**WARNING**

**This Question Paper MUST be returned with your answer book(s) at the end of the examination, otherwise marks will be lost.**

**Write your Examination Number here ⇒**

# Coimisiún na Scrúduithe Stáit
# State Examinations Commission

**LEAVING CERTIFICATE EXAMINATION, 2006**

**WEDNESDAY, 21 JUNE 2006, MORNING 9.30 – 12.00**

# AGRICULTURAL ECONOMICS – HIGHER LEVEL
**(320 Marks)**

Answer **fifteen** questions from Part I and **four** questions from Part II. You should not spend more than one hour on Part I.

## PART I (120 marks)

Answer **fifteen** questions.
Write the answers in the spaces provided.
All questions carry equal marks.

## PART II (200 marks)

Answer **four** questions.
Write the answers in your answer book(s).
All questions carry equal marks (50 marks).
Do **not** write answers to Part II on this question paper.

**REMEMBER TO RETURN THIS QUESTION PAPER WITH THE ANSWER BOOK(S) USED TO ANSWER THE QUESTIONS IN PART II.**

# PART I (120 marks)

Answer **fifteen** questions.
Write the answers in the spaces provided.
All questions carry equal marks.

**1.** List in order of magnitude the three sectors which constitute the Irish economy:

(i) ______________________________

(ii) ______________________________

(iii) ______________________________

**2.** How is a farmer defined in the Census of Population? ______________________________

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**3.** State TWO major differences between the management factor in Agriculture and in Industry:

(i) ______________________________

(ii) ______________________________

**4.** State TWO characteristics of farming which are adverse to marketing:

(i) ______________________________

(ii) ______________________________

**5.** Define 'opportunity cost' and illustrate with reference to an individual farmer.

DEFINITION: ______________________________

______________________________

EXAMPLE: ______________________________

**6.** State TWO reasons for the low responsiveness of farm production to price changes.

(i) ______________________________

(ii) ______________________________

**7.** State TWO characteristics of a Perfectly Competitive market.

(i) ______________________________

(ii) ______________________________

**8.** **"**Demand for land is a **Derived Demand**". Explain this statement.

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**9.** If the price elasticity of demand for a commodity is 1.0, how does the revenue behave as the quantity put on the market changes?

______________________________

**10.** What is the Capitalised Value of a factor of production? ______________________________

______________________________

**11.** Explain the term 'Demand-Pull' inflation? State ONE example.

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EXAMPLE: ______________________________

**12.** The Liquidity Ratio on a farm Balance Sheet is: ______________________________

**13.** What does farmers' 'Terms of Trade' measure? ______________________________

______________________________

**14.** Why is a Partial Productivity Index so named? ______________________________

______________________________

**15.** Explain the term 'price-cost squeeze' in farming. ______________________________

______________________________

______________________________

**16.** Outline TWO reasons for government intervention, despite the advantages of Free Trade.

(i) ______________________________

(ii) ______________________________

**17.** State TWO possible economic effects on Irish Agriculture of the recent enlargement of the EU.

(i) ______________________________

(ii) ______________________________

**18.** State TWO examples of Off-Farm Policies, which supplement farmers' incomes.

EXAMPLE: ______________________________

EXAMPLE: ______________________________

**19.** Distinguish between an EU Regulation and an EU Directive as legislative instruments.

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______________________________

**20.** Outline Ireland's Bilateral Aid Programme.

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***Remember to return this question paper with the answer book(s) used to answer the questions in Part II.***

# PART II (200 marks)

Answer **four** questions.
Write the answers in your answer book(s).
All questions carry equal marks (50 marks).
Do **not** write answers to Part II on this question paper.

**1.** **(a)** Define **Gross Agricultural Output** of the National Farm.

**(b)** Given the following data for 2004:

| | € million |
|---|---|
| Gross Agricultural Output | 14,500 |
| Materials and Services | 7,350 |
| Levies | 70 |
| Salaries and wages | 640 |
| Subsidies | 4,625 |
| Depreciation | 1,813 |
| Interest Payments | 520 |

Calcuate the following:

(i) Gross Agricultural Product at market prices;
(ii) Gross Agricultural Product at factor cost;
(iii) Net Agricultural Product at factor cost;
(iv) Family Farm Income of the National Farm.

**(c)** Explain why the Central Statistics Office (CSO) is concerned about the validity of the estimate for interest payments made by farmers to lending institutions.

**[50 marks]**

**2.** **(a)** Explain the factors a lending agency would consider when assessing a loan application from a farmer.

**(b)** Financial Data relating to a Family Farm is as follows:

Net Cash Income €40,000
Household expenditure €32,000

Using the above data, calculate the maximum loan the farmer could finance, if the annual repayment on a €1,000 loan is €320. Show your workings.

**(c)** Explain the circumstances in which each of the following may be used by a farmer:

(i) Cash Flow Budget;
(ii) Investment Appraisal.

**[50 marks]**

3. **(a)** (i) Distinguish between price elastic demand and price inelastic demand.
(ii) Explain why one agricultural product could have an elastic demand and another could have an inelastic demand. State ONE example in **each** case.

**(b)** The following is the Demand Schedule for an agricultural product in the Irish market

| **Price of Agricultural Product Per kg. (€)** | **Quantity Purchased Tonnes/annum '000** |
|---|---|
| 4.0 | 25 |
| 3.0 | 30 |
| 2.0 | 35 |
| 1.0 | 45 |

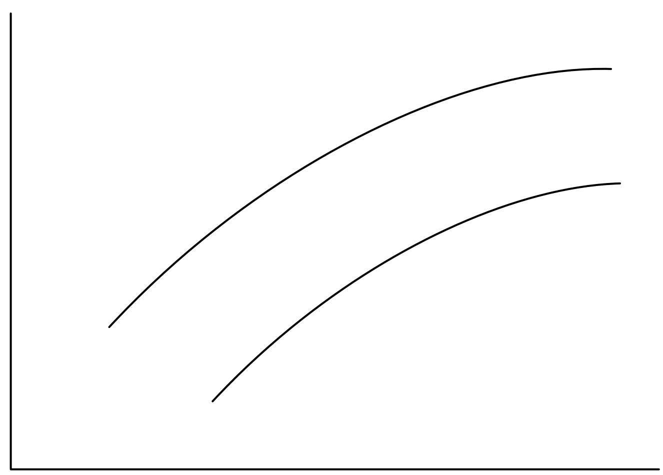
(i) Using the above data, calculate the price elasticity of demand, if the price is reduced from €3 to €2.
(ii) Is the demand elastic or inelastic? Explain your answer.

**(c)** Explain Engels Law. What is the implication of the law for Irish agriculture?

**[50 marks]**

4. **(a)** Explain the concept of the 'production function'.

**(b)** Given the following diagram illustrating how the production function relating fertiliser input to cereal output in the EU has changed between 1990 and 2005:



(i) Copy the diagram into your answer book and label the axes and the production functions in 1990 and 2005.
(ii) Explain the reason for the shape of the production function.
(iii) Explain TWO important factors which have caused the shift in the production function.

**(c)** Explain the criteria which may guide farmers in making production decisions.

**[50 marks]**

**5.** Decoupling has been introduced for all major commodities under the Common Agricultural Policy.

**(a)** Explain the term 'decoupling' in agricultural economics **and** outline the reasons for its introduction.

**(b)** Explain the possible effects of decoupling on any THREE of the following:

**(i)** farm production;
**(ii)** employment in the food processing industry;
**(iii)** the environment;
**(iv)** the consumer.

**[50 marks]**

**6.** **(a)** Explain THREE economic limitations of a Food Aid Policy for less developed countries (LDCs).

**(b)** "Trade rather than food aid is the long term solution to the problems of the less developed countries (LDCs)".

From an economic point of view, outline reasons for agreeing or disagreeing with this statement.

**(c)** (i) Explain the theory of Food and Population outlined by Thomas Malthus.
(ii) How relevant is this theory today? Explain briefly. **[50 marks]**

***Remember to return this question paper with the answer book(s) used to answer the questions in Part II.***

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