Leaving Certificate Economics Worksheet
National Income (Chapter 11)

Name		Date	

Instructions:

– Answer all questions in **Section A** and **Section C**.

– In **Section B**, answer **3** questions.

– In **Section D**, answer **1** question.

– Show workings in calculations and use correct terms: **GDP, GNP, GNI, GNI*, NFIA, real/nominal, multiplier, leakages/injections**.

– At higher level, you should be familiar with what all the abbreviations stand for. A question may not explicitly say what a abbreviation means, so you're expected to be able to work it out yourself

Section A – Short questions

A1. Define **national income**.

A2. Name the **three methods** of measuring national income.

Method 1		Method 2	

Method 3	

A3. What is a **transfer payment**? Give one example.

A4. Explain why we must avoid **double counting** in the output method in one sentence.

A5. Define **GDP**.

A6. Define **GNP** and state the relationship between GNP and GDP using **NFIA**.

A7. Define **NFIA**.

A8. What is **GNI*** and why is it useful for Ireland?

A9. Distinguish between **nominal GDP** and **real GDP**.

A10. Define **NNP**.

A11. What is meant by **per capita income**?

A12. Write the national income identity: $Y =$

A13. Define **MPC** and **MPS**.

MPC	

MPS	

A14. Name **three leakages** and **three injections** from the circular flow of income.

Leakage 1		Injection 1	
Leakage 2		Injection 2	
Leakage 3		Injection 3	

Section B – Calculations & interpretation (Answer 3 of 5)

Each question: 12 marks   (Workings + final answer + brief interpretation where asked.)

B1. The Multiplier

Assume we have MPM = 0.25, MPC = 0.65 and MPT = 0.10.

(i) Calculate MPS.

(ii) Calculate the **multiplier** using

$$\frac{1}{\text{MPM} + \text{MPT} + \text{MPS}}.$$

(iii) Interpret your answer: what does it mean in words?

B2. An economy has (all in €bn): $C = 120$, $I = 35$, $G = 40$, $X = 80$, $M = 95$.

(i) Calculate Y using $Y =$ $C + I + G + (X - M)$

(ii) If imports rise by €10bn (all else constant), calculate the new Y.

(iii) Explain why higher imports reduce national income in this model.

B3. GDP vs GNP (NFIA).

(i) Ireland has GDP of €520bn and NFIA of $-$€85bn. Calculate GNP.

(ii) Explain why Ireland tends to have large negative net factor income from abroad.

(iii) Which is a better measure of Irish residents' welfare: GDP or GNI? Justify your answer.

B4. Real vs nominal GDP (inflation adjustment).

(i) Nominal GDP in Year 2 is €240bn. The GDP deflator (base Year 1 = 100) is 120 in Year 2.
Calculate **real GDP** in Year 2.

(ii) Explain why real GDP is preferred to nominal GDP for comparing economic activity over time.

B5. The double counting problem

A simplified production chain is:

– Farmer sells wheat for €22 (seed cost €6).

– Miller sells flour to baker for €47.

– Baker sells bread to retailer for €65.

– Retailer sells to consumers for €82.

(i) Calculate the **value added** at each stage.
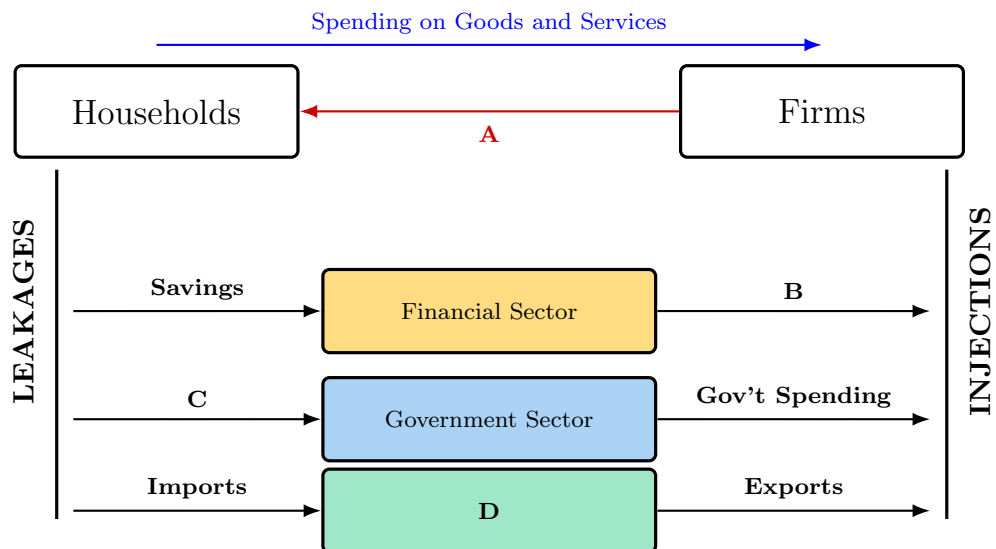
(ii) Hence calculate national income using the output method.

Section C – Data & visual interpretation

C1. Circular flow of income

> The chapter distinguishes **leakages** (S, T, M) and **injections** (I, G, X).

C1.1 Complete the diagram by identifying A, B, C, D correctly.

Spending on Goods and Services

Households		Firms
	A	

LEAKAGES

INJECTIONS

Savings → Financial Sector → B

C → Government Sector → Gov't Spending

Imports → D → Exports

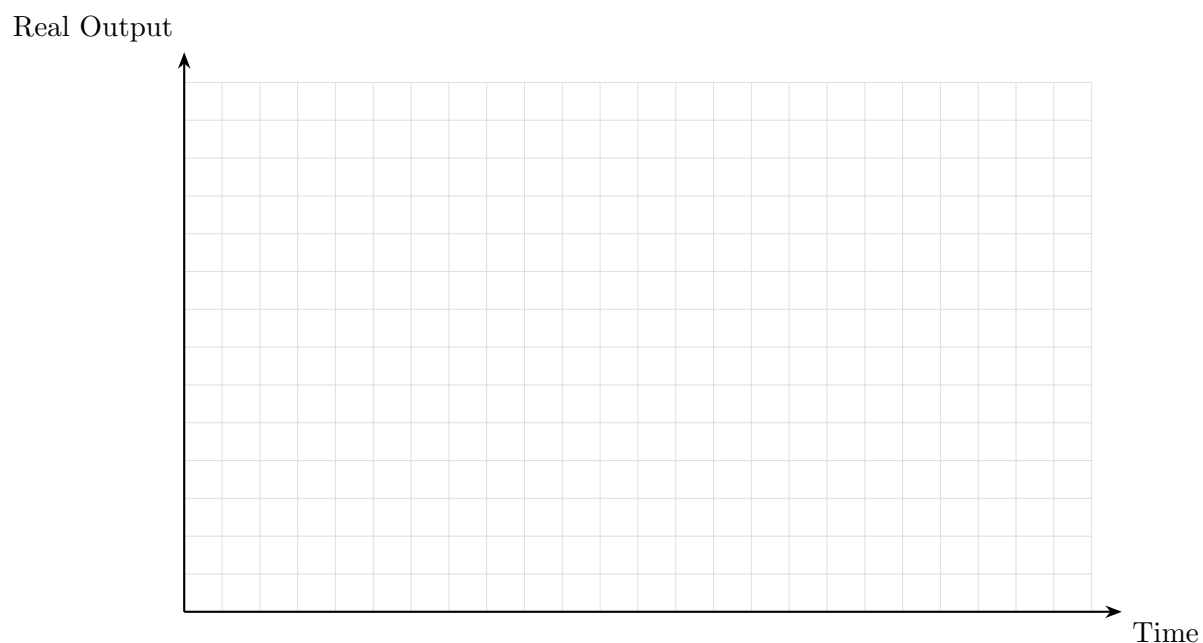| A		B	
C		D	

C1.2 Explain how leakages can be **re-injected** into the circular flow (give two channels).

C2. Business cycle

> The chapter shows the business cycle: **expansion** and **contraction**, with **peak** and **trough**.

C2.1 Sketch a business cycle diagram and clearly label: **expansion**, **peak**, **contraction**, **trough**.

Real Output

Time

C2.2 Explain two likely effects of a recession on: (i) **consumption** and (ii) **investment**.

C3. Applying determinants of C, I, G, X, and Savings

Answer using the chapter's factors affecting **consumption, investment, government spending, exports, and savings**.

C3.1 Consumption (C): A government cuts income tax. Explain two ways this could increase consumption.

C3.2 Investment (I): A firm delays expansion plans because it is uncertain about the future. Explain the role of **confidence/outlook** and one other factor from the chapter.

C3.3 Exports (X): The euro weakens against the US dollar. Explain how this can affect Irish exports.

Section D – Evaluation & discussion

> **HL style:** balanced argument, correct definitions, relevant Irish context, clear judgement.

D1. GDP, GNI and welfare

"GDP is a poor measure of Irish living standards." Discuss this statement. In your answer:

– define GDP and GNI/GNP,

– explain the role of **NFIA** and why Irish GDP can be misleading,

– and state one reason why **GNI*** is useful.

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D2. Uses and limitations of national income statistics.
Explain **two uses** of national income statistics and evaluate **two limitations**, using examples.
Your limitations must include:

– either **inflation vs growth** or **population vs growth**, and

– one of: **hidden social costs** or **distribution of income**.