

Topic:
National Income

Additional Activities

- Class [podcast](#)
- How Ireland became the richest country in the world [video](#)

An Introduction to Macroeconomic Objectives

- Macroeconomic Objectives are goals set by the government aimed at improving the overall **economic performance** of a country as well as the **quality of life** of its citizens
- The government aims to achieve these objectives through the use of **macroeconomic policies**
- It can be difficult to achieve some **outcomes simultaneously**
 - E.g., high economic growth and stable price levels can be in conflict with one another

Macroeconomic Objectives / Roles of Irish Government

Macro Goal	Explanation	Measure
Economic Growth	<ul style="list-style-type: none"> • A steady rate of increase in national output / income 	GDP, GNP,
Low unemployment	<ul style="list-style-type: none"> • A low level of unemployment 	Live Register, Unemployment Rate
Price stability	<ul style="list-style-type: none"> • A low and stable rate of inflation (2%) 	CPI
Favourable balance of payment	<ul style="list-style-type: none"> • Ensuring the value of exports matches or exceeds imports over time (avoiding heavy deficits) 	Favourable current Account Balance
Equity of distribution of income	<ul style="list-style-type: none"> • Income distribution - An equitable distribution of income 	Gini coefficient, Lorenz curve
Sustainable development	<ul style="list-style-type: none"> • Meet the needs of future generations, without compromising the needs of current generation 	Carbon Emissions, HDI

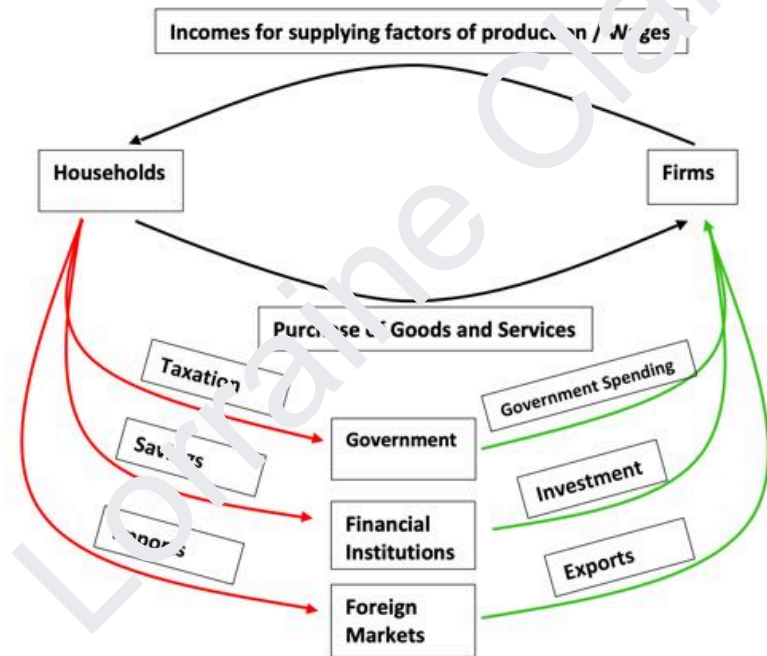
Measures of Economic Growth: National Income

(Analyse using TTFR)

Timeframe	Trend	Figures (GDP)	Reason
2021	Increase	13.6%	Reopening of the economy, paired with a massive post-pandemic surge in global tech and pharmaceutical exports.
2022	Increase	9.4%	Continued strong demand for Irish chemical and multinational exports.
2023	Decrease	-3.2%	Global supply chain shock and rising energy costs from the Ukraine-Russia crisis triggered a contraction in contract manufacturing.
2024	Increase	1.4%	Modest recovery and stabilising global markets following the severe post-pandemic sector corrections.
2025	Increase	12.3%	Global demand for Irish-made weight-loss drugs and corporate front-loading of exports to bypass potential international tariffs.
2026	Decrease	2026: -1.2% (projected contraction)	Global geopolitical instability, lingering cost-of-living impacts, and the high-base math effect left over from the extreme export spikes of 2025.

The Circular Flow of Income Model

- Money can enter or leave the circular flow of income in an economy. [Video](#) and [Video](#)
- **Injections** add money to the circular flow of income and increase its size
 - Increased government spending (G)
 - Increased investment (I)
 - Increased exports (X)
- **Leakages** (withdrawals) remove money from the circular flow of income and reduce its size
 - Increased savings by households (S)
 - Increased taxation by the government (T)
 - Increased import purchases (M)
- There are high levels of interdependence between households, firms, the government, the financial sector, and the foreign sector (foreign firms and households)



(Source: SEC)

A diagram that shows the injections and leakages that influence the relative size of the circular flow of income

Diagram Analysis

- **Government:** Government spending (G) is an injection and taxation (T) is a leakage
- **Financial sector:** Investment (I) is an injection and savings (S) is a leakage
- **Foreign sector:** Exports (X) is an injection and imports (M) is a leakage
- The relative size of the injections and withdrawals impacts the size of the economy:
 - Injections > withdrawals = economic growth and increase in national income
 - Withdrawals > injections = economic decline and a fall in national income
- Changes to any of the factors that influence government spending, investment, consumption and net exports will increase/decrease the relative size of the circular flow of income
 - E.g. An increase in interest rates will increase savings (withdrawal) and reduce consumption and investment

Exam Question 2023

- (a) (i) Draw a fully labelled diagram showing the Circular Flow of Income for an open economy.

- (ii) Explain the terms injections and leakages and refer to two examples of each from your diagram above.

Injections:	
Example 1:	Example 2:
Leakages:	
Example 1:	Example 2:

Exam Question 2022

- (a) Categorise each of the following as either an injection, or a leakage from the circular flow of income.

		Injection	Leakage
1.	The Irish government increases public sector salaries by 1% in 2023.		
2.	Irish exports increase to record €160bn despite the Covid-19 Pandemic.		
3.	Irish consumers saved more than €10bn in the first quarter of 2021.		

Answer either (b) or (c)

- (b) In the box below justify each of your choices in part (a) above.

1.	
2.	
3.	

Exam Question 2022 Deferred Paper

- (c) (i) Draw a fully labelled diagram, showing the Circular Flow of Income for an open economy.

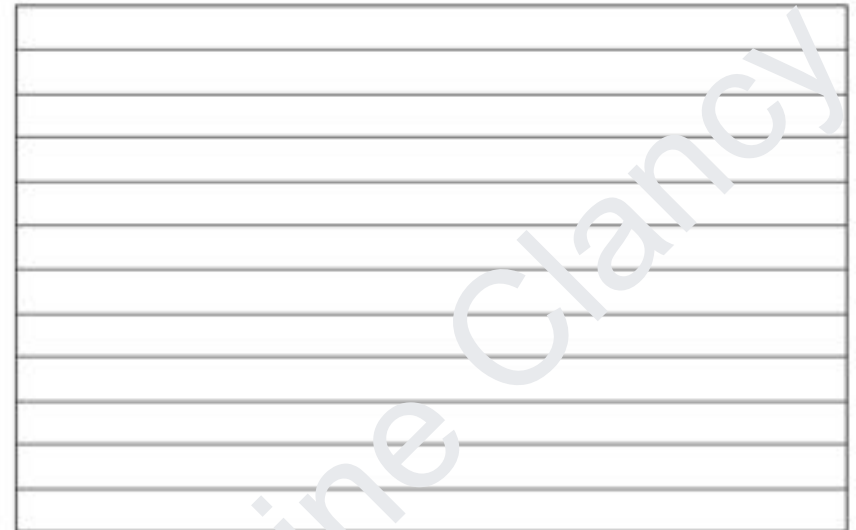


- (ii) Explain the terms injections and leakages using examples from your diagram above.

Injections:	
Example 1:	Example 2:
Leakage:	
Example 1:	Example 2:

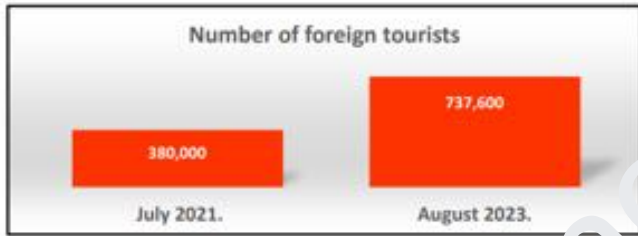
- (iii) The Irish Government paid all social welfare recipients a Christmas bonus in December 2021, double their normal weekly payment.
Adapted from independent.ie

Outline how this measure might have affected the Circular Flow of Income.
(Note: You **do not** have to redraw the Circular Flow of Income diagram.)



Exam Question 2024

The chart below shows the number of foreign tourists who arrived in Ireland in July 2021 and in August 2023.



(a) (i) Calculate the percentage increase in foreign tourists in August 2023 compared to July 2021. **Show your workings.**

Workings:

Answer:

(ii) Outline the effect of this increase in tourism on Ireland's circular flow of income.

(iii) Outline one possible **disadvantage** of increasing tourism numbers in the Irish economy.

Disadvantage:

Three Approaches to the Calculation of National Income

With reference to the circular flow of income model, national income can be calculated using three possible approaches

Approaches to the Calculation of National Income

Approach	Explanation
The expenditure approach	<ul style="list-style-type: none"> This approach adds up the value of all the expenditures in the economy in a year and includes consumption (C), government spending (G), investment (I) by firms and net exports (X - M) Nominal GDP = C + I + G + (X - M)
The income approach	<ul style="list-style-type: none"> This approach adds up the payments (rewards) for the factors of production in a year and includes the wages from labour (W), rent from land (R), interest from capital (I) and profit from entrepreneurship (P) National Income = W + R + I + P
The output approach	<ul style="list-style-type: none"> This approach adds up the value of all finished goods/services produced within the economy each year (national output)

- All approaches should provide the same figure
 - One agent's expenditure is another agent's income
 - The value of finished goods ready for sale is equal to the expenditure paid to acquire them
- What is NOT Included in National Income**
 - Income in Kind**
 - Income received in **non-monetary form** (goods or services).
 - Example: Free meals, rent-free accommodation.
 - Transfer Payments**
 - Payments received **without supplying any goods or services**.
 - Example: Social welfare, pensions.

Calculating Nominal GDP Using the Expenditure Approach

- Nominal GDP can be calculated using the value of the expenditure in an economy
 - $GDP = Consumption (C) + Investment (I) + Government\ spending (G) + Exports (X) - Imports (M)$
 - $GDP = C + I + G + (X - M)$
 - If any of the components of GDP increase, then economic growth is likely to occur

The Components of the Expenditure Approach

Component	Explanation
Consumption	<ul style="list-style-type: none"> Is the total spending on goods/ services by consumers (households) in an economy
Investment	<ul style="list-style-type: none"> Investment is the total spending on capital goods by firms
Government Spending	<ul style="list-style-type: none"> Government spending is the total spending by the government in the economy <ul style="list-style-type: none"> Includes public sector salaries, payments for the provision of education and public goods etc. It does not include transfer payments (payments received for which no FOP has been supplied or offered, e.g., jobseeker's allowance)
Exports & Imports	<ul style="list-style-type: none"> Net exports are the difference between the revenue gained from selling goods/services abroad and the expenditure on goods/services from abroad

How to Classify Expenditure

National Income					
Y					

CSO Quarterly National Accounts Quarter 3 2025



CSO: $C + I + G + X - M$

WORKED EXAMPLE: Expenditure Approach

Answer:

Step 1: Determine which of the data presented is relevant to the calculation

$$GDP = C + I + G + (X - M)$$

So income tax is not relevant (it is a leakage)

Step 2: Substitute the relevant values into the formula

$$GDP = C + I + G + (X - M)$$

$$GDP = 11255 + 8927 + 15697 + (8532 - 4957)$$

$$\text{Nominal GDP} = 39,454 \text{ \$m}$$

(Two marks for the correct answer or 1 mark for any correct work in the process)

Exam Question 2023 OL

(b) National Income is calculated using the following formula:

$$\text{National Income (Y)} = C + \text{Investment} + G + \text{Exports} - \text{Imports}$$

(i) State what each of the letters C and G represent.

C	
G	

(ii) Using the formula in (i) above and the figures below calculate:

- The level of National Income in 2023 and
- The Balance of Trade

Show your workings

Year	Income	C	Investment	G	Exports	Imports
	€ m	€ m	€ m	€ m	€ m	€ m
2023		700	200	400	300	200

National Income 2023

Workings:

Answer:

Components of AD / Expenditure Approach

Factors that Cause AD/GDP/National Income to Increase/Decrease

Component	Explanation
Consumption	<ul style="list-style-type: none"> • Consumption level changes for the following reasons: <ul style="list-style-type: none"> ○ Level of real disposable income ○ MPC: Marginal Propensity to consume ○ Availability of credit ○ Interest rates ○ Rate of taxation
Investment	<ul style="list-style-type: none"> • Investment level changes for the following reasons: <ul style="list-style-type: none"> ○ Interest rates ○ Business confidence / expectation / uncertainty
Government Spending	<ul style="list-style-type: none"> • Fiscal policy - use of taxation and government spending to influence the economy / employment • Can depend on government revenue from taxes
Exports & Imports	<ul style="list-style-type: none"> • X: Exports - what do exports depend on? <ul style="list-style-type: none"> ○ Income level in export markets ○ Competitiveness of Irish Exports ○ Value of Euro compared to other currencies • M: Imports - Determinants <ul style="list-style-type: none"> ○ Levels of income rise ○ Value of Euro compared to other currencies ○ The higher the MPM (Marginal propensity to import)

Economic factors When Deciding How much to Save

Factors	Explanation
Interest rates / access to credit	<ul style="list-style-type: none"> Higher interest rates encourage household savings as deposit returns increase, while lower rates reduce the incentive to save. When borrowing is more accessible, households may save less and rely more on credit for major purchases. However, if borrowing becomes harder to obtain, households may need to save more to fund future expenses.
Rate of inflation	<ul style="list-style-type: none"> If inflation is high or rising, households may be inclined to spend rather than save, as the value of their savings will decline over time. However, if inflation is low or stable, households may be more inclined to save, as their savings will retain their purchasing power.
Employment security	<ul style="list-style-type: none"> If a household has a stable and long-term job (e.g., permanent contract), it may feel comfortable spending more and saving less. However, workers in temporary contracts, self-employment, or more volatile industries may save more as a financial safety net in case of job loss.
Economic outlook / consumer confidence	<ul style="list-style-type: none"> If households feel more optimistic about the economy, they may save less and spend more. If uncertainty is high (e.g., due to a recession), households may increase their precautionary savings.
Levels of household debt	<ul style="list-style-type: none"> If a household has high levels of debt (e.g., mortgage, car loan, personal loan), it may focus on repaying debt(s) rather than saving. If debt levels are low / non-existent, households may feel they can save more.
Demographics / life stage	<ul style="list-style-type: none"> Younger households may save less to prioritise major expenses such as buying a home or raising children. Households near retirement may save more as they shift focus towards financial security and future planning.

Exam 2025

(iii) The data below shows the levels of total expenditure by the Irish government for the years 2015, 2019, and 2025 (forecasted).

Year	2015	2019	2025 ^f
Government Expenditure	€54 billion	€67 billion	€105 billion

Adapted from the Department of Finance

Explain two economic reasons for the significant increase in government expenditure from 2015 to the projected figure for 2025, other than spending on infrastructure.

1.	
2.	

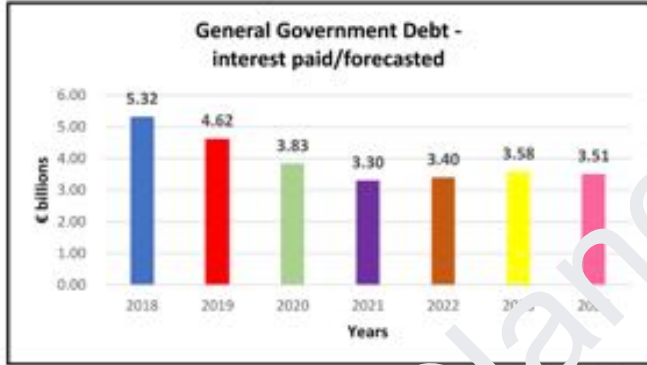
(iii) Outline three current determinants of the level of consumption in the Irish economy.

1.	
2.	
3.	

Exam Question 2022 OL

Answer either (a) or (b)

The graph below shows the amount of interest paid (2018, 2019, 2020) and forecast to be paid on the general government debt from 2021 up to 2024.



Adapted from ntna.ie

(a) Compare the interest paid on the national debt in 2018 to the forecasted amount to be paid in 2024, using the data above.

Compare:

OR

(b) Explain the term National Debt.

National Debt:

2025 Q2

The table below shows household disposable income, household consumption expenditure, and household savings in Ireland for Quarter 1, 2024.

Household Disposable Income	€43.91 billion
Household Consumption Expenditure	€37.32 billion
Household Savings	€6.59 billion

Adapted from the CSO

(a) From the data in the above table, calculate the household percentage savings rate for Quarter 1, 2024. Show all your workings.

Workings:

Answer:

Answer either (b) or (c)

(b) Outline two economic factors which some households in Ireland may consider when deciding how much of their income to save (other than their level of income).

1.

2.

OR

(c) A high level of household savings is desirable for the Irish economy.

Do you agree or disagree with this statement?

Indicate your answer below by ticking (✓) the relevant box and justify your answer.

Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>
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Justify:

National Income Measures: GDP V. GNP and GNI

- GDP is a widely used measure of **economic performance**;
 - **GNP and GNI** are more accurate indicators of **economic welfare** for Irish residents due to their focus on resident income and disposable resources.
- Watch measures of [Economic Growth](#) and check up-to-date GDP and GNP figures on [CSO](#)

Measures of National Income

Measure	Explanation
Gross Domestic Product (GDP)	<ul style="list-style-type: none"> • GDP is the total output (value of goods and services) by the factors of production in the domestic country, irrespective of whether the factors are foreign-owned or not. <ul style="list-style-type: none"> ◦ Represents total income from production in Ireland. ◦ A significant portion of this income accrues to foreign owners of capital assets in Ireland. ◦ Limitation: GDP can overstate the living standards of Irish residents, as it includes income earned by non-residents.
Gross National Product (GNP)	<ul style="list-style-type: none"> • GNP = GDP +/- net factor income from abroad <ul style="list-style-type: none"> ◦ GNP is the total output produced (value of goods and services) by Irish factors of production in Ireland and elsewhere <ul style="list-style-type: none"> ■ Net factor income is the income earned by Irish factors of production abroad and repatriated minus income earned by foreign factors of production in Ireland and repatriated to their own country. ◦ It is a measure of the income accruing to a country's residents. ◦ GNP is over one-fifth lower than GDP, highlighting the extent of foreign ownership in the Irish economy.
Gross National Income (GNI)	<ul style="list-style-type: none"> • GNI = GNP + EU subsidies - EU Taxes <ul style="list-style-type: none"> ◦ Reflects the income accruing to a country's residents. ◦ Excludes income generated by foreign-owned capital stock in Ireland. ◦ Significance: GNI is a more accurate measure of Irish citizens' economic welfare, as it focuses on income received by permanent domestic residents.
GNI modified	<ul style="list-style-type: none"> • GNI modified = GNI - adjustments <ul style="list-style-type: none"> ◦ Adjustments include: <ul style="list-style-type: none"> ■ Factor income of redomiciled firms ■ Depreciation of R&D and trade in IP ■ Depreciation of aircraft leasing

Sample Calculations: National Income

	2025 Million
GDP	372,869
+ / - Net factor income	-90,235
GNP	282,633
+ EU subsidies	+ 1,102
- EU Taxes	-0
GNI	283,735
- Income of redomiciled PLCs	-1,500
- Depreciation on R&D and IP	-61,252
- Depreciation on aircraft leasing	-9,799
GNI* modified	208,179

Exam Question 2024

The data below has been adapted from Ireland's National Accounts for 2023.

Description	Value
Net factor income from abroad	- €105bn
EU Subsidies	€2bn
EU Taxes	€0.5bn

- (a) Given that Gross Domestic Product (GDP) at Current Market Prices (CMP) was €430bn in 2023, use the information above to calculate part (ii). Part (i) has been completed for you. State the relationship and show all your workings.

Relationships / Workings	Answer € bn
Gross Domestic Product (GDP) at Current Market Prices	€430bn
Relationships / Workings:	
Gross Domestic Product (GDP) at CMP +/- Net Factor Income from Abroad	430.00 (105.00)
(i) = Gross National Product (GNP) at Current Market Prices	Ans: €325 bn
Relationships / Workings:	
(ii) = Gross National Income at Current Market Prices	Ans:

- (b) Explain the term, Net factor income from abroad.

Explanation:

Exam Question 2023

The data below has been adapted from Ireland's National Accounts for 2021.

Description	Value
Net factor income from abroad	- €103bn
EU Subsidies	€1.7bn
EU Taxes	€0.5bn
Adjustments Including	€89bn
• Factor income of redomicilled companies	
• Depreciation on R&D imports and trade in IP	
• Depreciation on aircraft leasing	

Given that Gross Domestic Product (GDP) at Current Market Prices (CMP) was €426bn, use the information above to calculate the following terms B, and C.

A has been completed for you.

State the relationships and show all your workings.

Relationships / Workings	Answer € bn's
Gross Domestic Product (GDP) at Current Market Prices (CMP)	€426bn
Relationships / Workings:	
Gross Domestic Product (GDP) at CMP +/- Net factor income from Abroad	426.00 (103.00)
A = Gross National Product (GNP) at Current Market Prices	Ans: €323 bn
Relationships / Workings:	
B = Gross National Income at Current Market Prices	Ans:
Relationships / Workings:	
C = Modified Gross National Income at Current Market Prices	Ans:

Exam Paper 2022 Deferred Paper

(a) Explain the term GNP at current market prices.

Explanation:

(b) The data below has been adapted from Ireland's National Accounts for 2020.

Description	Value
Adjustments	
Including	
<ul style="list-style-type: none"> Factor income of domiciled companies Depreciation on R&D imports and trade in IP Depreciation on aircraft leasing 	€75.6bn
EU subsidies	€5bn
EU taxes	€0.4bn
Net factor income from abroad	-€10.2bn

Given that Gross Domestic Product (GDP) at Current Market Prices (CMP) is €372bn, use the information above to calculate ANY TWO of the following terms A, B, OR C. State the relationships and show all your workings.

	Adjustment/Relationships	Answer € bn's
	Gross Domestic Product at Current Market Price	ANS: €372bn
A	Workings	
A	Gross National Product (GNP) at Current Market Prices	ANS:
B	Workings	
B	Gross National Income at Current Market Prices	ANS:
C	Workings	
C	Modified Gross National Income at Current Market Prices	ANS:

Exam Question 2022

The infographic below shows the Quarterly National Accounts for Quarter 2, 2021.



www.cso.ie

(a) Using the data above, explain whether the Balance of Payments is likely to have an overall expansionary or contractionary effect. Refer to relevant figures in the diagram above to explain your answer. Indicate by means of a tick (✓) whether it is expansionary or contractionary.

Expansionary: Contractionary:

Explanation:

(b) Outline one factor which could have influenced the above trend in Personal Consumption in Quarter 2 2021.

Uses of National Income Statistics

- GDP is a really useful indicator of economic growth in the economy that allows policymakers to determine what policy they need to implement.

Advantages of Using National Income Statistics

Advantage	Explanation
Indication of Changes in Standard of Living	<ul style="list-style-type: none"> • Changes in national income figures reflect the level of economic growth or decline year-over-year. • Provides a general indication of changes in the standard of living, if any. • Often used by trade unions to justify wage demands.
International Comparisons	<ul style="list-style-type: none"> • Enables comparison of the standard of living in Ireland with that of other countries. • Helps assess Ireland's relative economic position globally.
Policy Formulation	<ul style="list-style-type: none"> • Provides essential data for governments to plan economic development and growth effectively. • Helps policymakers understand key aspects of the economy and address challenges.
Evaluation of Economic Policy	<ul style="list-style-type: none"> • Allows assessment of changes in the economy and across various sectors. • Acts as a benchmark to monitor progress and effectiveness of economic policies.
EU Budget Contributions and Benefits	<ul style="list-style-type: none"> • National income statistics influence Ireland's contribution to the EU budget. • Determines eligibility for financial aid from the EU and the amount allocated to Ireland.

Exam Question 2024

(iii) Outline two uses of the information provided by national income statistics.

1.
2.

Limitations of Using GDP for Comparisons

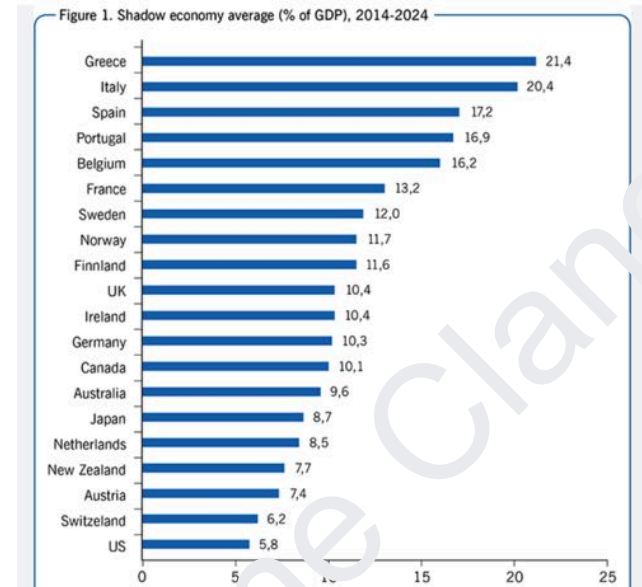
- Using GDP as a measure of **economic health** of a country has numerous limitations
- A better measure of economic growth is **GDP per capita** = GDP / the population
 - It shows the **mean wealth** of each citizen in a country
 - This makes it easier to compare **standards of living** between countries. For example, Switzerland has a much higher GDP/capita than Burundi
 - See GDP per capita [graph](#)

Limitations of Using GDP as a Measure of Economic Health

Limitations	Explanation
Population distortions	<ul style="list-style-type: none"> • GDP gives an overall measure of a country's economic output but does not show how income is distributed among the population. • It can mask inequalities, as a high GDP might coexist with significant poverty if wealth is concentrated in the hands of a few
Inflation / deflation not considered	<ul style="list-style-type: none"> • Nominal GDP might rise simply because prices increased, not because more goods and services were produced. • Real GDP solves this by adjusting for price changes, giving a more accurate view of actual economic growth.
Exclusion of various activities	<ul style="list-style-type: none"> • GDP excludes unpaid and voluntary work, like family childcare, which improves living standards but isn't counted. • If these activities were included, GDP per capita would be higher.
Differences in hours worked	<ul style="list-style-type: none"> • GDP doesn't show how many hours people work to produce it. A country with the same GDP per capita but shorter working hours likely has a higher standard of living.
Environmental factors	<ul style="list-style-type: none"> • GDP does not capture the environmental and health impacts of generating the income within a country (externalities) • In one country, where there are fewer externalities in generating the income the standard of living would be higher
Welfare not considered	<ul style="list-style-type: none"> • GDP measures economic growth and not standard of living or economic performance. Therefore is not a measure of welfare.
International Comparison	<ul style="list-style-type: none"> • When comparing GDP between countries, population size must be known, spending patterns may vary, and figures need to be converted to a common currency. • Without these adjustments, comparisons can be misleading.

Hidden Economies / Shadow economy / Illegal Economies

- **Hidden economies**, or shadow economies, describe all economic activity that goes unrecorded in the national income accounts.



Economic effects of hidden economy

1. Loss of tax revenue to government
2. Decline in legitimate business activity / threat to jobs
3. Increased government expenditure on enforcement
4. Pressure on government services / finances
5. Standard of products / services decline

Social effects of hidden economy

1. Increase in crime levels
2. Public outrage / dissatisfaction
3. Decreased provision of public goods & services

How to reduce hidden economies (strategies/policies) - [Video](#)

1. Reduce taxation rates – direct and indirect
2. Better enforcement by revenue commissioner
3. Education public about importance of taxation
4. Simplify tax system and loopholes
5. Encourage culture of ethical businesses

What is Ireland doing about the shadow / hidden economy

Revenue Commissioners' Compliance Initiatives

- [Reporting tax evasion \(shadow economy activity\) - Revenue](#)
- [What is Revenue doing about the shadow economy?](#)
- [Revenue saw high compliance rates across all taxes in 2023 - RTE](#)

Promotion of Electronic Payments

- [The Evolving payment landscape in Ireland - Remarks by Vasileios Madouros, Deputy Governor, Monetary and Financial Stability](#)
- [National Payments Plan | Central Bank of Ireland](#)

Exam Question 2023 OL

- (c) The hidden economy in the hair & beauty market is estimated to be worth €400m.
Adapted from Jim Power for HABIC, 2020

The Irish government is concerned about the size of this hidden economy.

- (i) Explain the term **hidden economy**. Give one other example of an activity in the Irish hidden economy.

Explanation:
One other example:

- (ii) Outline **one** effect the hidden economy in the hair and beauty industry has on businesses in this industry and on the Irish government.

Businesses in this industry:
The Irish government:

Exam Question 2023

(iii) Some citizens engage in activities in the hidden economy in Ireland. Outline two effects on the Irish economy of activities in the hidden economy.

1.
2.

Exam Paper 2022

Brexit and possible supply chain issues have led to fewer illegal brews in Ireland during Halloween 2021. Adapted from The Journal.ie

(a) Explain what is meant by the economic term **hidden economy**.

Explain:

(b) Outline two reasons for the supply chain issues which many companies experienced in Ireland during 2021-2022.

1.
2.

The Multiplier effect

- The multiplier shows the relationship between an (initial) injection into the circular flow of income and the eventual total increase in national income resulting from the injection.
 - **Marginal Propensity to consume (MPC):** is the proportion of each additional unit of income that is spent ($MPC = \Delta \text{ in consumption} / \Delta \text{ in income}$)
 - **Marginal Propensity to Save (MPS):** is the proportion of each additional unit of income that is saved ($MPS = 1 - MPC$)
 - **Marginal Propensity to Tax (MPT):** is the proportion of each additional unit of income that is taxed
 - **Marginal Propensity to Import (MPM):** is the proportion of each additional unit of income that is spent on imports

Formulas:

The multiplier = $\frac{1}{1 - mpc}$ OR $\frac{1}{mps + mpm + mrt} = \frac{1}{m_1 + w}$

From the example above, where the $mpc = 0.6$, the multiplier is:

$$\frac{1}{1 - 0.6} = \frac{1}{0.4} = 2.5$$

or

the $mps = 0.1$, $mrt = 0.2$, and the $mpm = 0.1$, the multiplier is:

$$\frac{1}{0.1 + 0.2 + 0.1} = \frac{1}{0.4} = 2.5$$

Or

$$1/(1-MPC) + MPM + MPT$$

Question: Calculate the multiplier in each of the following

1. $MPM = 0$, $MPT = 0.05$, $MPC=0.65$
2. $MPM = 0.1$, $MPT = 0.05$, $MPS=0.65$
3. $MPM = 0.3$, $MPT = 0.02$, $MPC=0.9$

Exam question 2025

(b) (i) Explain what is meant by the term the multiplier.

(ii) State the formula by which the multiplier is measured in an open economy.

Formula:

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(iii) It has been estimated that in the Irish economy $MPM = 0.1$, $MPT = 0.24$, $MPS = 0.26$. Calculate the value of the multiplier in the Irish economy. Show your workings.

Workings:

Answer:

--

Exam Question 2023

(b) Use the information in the table below, to answer the questions that follow:

Marginal Propensity to Consume (MPC)	0.7
Marginal Propensity to Import (MPM)	0.2
Current equilibrium level of National Income	€500m
Level of National Income that would give full employment	€750m

(i) Calculate the marginal propensity to save (MPS) for this economy. Show your workings.

Workings:

Answer:

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(ii) Calculate the value of the multiplier in this open economy. Show your workings.

Workings:

Answer:

--

(iii) How much will the government have to inject into this economy if it wants the economy to operate at its full employment level? Show your workings.

Workings:

Answer:

(c) Our income tax system is heavily reliant on a relatively small number of employees; just 500,000 workers and 10 multinational companies account for over one third of our total tax revenue.

Adapted from Statement by Paul Doherty on Budget 2023

Exam paper 2021

(c) (i) Explain the term multiplier.

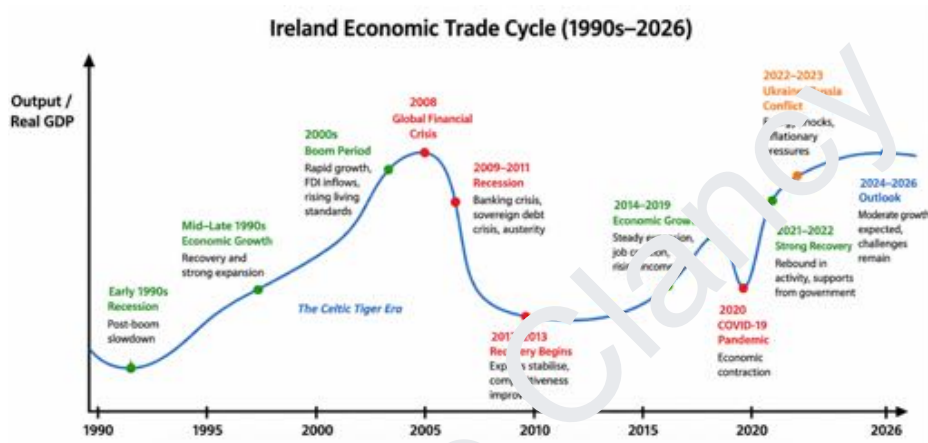
(ii) Assume that MPM is 0.25 and MPC is 0.65 and MPT is 0.10. Calculate the multiplier. Show all your workings

Workings:

Answer:

The Business Cycle / Economic Cycle

- A business cycle refers to the changes in real GDP that occur in an economy over time
- There are four recognisable points in the cycle
 - Peak/boom; slowdown/downturn; recession, recovery



The Business Cycle illustrates the fluctuations of real GDP (actual growth) around long-term trend growth

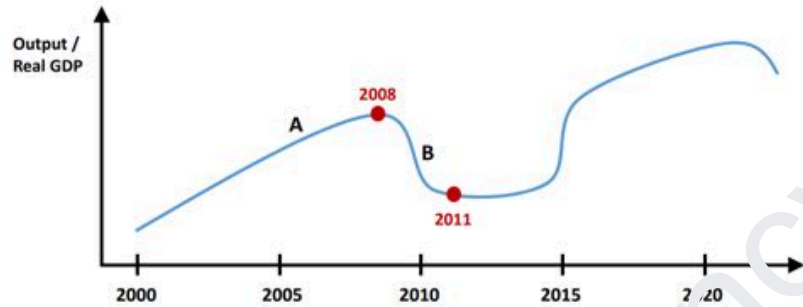
Diagram Analysis

- **Boom / Peak (1990s–2007):** Rapid economic growth known as the **Celtic Tiger**. Foreign direct investment (FDI), soaring exports, rising consumer spending, and a growing property market led to higher employment and rising living standards. The economy reached a **peak** around 2007–2008, with very high levels of output and confidence.
- **Slowdown / Downturn (2008–2009):** The **Global Financial Crisis** marked the beginning of a major **slowdown** in the Irish economy. Falling property prices, reduced lending, and declining consumer confidence caused economic activity to contract. This period represents the **downturn** phase of the economic cycle.
- **Recession (2008–2012):** Ireland entered a deep **recession** following the banking and property market collapse. The government introduced a costly **bank bailout** to support the financial system. Unemployment rose sharply, businesses closed, government debt increased, and economic output fell significantly. This period represents the **trough** (lowest point) of the economic cycle.

- **Recovery (2013–2019):** From 2013 onwards, Ireland entered a period of **recovery**. Exports grew strongly, employment increased, and confidence gradually returned. Economic output expanded steadily as the country recovered from the financial crisis.
- **Downturn (2020: COVID-19 Pandemic):** Lockdowns and restrictions across the economy. Many businesses were forced to close temporarily, reducing economic activity and causing another sharp **downturn**.
- **Recovery / Rebound (2021–2022):** As restrictions were lifted, Ireland experienced a strong **recovery**. Government supports, renewed consumer spending, and strong export performance helped economic growth return quickly.
- **Slowdown (2022–2024: Ukraine–Russia Conflict):** Supply chain disruptions, higher energy costs, and increased inflation. While the Irish economy continued to grow, growth was slower than during the rebound period. This phase represents another **slowdown** in the economic cycle.
- **2025:** Ireland remains in the growth phase of the cycle, although growth is expected to be more moderate. Challenges such as inflation, housing shortages, international uncertainty, and geopolitical tensions may limit future expansion.
- A **recession** occurs when there are two or more consecutive quarters (6 months) of negative economic growth
 - Try this [activity](#)

Exam 2025 Q10

The diagram below illustrates different phases of Ireland's economic cycle since 2000.



(a) Identify from the diagram above which option (A or B) represents:

- An economic boom
- An economic recession

Indicate your choice below by inserting A or B in the appropriate box and justify your choice in each case.

An economic boom		An economic recession	
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Economic boom justification:
Economic recession justification:

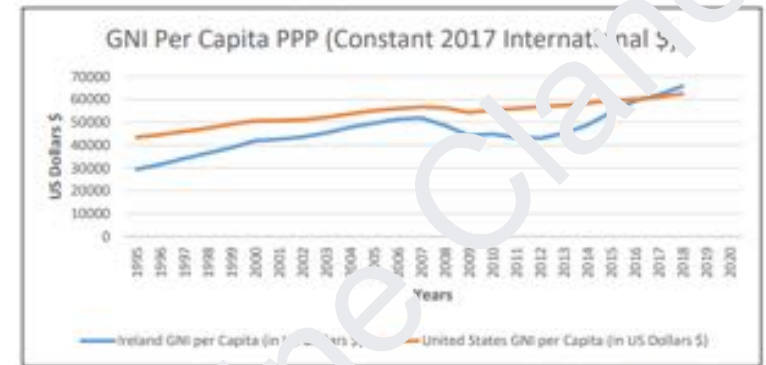
(b) Outline one economic factor which led to a change in Ireland's economic output during the years 2008 to 2011.

Economic factor:

Exam Paper 2021

(b) (i) Define the term recession.

(ii) Based upon the graph below, identify the years when both Ireland and the United States were in recession. Explain your answer.



Adapted from Statbank

Years:
Explanation:

Analysing Data: Economics

- (iii) With reference to GNI, why is it important to use **per capita** measures for comparisons between countries?

2025 Q16

- (iii) The data below shows the levels of total expenditure by the Irish government for the years 2015, 2019, and 2025 (forecast).

Year	2015	2019	2025 ^f
Government Expenditure	€54 billion	€67 billion	€105.4 billion

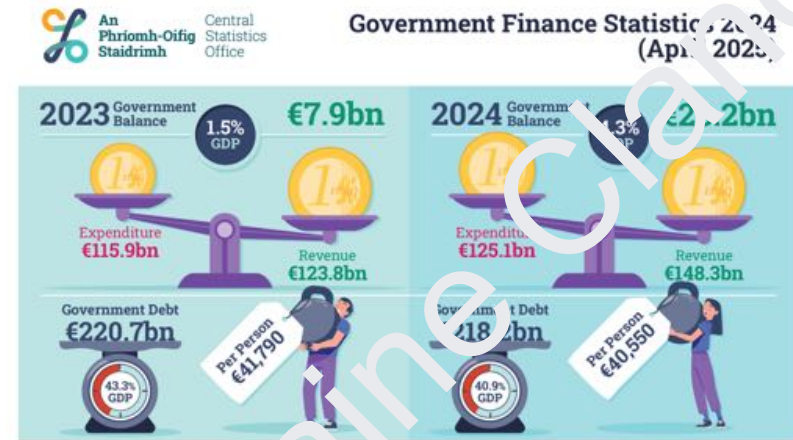
Adapted from the Department of Finance

Explain three economic reasons for the significant increase in government expenditure from 2015 to the projected figure for 2025, other than spending on infrastructure.

1.
2.

You are expected to comment on the **trend** of the data. Use **TAFR**

<p>Analysing a Graph → TAFR</p>	<ul style="list-style-type: none"> • TAFR <ul style="list-style-type: none"> ○ Timeframe ○ Trend (Up/Down) ○ Figures (% change). ○ Reason (Why)
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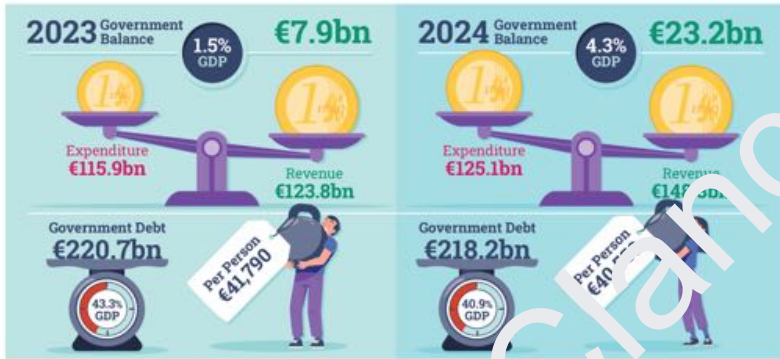


(Source: CSO)

Analyse debt per person

Timeframe: 2023-2024	Trend: Government debt decreased
Figures: Debt per person fell by 2.97% from 2023 to 2024.	
Reason: Debt per person fell by 2.97% from 2023 to 2024 because of increased economic growth. The Irish economy expanded, increasing GDP, which brought about increased consumption and investment. This increased government revenue from taxes (such as income, corporate, and VAT taxes). This allowed the government to reduce its debt per person without having to increase borrowing.	

Government Finance Statistics 2024 (April 2025)

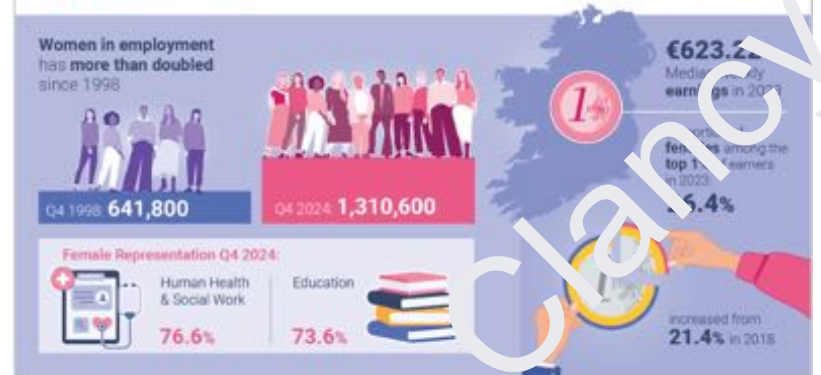


(Source: CSO)

Analyse Government Finance

Timeframe	Trend:
Figures:	
Reason:	

Women in the Labour Market 2023-2024



(Source: CSO)

Participation of women in the labour market

Timeframe	Trend:
Figures:	
Reason:	

Residential Property Prices 2025



(Source: CSO)

Change in property prices from 2013 to 2025

Timeframe	Trend:
Figures:	
Reason:	

