Coimisiún na Scrúduithe Stáit
State Examinations Commission

LEAVING CERTIFICATE 2008

MARKING SCHEME

AGRICULTURAL ECONOMICS

ORDINARY LEVEL

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Agricultural Economics

MARKING SCHEME
and
SUPPORT NOTES
for use with the Marking Scheme

In considering this marking scheme the following points should be noted:

- In many instances only key words are given i.e. these words must appear in the correct context in the candidate's answer in order to merit the assigned marks.
- The descriptions, methods and definitions in the scheme are not exclusive or definitive and alternative valid answers are acceptable.
- The detail required in any answer is determined by the context and the manner in which the question is asked and by the number of marks assigned to the answer in the examination paper. Requirements may therefore vary from year to year.

PART I (120 Marks)

20 QUESTIONS- 15 QUESTIONS TO ANSWER.

ALL QUESTIONS CARRY EQUAL MARKS (8 MARKS)

Outline Marking Scheme

1.	2 @ 4 marks each	**11**.	2 @ 4 marks each
2.	8 marks	**12.**	Any 2 @ 4 marks each
3.	8 marks	**13**.	Any 2 @ 4 marks each
4.	8 marks	**14**.	8 marks
5.	8 marks	**15**.	2 @ 4 marks each
6.	8 marks	**16**.	2 @ 4 marks each
7.	8 marks	**17**.	8 marks
8.	8 marks	**18**.	8 marks
9.	8 marks	**19**.	8 marks
10.	8 marks	**20**.	2 @ 4 marks each

PART II (200 Marks)

6 QUESTIONS 4 QUESTIONS TO ANSWER AT 50 MARKS EACH.

1.	(a)	Food chain	20 marks graded	20
	(b)	Farmers' contribution	15 marks graded	15
	(c)	Two economic advantages and two economic disadvantages		
			8 + 7 marks graded	15
				[50 marks]

2.	(a)	Axes – Price and Quantity	(2 @ 2 marks)	
		Supply and demand curves	(2 @ 2 marks)	
		Equilibrium Price and Quantity	(2 @ 2 marks)	12
	(b)	Three explanations @ 8 marks each graded		24
	(c)	Any two variables @ 7 marks each		14
				[50 marks]

3.	(a)	3 reasons:		(7 + 7 + 6 marks graded)	20
	(b)	Calculations:			
		(i)	Farm Output	10 marks graded	
		(ii)	Farm Gross Margin	10 marks graded	
		(iii)	Family Farm Income	10 marks graded	30
					[50 marks]

4.	(a)	Cash Flow and Profitability	2 @ 7 marks graded	14
	(b)	Sources of finance:		
		Three explanations @ 4 marks each graded		
		Three examples @ 2 marks each		18
	(c)	Three options @ 6 marks each graded		18
				[50 marks]

5.	(a)	Demand curve for Butter:	Axes	2 @ 2 marks	
			Points	5 @ 3 marks	19
	(b)	Explanation		7 marks	7
	(c)	Calculation		6 marks graded	6
	(d)	Three factors @ 6 marks each graded			18
					[50 marks]

6.	(i)	Irish farmers	10 + 10 marks graded	20
	(ii)	Irish consumers	10 + 10 marks graded	20
	(iii)	EU Labour markets	5 + 5 marks graded	10
				[50 marks]

AGRICULTURAL ECONOMICS – ORDINARY LEVEL
SUPPORT NOTES

PART I

1. (i) Fixed Cost: Depreciation, interest charges, ESB
(ii) Variable Cost: Feed, fertiliser, seed.

2. Third party insurance covers damage done to other people or their property.

3. Depreciation.

4. IFA *or* ICMSA *or* Macra.

5. 3% (8% minus 5%).

6. 85%.

7. Supply curve will shift to the left resulting in decreased supply.

8. Equilibrium price may be defined as that price where the quantities demanded and supplied are equal.

9. Capital.

10. Dairy production controlled by quota – limits supply / significant investment is required if farmer wishes to enter dairy production.

11. Current/liquid assets to current liabilities.

12. Purchased inputs; processing of farm products; distribution of food; farmers own resources.

13. Reinvestment of profits/retained earnings; savings; grants.

14. The CPI measures the change in the price of goods and services over time in the economy (one year to the next and across a range of years). It calculates the rate of inflation.

15. Competing Products: wheat and oats; sheep and beef; cereals and bio fuel crops.
    Joint Products: Lamb & Wool; ribs and roast from beef, meal and oil from crops.

16. Number of dairy farmers in Ireland: 22,000 (approx).
    % of Irish Agricultural land devoted to grass production: 80% (approx).

17. Decoupling refers to the fact that agricultural subsidies are no longer tied to current production levels. Farmers now receive a Single Farm Payment based on production in reference years.

18. Reasons: Off-farm income; Direct EU Payments; Single Farm Payment.

19. Expensive undertaking / logistical problems / may dislocate trade or native production.

20. Gross Margin is defined as total output minus direct costs/variable costs.

SUPPORT NOTES

PART II

1. (a) Food chain:

Purchased inputs (feed, fertiliser) + farmers resources (land, labour, capital) = finished lamb + marketing resources (processing, advertising).

(b) Farmers contribution – employment of his land, labour, capital and management must be rewarded.

(c) Advantages: Wider variety; consumers can use limited income on wider variety of goods; allows us to import goods that cannot be produced in Ireland.

Disadvantages: Imports compete with Irish produced goods; Adverse effect on Irish employment and indigenous industry if imported products are displacing Irish products from market; Health and safety implications of some products imported.

2. (a) Axes – Price and Quantity
Supply and demand curves
Equilibrium Price and Quantity

(b) (i) An outbreak of BSE in the beef herd would result in decreased demand for beef. This may lead to subsequent increase in the demand for pig meat and cause the demand curve to shift to the right. This would result in higher equilibrium price and quantity.

(ii) A successful advertising campaign would result in increased demand for pork. Demand for pig meat would increase and cause the demand curve to shift to the right. This would result in higher equilibrium price and quantity.

(iii) A decrease in the price of lamb would result in decreased demand for pork. Demand for pig meat would decrease and cause the demand curve to shift to the left. This would result in lower quantity demanded and lower price.

(c) Variables affecting supply: Price of the commodity; costs of production of the commodity; price of related commodities; costs of production of related commodity; technological progress; environmental variables.

3. (a) Three reasons why farmers prepare farm accounts:

To determine Profit or Loss from farm as a whole and from different farm enterprises.

Information for making plans for the future.

To check progress and ensure it is conforming to plan.

Financial date for tax returns.

Supply the facts a farmer may need in borrowing money.

Provide information for national statistics and agricultural advisory purpose.

(b)

		€
Farm Output = Sales less purchases =		200,000
	plus increase in inventory =	5,000
	plus household consumption =	1,000
		206,000
Farm Gross Margin = Farm Output =		206,000
	Less variable costs =	30,000
		176,000
Family Farm Income = Farm Gross Margin =		176,000
	Less fixed costs =	36,000
		140,000

4. (a) **Cash flow** refers to the daily/weekly/monthly/annual flows of cash both into and out of a business. Cash flow is linked to liquidity, which refers to the ability of a business to meet its day to day cash obligations. Many businesses fail due to cash flow difficulties in the short and medium term.

Profitability refers to the economic returns from an investment (investment appraisal). It is calculated as total revenue minus total costs/expenses.

(b) (i) Short term: Period usually up to one year for seasonal purposes but could extend longer. Can be obtained from banks or cooperatives and merchants. Credit allowance/Bank overdraft.

(ii) Medium term: Period of one to five years to fund development. Medium term loan; leasing and hire purchase of machinery.

(iii) Long term finance: greater than 5 years – long term loan.

(c) Extend the length of the loan i.e. take longer to pay loan back

Pay interest only for short period of time

Change the time of year/month that repayments are made

Sell some assets

Cut the living standard of the family.

5. (a) Demand curve for butter – axes and points must be indicated.

(b) Curve has negative slope – high prices lower quantity demanded, low prices higher quantity demanded.

(c) Revenue at 35,000 tonnes = 35,000X2.50 = €87,500

(d) Margarine (other substitute) becomes cheaper or more expensive relative to butter;
Consumers adopt alternative to butter, due to tastes and preferences;
Change in consumer's income.

6. (i) <u>Irish Farmers:</u> Increased competition from new entrant farmers; may displace Irish products on EU market due to price differences, consumer preferences etc.
Increased pressure on EU budget – Irish farmers may suffer reduction in agricultural payments and supports.
Irish farmers though may see increase in sales and price as new entrant countries may purchase Irish goods; migrant workers available to work on Irish farms.

(ii) <u>Irish Consumers:</u> Wider choice as greater volume of goods and services on EU market; increased value for money; ease of travel among greater number of EU states.

(iii) <u>EU Labour Markets:</u> Greater supply of labour on EU markets. Labourers/workers can move freely from one EU country to another and base themselves where their skills are needed and sufficiently rewarded. Domestic labour may suffer as supply may be greater than demand.