight magazines is an effective promotional strategy by Cartier as they will reach their target market through these specific mediums.

Place

■ Cartier pens are sold in exclusive jewellery shops (by-passing the wholesaler) or specialised city centre pen shops in luxurious surrounding in both cases.

■ Cartier pens are also sold on commercial flights, to their target market sitting in the business class section of the plane.

■ In my opinion selling the Cartier pens in luxurious jewellery shops will appeal to the target market and by selling their product on commercial flights to the business class is an effective strategy, as business people return home from a success contract negotiation may reward themselves with a Cartier pen.

Higher level The A1 Business Student's view

Gillian Judge
Age: 20
School: The Institute of Education
From: Donaghmede, Dublin 13
Results: Six A1s (600 points) in Leaving Cert 2007: Business A1, Biology A1, Chemistry A1, Home Economics A1, Agricultural Science A1, Geography A1.
College: Now studying Medicine in Trinity College

You may have noticed from the factfile above that I am 20. I sat the Leaving Cert for my third time last year because unfortunately I accidentally completed just 7 questions instead of 8 when I first repeated Chemistry the year before - I was just half a per cent short of Medicine!

So the most valuable advice I could give anyone sitting the exams this June is to make sure you answer all the questions you are supposed to. I know it's easy to make a mistake in an exam when you're under pressure!

In any Leaving Cert paper it's really important to know exactly what is expected of you. From the terminology used, the marking, the amount of information required, to the layout and timing. Knowing this helps you both to structure your study and then to approach the paper in the best possible way to maximise marks.

I repeated my Leaving Cert twice and I found I was much better prepared when I knew exactly what was expected. I learned to make sure I knew everything there was to know about a paper's layout and marking before I sat it or even began to study for it. This was particularly important in the subjects I took up and studied in just one year. As I was studying a two year course in just one year it was important to prioritise.

In Business, questions are often not asked in a straightforward way. You must know exactly what terminology like 'Illustrate' (explain using examples) or 'Evaluate' (explain and give your opinion) means. That tells you what the examiner is looking for in your answer. Marks are given for the examples and opinions and if you don't understand the terms you will lose marks. I usually highlighted the term in a question so I remembered to give the extra information e.g. my opinion.



It can be difficult to know how much to write for a question in Business and it is easy to write too much. I preferred to answer in bullet points as I felt it structured my answers and I avoided waffle. If a question is worth 20 marks, 4 points should be given unless the term is outline then 5 shorter points should be given. The general rule is to divide the marks by 5, give this number of bullet points, and spend two minutes on each bullet point or 8 minutes for each 20 mark question. A 40 mark question, however, usually will not require you to write 8 bullet points. Generally 6 bullet points will be enough with plenty of detail; again look at the question - it may ask for recommendations so after each detailed bullet point you must give your recommendations also.

Analysing the paper layout is probably what helped me most as it helped me to approach my study in the most practical way! I would advise students to do the same. The Applied Business Question is probably the most important part of the paper. It is worth 20% and is on units 5, 6, and 7 this year. As this is a compulsory question I would advise students to start by studying these units and know them inside out. This helps maximise marks in the ABQ and there will be at least 2 if not 3 long questions from these units in the long question section. Quoting from the passage is extremely important in the ABQ and can be worth almost half the marks...so half the marks are on the page in front of you! Read the questions first, then the passage, and highlight relevant quotes for your answer as you go through it. Always use the company's name; your

answer must be specific to the story.

The other units are important also, of course, for both the short and long questions. It is possible to prioritise these units when studying also by analysing the paper. For example there is generally a long question on unit one; this is a short unit and by knowing it well you can maximise your marks in this question.

When sitting the actual exam it is important to use your time wisely! It can be difficult to finish the paper which is why it is important to know the material well as there is not much time to think and you must write quickly from the very beginning.

The short questions like the ABQ are also 20%. I did them all, giving 2 bullet points and an example. I always tried to get them done in 20 minutes so I could use the extra time to spend 60 minutes doing the ABQ and 25 minutes for each long question.

I would advise you to read all the questions and don't panic! Often on first reading questions can appear daunting but when you get into it you will find you know more than you had thought! Make sure you choose the questions in which you can answer the most parts; there is no point beginning a question because you can do part (a) and then discovering you can't do part (b) or (c).

In the long questions also remember that you must do one question from part one, two questions from part 2 and one other question. If you do more than 2 questions in part one the third will not be counted! Likewise no more than 3 questions can be chosen from part 2.

Accounting

TEACHER'S VIEW

As the day of reckoning begins to draw closer and closer, one sure-fire way of alleviating that sinking feeling in your stomach, is to practise at least one accounting question every day, preferably from previous leaving certificate examination papers. Have these answers corrected by your teacher and then fine-tune yourself by examining very closely where you have made your errors. Continue with this policy right up until the end of May and this will result in a huge improvement in your grade.

Do not make the mortal error of assuming that just because a topic appeared on last year's examination paper, that it cannot be asked on this year's paper. There have been numerous occasions when a topic has appeared on the paper two years on the trot. Don't fall into this trap and be caught with egg on your face. So remember that there are no shortcuts on the road to success, cover the entire course. It will be worth it, and remember that the only place that success comes before work is in the dictionary. Success is said to comprise 2% inspiration and 98% perspiration. So get on with it and don't look back in 5 or 6 months time and say "if only I had done this or done that". Don't do it for anyone else, including your parents, do it for yourself and do it now.



ARTHUR RUSSELL
Accounting Teacher

Arthur Russell, B.Comm., H.Dip. (Hons), is the head of the business department in the Institute of Education and also teaches in Stratford College, Rathgar. He has written articles for many publications, including *Business and Finance*, *Exambrief* and other business magazines

PAPER STRUCTURE Total Marks 400

SECTION 1 120 MARKS

Answer Q1 or two other questions

Q1 (Final Accounts)	120 marks
Q2	60 marks
Q3	60 marks
Q4	60 marks

SECTION 2 200 MARKS

Answer 2 Questions

Q5	100 marks
Q6	100 marks
Q7	100 marks

SECTION 3 80 MARKS

Answer 1 Question

Q8	80 marks
Q9	80 marks

Students must answer 4 or 5 questions depending on their choice in section 1.

Financial Accounting is examined in Section 1 and 2.

Cost & Management Accounting is examined in Section 3.

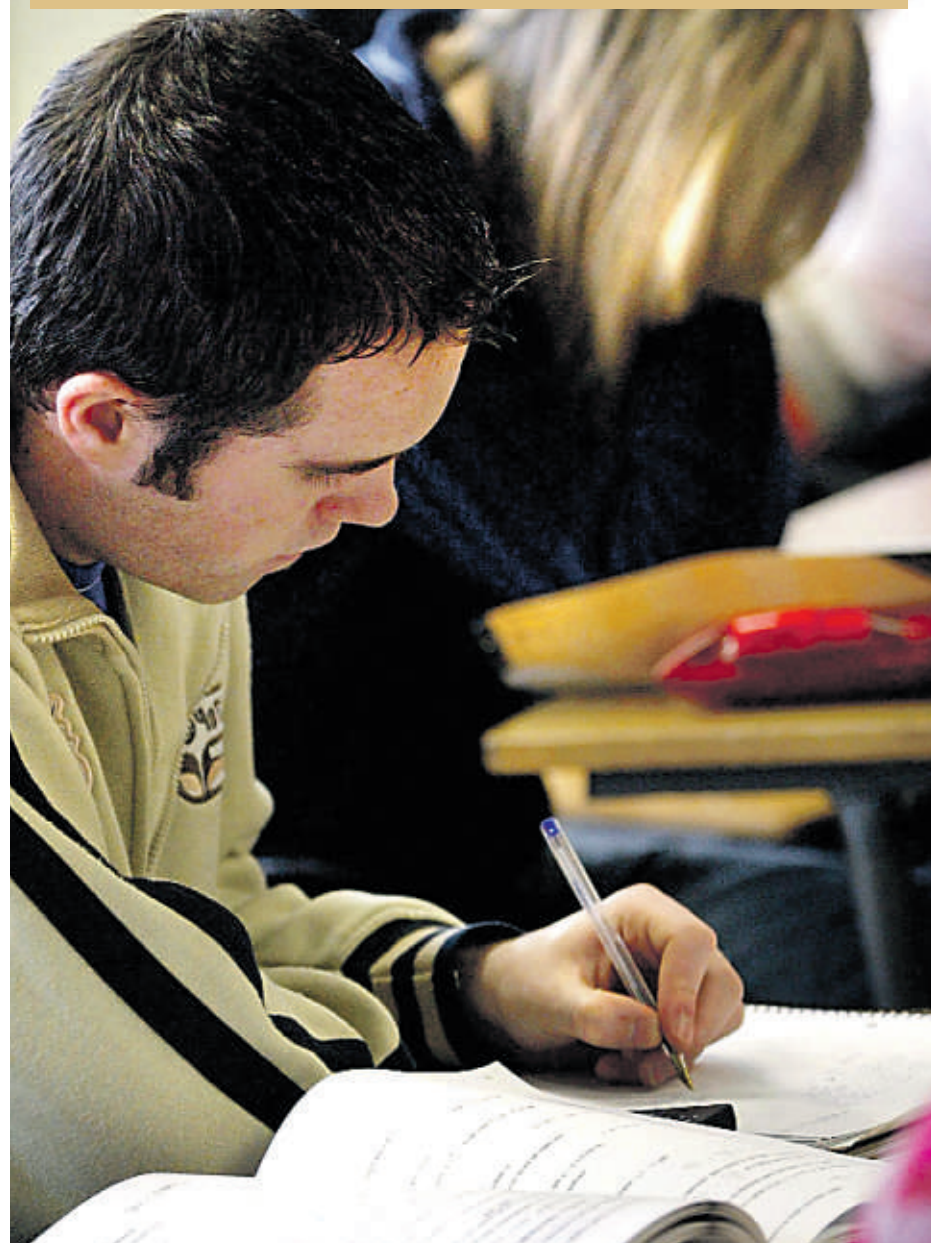
TIMING

The exam lasts for 3 hours i.e. 180 minutes. With 10 minutes allocated to reading the paper this leaves 170 minutes to answer 4/5 questions depending on your choice in Section 1.

Question one - 120 marks - 52 minutes approx.
All 60 mark questions - 26 minutes approx.
All 100 mark questions - 42 minutes approx.
All 80 mark questions - 34 minutes approx.

Accounting - Simply the best

Accounting is of course one of the best subjects to study in the Leaving Certificate having the highest percentage of A grades among the Business subjects and one of the highest among all Leaving Certificate subjects. As well as this, it is a great foundation for business management with most Managing Directors having some sort of accounting qualification.



GENERAL ADVICE

1 . **Timing** is crucial in any Accounting exam. Students must stick rigidly to the timing advice given above. Many students find themselves with 15 minutes left in the examination hall and one full question to do. Panic then sets in and the student doesn't do himself justice.

2 . Accounting cannot be learnt. **Continual practice** of previous examination papers is vital. Of course there is a **little theory** that has to be studied carefully. Any student wishing to score an A1 must have a reasonable knowledge of the theory of Accounting.

3 . Have plenty of rough work pages for calculations. Keep these **close to each question** so that the examiner can apportion marks for any work completed in a satisfactory manner. Students run the risk of scoring zero marks if they omit their workings. Remember that workings can be laid out in note form or account form.

4 . Do not attempt **question one** unless you have a thorough working knowledge of all of the adjustments. These adjustments include: - Damaged Stock;

Patents written off; Bank Reconciliation Statements; Disposal of Fixed Assets and Depreciation; Revaluation of Fixed Assets; Debenture Interest due; Investment Income due; Bad Debts provision; Goods in transit; Suspense; VAT; Capital Expenditure; Sale or Return; Dividends etc.

5 . Remember that any **Financial Accounting** topic can appear in **Section 1** (a short 60 mark question) or in **Section 2** (a longer 100 mark question). Topics, such as, Tabular Statements, **Correction of Errors**, Published Accounts, Cash Flow Statements, Club Accounts, Service Firms, would be regarded as normal Section 2 questions but have often been shortened and asked as Section 1 questions. There is even the possibility that a Farm Account which is normally a Section 1 question could be extended and be examined in Section 2.

6 . Do not attempt to answer the **Correction of Errors** topic unless you have a solid understanding of the **basic double-entry system** i.e. debits and credits. The following might be a useful guide –

Assets are normally on the debit side of their own accounts, and these accounts include premises, vans, equipment, investments, goodwill, patents, debtors, bank, cash, drawings.

Liabilities are normally on the credit side of their own accounts, and these accounts include creditors, bank overdraft, loans, capital.

ASSETS AND LIABILITIES ARE RECORDED IN THE BALANCE SHEET.

Expenses are normally on the debit side of their own accounts, and these accounts include purchases, wages, light and heat, discount allowed, repairs, rent, bad debts, interest etc....

Gains/Income are normally on the credit side of their own accounts, and these accounts include sales, rent receivable, discount received, bad debts recovered, interest receivable.

EXPENSES AND GAINS ARE RECORDED IN THE TRADING & PROFIT & LOSS ACCOUNT.



FREQUENCY OF TOPICS

	2007	2006	2005	2004	2003	2002	2001	2000
Financial Accounting								
Final Accounts	120C	120ST	120M	120C	120 ST	120 C	120 M	20C
Ratio Analysis	100	100	100	100	100	100	100	100
Correction of Errors		100		100		60		100
Tabular Statements	60	100		60		60	60	
Published Accounts		60	100		60	100		60
Cash Flow Statements		60		60			60	
Club Accounts				100		100		
Service Firms	100		60		100		100	60
Farm Accounts		60						
Depreciation			60			60		
Revaluation	60			60	60		60	
Incomplete Records	100		100		100		100	100
Control Accounts	60D		60C		60 D			60C
Cost and Management Accounting								
Product Costing	80		80		80	80		80
Cash Budgets	80			80		80		80
Production Budgets			80				80	
Flexible Budgets		80			80			
Marginal Costing/Absorption Costing		80		80			80	

In Final Accounts above - C = Company Accounts; ST = Sole Trader Accounts; M = Manufacturing Accounts.

In Control Accounts above - D = Debtors Control Accounts C = Creditors Control accounts.

The following are two typical questions.

A typical SECTION 1 or 2 QUESTION is a Club Accounts Question, which would score 60 or 100 marks. Students should complete this question in approximately 26 or 45 minutes depending on whether it is in section 1 or 2.

CLUB ACCOUNTS

Included among the assets and liabilities of the The Jeff Sherwin Sharon Dunne Squash Club, on the 1/1/07 were the following - Buildings 780,000, Equipment 9,000, Stock 7,000, Bar Creditors 3,200, 8% Investments 40,000, Subscriptions in advance 2,000, Life Members 32,000, Bar Debtors 190, Investment Income due 300, Levy Reserve Fund 30,000, Wages due 3,000.

The club treasurer Lydia Harte, has supplied the following account of the firm's activities during the year ending 31/12/2007.

Receipts and Payments Account

€		€	
Investment Income	1,300	Bank current account	17,200
Catering receipts	8,000	Equipment 1/1/2007	5,000
Annual sponsorship	25,000	Purchases	110,000
Bar Receipts	130,000	Catering Costs	7,000
Subscriptions	290,000	Coaching Lessons	3,900
		Sundry expenses	85,000
		Building Society 31/12/07	200,000
		Repayment of 20,000 loan on	
		31/12/2007 together with 15	
		months interest	23,000
		Balance 31/12/2007	3,200
	<u>454,300</u>		<u>454,300</u>

You are given the following additional information -

- 1 Bar stock at 31/12/2007 is 18,800.
- 2 Equipment owned on the 31/12/07 is to be depreciated at the rate of 20% of cost per annum and Buildings at the rate of 2% p.a. on cost
- 3 Bar debtors and bar creditors on the 31/12/07 are 300 and 3500 respectively.
- 4 Subscriptions include -
 - a) 3 new life members of 5,000 each.
 - b) Subscriptions for 2008 of 1,500.
 - c) Levy for 2007 of 400 each on 100 members.
 - d) Levy of 400 each on 10 members for 2006.
- 5 Life members are to be written off over a 10-year period beginning in 2007.

You are required to show -

- a) The Club's Accumulated Fund on 1/1/07.
- b) A Bar Trading Account for the year ended 31/12/07.
- c) The Club's Income and Expenditure account for the year ended 31/12/07.
- d) The Balance Sheet as at 31/12/2007.

SOLUTION A Accumulated Fund at the 1/1/2007

Assets 1/1/2007		Liabilities 1/1/2007	
Buildings	780,000	Creditors	3,200
Equipment	9,000	Prepaid income	2,000
Stock	7,000	Loan	20,000
Bar Debtors	190	Interest due on the loan (note 1) (3 months of 2006)	600
Investments	40,000	Life Members	32,000
Investment Income due	300	Levy Reserve Fund	30,000
Levy due on 10 members for 2006	4,000	Wages due	3,000
	<u>840,490</u>	Bank Overdraft	17,200
		Accumulated Fund 1/1/07	<u>108,000</u>
			732,490

Note 1 The interest due at the 1/1/07 is the interest for the 3 months of 2006 not paid in 2006. To calculate the 600 - divide the total interest of 3,000 by 15 months and multiply that figure by 3 months.

SOLUTION B Bar Trading Account for Y/E 31/12/07

Sales (note 2)		130,110
Cost of Sales		
Opening Stock	7,000	
Purchases (note 3)	<u>110,300</u>	
	117,300	
Closing Stock	<u>(18,800)</u>	<u>(98,500)</u>
Bar Profit		31,610

Note 2 - The sales figure of 130,110 is calculated as follows - take the bar receipts of 130,000 and subtract from this figure the debtors at the 1/1/07 of 190. Then add to this figure the debtors at the 31/12/07 of 300.

Note 3 - The purchases figure of 110,300 is calculated as follows - take the bar purchases of 110,000 and subtract from this figure the creditors at the 1/1/07 of 3,200. Then add to this figure the creditors at the 31/12/07 of 3,500.

SOLUTION C The Income and Expenditure Account for Y/E 31/12/07

Income		Expenditure	
Bar profit		Sundry Expenses (note 7)	82,000
Investment Income (40,000 x 8%)	3,200	Coaching lessons	3,900
Catering profit (note 4)	1,000	Interest on loan for 12 months	2,400
Annual sponsorship	25,000	Depreciation on Equipment (9,000 + 5,000) x 20%	2,800
Subscriptions (note 5)	231,500	Depreciation on Clubhouse (2% of 780,000)	<u>15,600</u>
Life Members subscriptions (note 6)	<u>4,700</u>	Excess of Income	106,700
	297,010		190,310

Note 4 Catering Profit -

Catering Sales 8,000
Catering Costs 7,000
Catering Profit 1,000

Note 5 Subscriptions -

Subscriptions received in cash in 2007	290,000
Subscriptions in advance 1/1/07	2,000
Life Members	<u>(15,000)</u>
Subscriptions in advance 31/12/07	<u>(1,500)</u>
Levy Fund for 2007 (100 x 400)	<u>(40,000)</u>
Levy Fund for 2006 (10 x 400)	<u>(4,000)</u>
	231,500

Note 6 Life Member Subscriptions -

Life Members at 1/1/07 32,000
Life Members for 2007 15,000 = 47,000/10 years = 4,700.

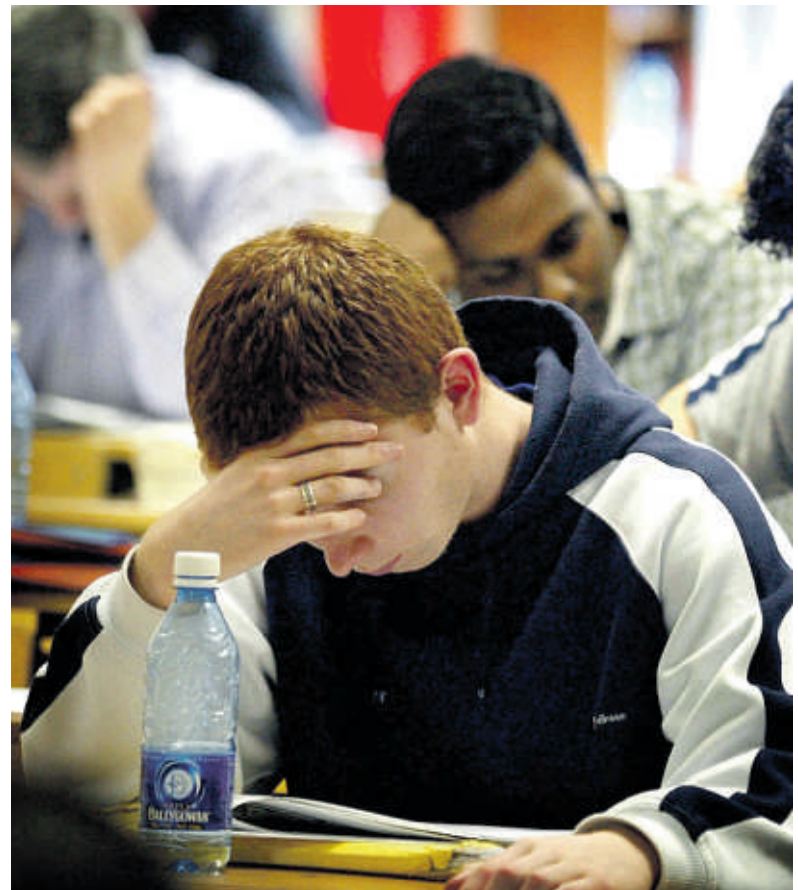
Note 7 Sundry Expenses -


Sundry Expenses paid	85,000
Wages due 1/1/07	<u>(3,000)</u>
	82,000

SOLUTION D Balance Sheet at 31/12/2007

Fixed Assets	Cost	Depreciation	Net
Buildings	780000	15600	764400
Equipment	14000	2800	11200
	<u>794000</u>	<u>18400</u>	775600
Investments			40000
Building Society			<u>200000</u>
			1015600
Current Assets			
Stock		18800	
Debtors		300	
Interest Due	3,200 less (1300 - 300)	2200	
Bank		<u>3200</u>	
		24500	
Current Liabilities			
Creditors	3500		19500
Subs Prepaid	<u>1500</u>	(5000)	<u>1035100</u>
Financed By			
Accumulated Fund		732490	
Excess of Income		<u>190310</u>	
		922800	
Levy Reserve Fund (30000 + 40000)		<u>70000</u>	
		992800	
Life Members (32000 + 15000 - 4700)		<u>42300</u>	1035100




It is very important to study the likely theory questions on Club Accounts because, as sure as night follows day, there will be one, and it might be worth anything up to 15% of the marks allotted to this question.





The Institute of Education
79/85 Lower Leeson St., D.2 (Beside the LUAS)

Choose Wisely
Choose Excellence
Choose **The Institute of Education**

Pre-University College

The Institute of Education has the best choice of teachers available anywhere. One of its aims is to help all students reach their full potential. A comprehensive list of academic, non-academic and sporting activities is also offered. Perhaps no other school, state or private, can offer such a combined range of subject choices. The Institute of Education is truly a Pre-University College.

Design the academic programme which suits you best.

State of the Art Facilities

- Science Laboratories • Home Economics Kitchen • Computer Room
- Study Rooms • Art Rooms • Music Rooms

Why Choose 5th Form at The Institute of Education?

Because you want the best...

- Teachers • Facilities • Choices • Results • Opportunities

Excellent Teachers + Hard Working Students = Outstanding Results

For the best opportunities at Third Level. The Institute of Education is now the number 1 top provider of students to...

- Irish and U.K. Universities • The Royal College of Surgeons
- Institutes of Technology • Colleges of Education

Tel: 01 661 3511 | Fax: 01 661 9050 | www.ioe.ie | info@ioe.ie

Online Booking now available at www.ioe.ie

A typical section 2 question is a Ratio Analysis Question which would normally score 100 marks. This is 25 % of the overall marks. Therefore you can allow yourself a little less than 45 minutes to complete this question.

Ratio Analysis

The following figures for the year ending 31/12/2007 have been taken from the accounts of Alan Patterson Karna Walshe Ltd. a company engaged in the sale of antiques and art.

Trading Profit and Loss Account for y/e 31/12/2007

Sales		800,000
Stock 1/1	70,000	
Purchases	<u>500,000</u>	
	570,000	
Stock 31/12	<u>(130,000)</u>	<u>(440,000)</u>
Gross Profit		360,000
Operating Expenses		<u>(94,000)</u>
Operating Profit		266,000
Interest		<u>(16,000)</u>
Proposed Dividends		<u>(120,000)</u>
Retained Profits		130,000
P+L Balance 1/1		<u>100,000</u>
P+L Balance 31/12		<u>230,000</u>

Balance Sheet as at 31/12/2007

Fixed Assets		950,000
Investments (market value 120,000)		100,000
Current Assets	390,000	
Current Liabilities	<u>(150,000)</u>	<u>240,000</u>
		<u>1,290,000</u>

Financed By		
5% Debentures 2010 secured	320,000	
Ordinary Share Capital - €1 shares	500,000	
10% Preference Share Capital	240,000	
P+L Balance	<u>230,000</u>	

The market value of one ordinary share €1.60

The relevant ratios for 2006 include the following -

Earnings per share	15 cent
Price earnings ratio	7 years
Return on capital employed	15%
Interest cover	5 times
Acid test ratio	1.3: 1
Gearing - based on the debt to equity %	70%
Dividend Yield	5.7%
Market price	€1.05
Dividend per share	6 cent

- A) Calculate the following -**
- 1 The Price Dividends Ratio.**
 - 2 The Return On Capital Employed.**
 - 3 The Earnings per Share.**
 - 4 The Dividend Cover.**
 - 5 The Interest Cover.**

B) Would The JRUSSELL Bank be willing to give a loan of 200,000, at 6% pa, to this company, for expansion purposes?

SOLUTION A

A 1 THE PRICE DIVIDENDS RATIO - This is the number of years it will take an investor to recover his investment in one share based on the present dividend payout rate.

The formula is
$$\frac{\text{Market price}}{\text{Dividends per share}}$$

Market price is given in the question but the dividend per share (dps) is not. This is calculated as follows-

$$\frac{\text{Total dividend less the preference dividend}}{\text{No. of issued ordinary shares}} = \frac{120,000 - 24,000}{500,000} = \mathbf{19.2 \text{ cent per share}}$$

The preference dividend is 10% of the Preference Capital of 240,000 = 24,000

The price dividend ratio is
$$\frac{160 \text{ cent}}{19.2 \text{ cent}} = \mathbf{8.33 \text{ years}}$$

2 RETURN ON CAPITAL EMPLOYED

The formula is
$$\frac{\text{Net profit} + \text{Debenture interest}}{\text{Capital employed}} \times \frac{100}{1} = \frac{250,000 + 16,000}{1,290,000} \times 100 = \mathbf{20.62 \%}$$

The debenture interest is 5 % of the Debentures of 320,000 = 16,000

The capital employed is the total of the financed by section of the balance sheet.

3 EARNINGS PER SHARE --- This is the profit, left over to the ordinary shareholders, per share and it is calculated as follows.

$$\frac{\text{Net profit less preference dividend}}{\text{No. of issued ordinary shares}} = \frac{250,000 - 24,000}{500,000} = \mathbf{45.2 \text{ cent per share.}}$$

4 DIVIDEND COVER ---- This is the number of times that the profit left over to the ordinary shareholders covers the dividend paid out to those same shareholders.

The formula is
$$\frac{\text{Earnings per share}}{\text{Dividends per share}}$$

The earnings per share we have already calculated in part 3 to be

45.2 cent per ordinary share.

The dividend in cent per share is calculated in part 1 above as 19.2 cent per share

$$\text{Dividend Cover} = \frac{45.2 \text{ cent}}{19.2 \text{ cent}}$$

= **2.35 times**

5 INTEREST COVER - This is the number of times that the operating profit covers the debenture interest.

The formula is
$$\frac{\text{Net Profit plus Interest}}{\text{Interest}}$$

$$\frac{250,000 + 16,000}{16,000}$$

= **16.63 times**



Don Browne and Barry Singleton who won the UCD L&H Schools' Mace Debating Competition 2007 were in the Fifth Form College in the Institute of Education and are now in Sixth Form

SOLUTION B)

The analysis section requires at least 6 points with each one fully developed. The following are the suggested headings to be used for analysis purposes –
The Bank Manager **should grant a loan** for the following reasons:

1 LIQUIDITY – Liquidity determines whether a company can or cannot pay its current liabilities out of its liquid assets.

The Acid Test Ratio is $\frac{\text{Current assets less Stock}}{\text{Current liabilities}}$

$$\frac{390,000 - 130,000}{150,000}$$

$$= 1.73 : 1$$

The norm is 1: 1. The firm is liquid and the position has improved on last year when it was 1.3: 1. For every €1 in current liabilities there is €1.73 in liquid assets. However the extra interest payments will worsen the liquidity position of the firm in the short-term.

2 PROFITABILITY - This is measured by the return on capital employed, which has been calculated in part A above at 20.62 %. The firm is profitable because it is earning more than 4 times the return from risk free investments of approximately 5 %. It has also improved on last year's figure of 15%. And it is well above the interest charge of 6% on the new loan. This will please the Bank Manager because it shows that the company will be able to generate funds to pay the interest.

3 GEARING- This is an examination of the long -term capital structure of a firm to find out if the company is financed by Debt or by Equity. There are a number of formulae that can be used at this point, all fully correct. The one used here is the Debt to Equity percentage.

$\frac{\text{Debentures + Preference Share Capital}}{\text{Ordinary Share Capital + Retained Profits}} \times 100$

$$\frac{320,000 + 240,000}{500,000 + 230,000} \times 100 = 76.7 \%$$

The firm is not highly geared at 76.7% but the position has worsened on last year's figure of 70%. The company is financed more by equity than by debt. Including the new loan however, the firm becomes highly geared at 104.1%, so the bank may be reluctant to give it a loan of 200,000 for this reason.

The formula Debt to Capital Employed is fully acceptable in the analysis of gearing, however, with this formula the percentage must be less than 50% to be lowly geared.

INTEREST COVER – The present interest cover is 16.63 times. The company can easily pay its interest charges out of profits, and the situation has improved on last year when the cover was 5 times. The extra loan will worsen the interest cover . The bank will be very happy about the company's ability to meet its interest charges.

4 PURPOSE - The loan is for expansion purposes and the bank will be very pleased with this because this will generate extra revenue, which can be used to service the loan.

5 SECURITY - The bank will want to know the real market value of the fixed assets in case the company defaults on the loan. At the moment the cost of the fixed assets is 950,000 and there are already debentures secured against these of 320,000. This leaves 630,000 left over, as security against a new loan of 200,000 and this seems adequate to satisfy the bank's needs for security. As well as this the company has investments that are valued at 120,000 having cost the company 100,000. However we need more information on the present debentures because we don't know whether the security is fixed or floating.

6 DIVIDEND COVER - This shows how much of the profits are retained for future expansion purposes and the repayments of loans. These figures have been calculated in part A above. The cover is 2.35 times – out of an earnings per share of 45.2 cent the company is paying dividends of 19.2 cent and retaining 26 cent. The bank will be very pleased with this because the company is retaining plenty of the profits for future expansion purposes, or for the setting aside, into a reserve funds, to go towards the repayment of the loan. Last year's cover was 2.5 times.

Other points that could be discussed include market price; sector; investment policy and so on.

Be very careful in the analysis section because in 2007 students were given the projected ratios for next year rather than last year's figures.



The Institute of Education

79 - 85 Lower Leeson Street D.2.

...Beside the LUAS



Results day at the Institute of Education.
Two of the IOE Students who received 7 A1's



U.C.D. Scholars. Institute of Education students who were awarded U.C.D. Entrance Scholarships in November 2007

Nobody Forgets a great Teacher...

Teaching excellence and the Institute of Education are, and always have been, synonymous. Indeed, some of the Institute's teachers have become legends in their own time, such is the quality of their teaching and the high level of their results. A significant cohort of teachers have been with the Institute for two or even three decades.

The Institute of Education's teachers are renowned for:

- *An established reputation for teaching excellence and dedication*
- *A proven record of exam achievement by their students*
- *Their commitment to the academic success of their students*
- *Their energy and enthusiasm*

Many of our teachers are authors of standard school textbooks and are contributors to educational publications and educational radio programmes. Our teachers are keenly aware of examination techniques and requirements.

Class Notes

While priority is, and always has been, the excellence of the classroom tuition the Institute further specialises in providing extra help for its students in the form of notes. Summaries of topics taught, sample papers containing examination-type questions with model answers etc., are given wherever necessary, in order to clarify and reinforce classroom tuition.

Examination techniques

Teachers will concentrate on examination-type questions and advise on examination techniques throughout all courses.



Excellent Teachers + Hard Working Students = Outstanding Results

Top 10 Reasons for Studying at The Institute of Education

1. 39 Years Experience

Founded in 1969, the Institute of Education has 39 years experience helping students realise their full potential.

2. Gifted Teachers

The Institute of Education is renowned for its dedicated and gifted teachers.

3. Outstanding Results

Ireland's number one top provider of students to Irish and UK Universities.

4. Supervised Study - 7 days a week

Two well aired Study Halls.

5. Attendance Monitoring

There is continuous student monitoring of attendance, punctuality and participation in class tests.

6. Wide Subject Choice

The Institute offers a broad range of subject choice.

7. Create Your own Timetable

Create a timetable that works for you.

8. Excellent Career Guidance

The Institute of Education places great emphasis on Career Guidance.

9. Superb Class Notes

Class work at the Institute is reinforced by the excellent 'Institute Notes'.

10. Excellent Facilities

The Institute offers; Science Laboratory, Home Economics Kitchen, Computer Room, Art Room, Music Room and Study Halls.

